Management's Discussion and Analysis of Financial Condition and Results of Operations

February 27, 2009

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) reflects events known to us as of February 27, 2009. This MD&A is intended to provide you with an understanding of our business, our strategy and performance, as well as our expectations of the future and how we manage risk and financial resources.

Please read this analysis in conjunction with the audited annual financial statements for the years ended December 31, 2008 and 2007 (the Financial Statements) and notes to the Financial Statements. You should also read the Forward Looking Information legal advisory at the end of this MD&A.

The Financial Statements have been prepared using Canadian generally accepted accounting principles (GAAP), using the same accounting policies and procedures as those used in preparing the audited annual financial statements for the year ended December 31, 2007. The only exceptions to this are the changes in accounting policies cited in note 3(a) to the Financial Statements which resulted from our initial adoption of new accounting standards. Unless otherwise noted, our references to a "year" relate to our fiscal year ended December 31, 2008.

In accordance with its terms of reference, the Audit Committee of our Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A.

Our Business

We are Alberta's largest electricity transmission business, providing transmission services to most of the province's major urban centres and serving more than 85% of Albertans safely, reliably and cost effectively. We own and operate approximately 11,600 kilometres of transmission lines and 260 substations that form the backbone of Alberta's high-voltage electricity transmission system. We also own and operate the facilities that interconnect Alberta's network with the transmission system in British Columbia, allowing electricity to flow into and out of Alberta.

We deliver both transmission services and customer value, while managing our environmental footprint, building relationships in Alberta communities and upholding the highest standards of safety and reliability.

We are a regulated electric utility under the jurisdiction of the Alberta Utilities Commission (AUC), successor to the Alberta Energy and Utilities Board (EUB). Effective January 1, 2008, the AUC assumed responsibility from the EUB for regulating all investor-owned natural gas, electric and water utilities, certain gas pipelines and certain municipally-owned electric utilities. The AUC approves the charges (i.e. tariffs) to be paid to us by our customers. The tariffs we charge are made up of two components, the revenues required to cover the forecasted costs of our transmission business plus an approved return on investment.

Our Ownership

Here is a brief description of our management and ownership structure.

- Our operations are managed by our general partner, AltaLink Management Ltd (AML).
- We have one limited partner, AltaLink Investments, L.P. (AILP).
- AILP has one limited partner, AltaLink Holdings, L.P. (AHLP).

On June 13, 2006, the AUC approved an application to change our ownership structure, and the transaction was completed on June 23, 2006. SNC-Lavalin Group Inc. indirectly owns 76.92% of AHLP through subsidiaries and Macquarie Transmission Alberta Ltd. owns the remaining 23.08%.

OUR VISION

We are committed to meeting the needs of our customers by providing a reliable, safe and cost-effective transmission grid. Our objective is to be the leading owner and operator of regulated electricity transmission in Alberta. We believe in preparing for tomorrow while we power the lives of Albertans today. We focus on quality and continuous improvement. We believe in bringing forward the best and most innovative transmission practices, designs and solutions.

One of our core goals is creating customer value. We do that by listening, communicating and working with both customers and stakeholders who rely on us or are affected by our business.

Our employees are the reason for our success and the key to our future. We encourage employee wellness and proactively provide opportunities for employee engagement, growth and development.

In addition, we believe it is important to give back to the communities in which we live and operate through financial support and employee participation.

OUR STRATEGY

We are constantly looking for new ways to meet the electricity needs of Albertans while reducing the impact of our operations on the land, and on customers affected by our facilities. Over the past few years, electricity consumption in this province has been increasing by the equivalent of adding two cities the size of Red Deer every year. Our focus is keeping the lights on in Alberta as the province reinforces its infrastructure following this period of unprecedented growth and prepares its electricity grid to be an enabler of future prosperity.

Our strategy on expansion is not focused on only building new lines and towers. We are always looking for new ways to get more out of the existing grid, by doing things such as re-using already built lines and focusing on new technologies that can minimize the impact on the land and landowners. It's also about partnering with our stakeholders by improving our landowner consultation, using new transmission technology, making more efficient use of the land and reaching innovative agreements with First Nations.

We operate in an environment where there is strong competition for talented people. We are focused on attracting and retaining a high quality workforce to enable us to not only sustain our business, but to remain at the forefront of innovation and continuous improvement. We take great pride in being named as "Calgary's Best Place to Work" in the energy oil and gas sector by *Calgary Inc*. magazine in its July/August 2008 issue.

OUR ENVIRONMENTAL STEWARDSHIP

We are proud of our role in delivering clean energy to Albertans. We are committed to meeting and wherever possible, exceeding all legislative requirements relating to the environment. Here are some of the things we are doing to achieve our environmental goals.

- Advance environmental pre-screenings on all new projects such that early on we can identify potential environmental risks;
- Conducting field wildlife surveys to better understand any potential impacts;
- Proactively engaging environmental agencies to ensure our environmental processes are open and transparent;

- Engaging third party environmental experts to assist our teams to better assess environmental risks;
- Implementing **GREENJACKET ™**, the first Canadian utility to do so, a special material that covers substation equipment to protect wildlife and prevent outages;
- Implementing an externally certified avian protection plan to reduce power line impacts on birds;
- Designing a tool to identify high risk bird collision areas and using two types of marking devices to reduce bird collisions with overhead transmission lines;
- Continuous improvement upon existing environmental programs such as waste management, pole recycling and SF6 gas containment;
- Our Acheson office, home to approximately 50 employees, was recognized with the Acheson Business Association 2008 Green Award for embracing the three R's – Reduce, Reuse and Recycle and adopting a mile of the Yellowhead highway to do the roadside clean-up twice a year; and
- Reducing system losses which in turn reduces greenhouse gas emissions.

HEALTH AND SAFETY

The health and safety of our employees and contractors is our top priority which has resulted in a safety record well above industry standards. Here are some of the things we are doing to make sure that record is not only maintained, but also enhanced.

- Continuously improving safety practices to address changing regulations, new hazards in the workplace, changes in work methods, new equipment and tools;
- Annual safety training for all field employees;
- Engaging in a joint utility safety team public safety awareness campaign called, "*Where's the Line*";
- Continuing improvement of our contractor safety management program with a focus on:
    - Ensuring contracting companies are pre-qualified;
    - Setting clear expectations for safety and quality performance standards; and
    - Performing on the job monitoring of safety practices, work methods and safety performance;
- Requiring workers in energized facilities to hold AltaLink safety certification, a four-tier certification rating system.

We recognize that some people are concerned about power line electric and magnetic fields (EMF). We treat those concerns very seriously. In the past 30 years, many agencies have conducted studies and reviews on this issue and they have not concluded that exposure to EMF from power lines causes long-term adverse effects on human, plant or animal health. We recognize that EMF exposure is a very complex issue and we continue to monitor any new developments with regard to EMF. We continue to:

- Provide information as well as research findings to anyone concerned about EMF;
- Dedicate management responsible for addressing EMF issues to provide information on EMF research to the general public;
- Offer, upon request to take EMF field measurements at customer homes to demonstrate relative strengths from various sources;
- Include a human health assessment and plant and animal assessments in our permit and licence applications to summarize the results of EMF research;
- Retain an internationally-recognized EMF expert to provide on-going support and advice on EMF issues; and
- Share information with key agencies such as the Alberta Electric Systems Operator (AESO) through workshops and other discussions.

How We Measure Our Performance

We use certain key measures to determine whether we are meeting our goals and the needs of our customers. These key measures include a mix of operational, risk management and financial metrics. The Canadian Electrical Association (CEA) provides benchmarking data for several of our key measures, allowing us to compare our performance against other transmission facility owners in Canada. Since our formation in 2001, we have consistently outperformed the CEA benchmarks for reliability, safety and cost effectiveness.

Reliability

Our transmission system is designed and operated so as to minimize disruption of service to our customers. Nevertheless, severe weather and other unplanned events cause occasional service disruptions to which we respond as quickly as possible. Despite our strong track record, we continually strive to further reduce the incidence and duration of system outages for the benefit of our customers.

	2008	2007	2006	2005
System Availability Interruption Frequency Index				
AltaLink	1.12	1.38	1.01	1.07
CEA benchmark	N/A	1.61	1.70	1.66
System Availability Interruption Duration Index				
AltaLink	1.77	1.35	0.58	4.69
CEA benchmark	N/A	1.14	1.52	1.32

System Availability Interruption Frequency Index measures the average number of interruptions per delivery point during a twelve-month period. System Availability Interruption Duration Index measures the average number of interruption hours per delivery point during a twelve-month period. Benchmark statistics from the Canadian Electrical Association are provided on a transmission basis.

Safety

Our highest priority is the safety of our employees, contractors and others. Even though our safety statistics compare favourably with industry benchmarks, we strive for continuous improvement with our ultimate goal being an accident-free workplace.

	2008	2007	2006	2005
All Injury Frequency Rate				
AltaLink	0.73	1.02	0.89	1.41
CEA benchmark	N/A	2.93	2.92	2.65

All Injury Frequency Rate measures the number of lost time accidents and medical aid incidents per 200,000 man-hours worked by employees and contractors. Benchmark statistics from the Canadian Electrical Association are provided on a transmission basis.

Cost Effectiveness

Our goal is to provide Albertans with the most cost-effective transmission system possible, without sacrificing either reliability or safety. We have a solid track record in keeping costs well below industry averages. Between 2002 and 2006 the cost to operate our transmission system was about 30% less than that of the average Canadian utility. Transmission owner costs account for less than 6% of the average electricity bill in Alberta.

Financial and Operational Highlights

Here are some of our financial and operations highlights for 2008:

- We achieved before tax net income of $40.7 million for the year;
- We safely and efficiently carried out our capital construction program with expenditures of $174.4 million for facilities for our customers;

- We participated in support of the AESO's public consultation meetings, particularly with regard to the need to reinforce the transmission system between Edmonton and Calgary;
- We energized the Keephills-Ellerslie-Genesee (KEG) transmission line on April 6, 2008, the first 500kV line to be activated in Alberta in more than 20 years;
- We refinanced $100.0 million of long-term debt which matured in June 2008;
- We filed our General Tariff Application (GTA) for 2009 and 2010 on September 16, 2008;
- We completed the application hearing process with the AUC for our Southwest Development project and received final permits from Indian and Northern Affairs Canada for access to First Nations land; and
- We received direction from the AESO to prepare a proposal to provide service for the proposed Southern Alberta transmission development project, which is expected to interconnect up to 2,700 MW of Alberta's vast wind generation potential.

OUR PEOPLE

We have more than 380 skilled and dedicated employees working to keep the lights on in Alberta. Alberta's growth and lack of transmission expansion continues to increase our operational challenges. With the Alberta government's newly released energy strategy; we expect to face transmission growth. The competition for our specialized work force will remain strong. As a business, we continue to enhance our strategies to attract and retain qualified employees and to ensure that our people are developed, engaged and aligned with our overall corporate strategies and business plans.

Last September, we conducted our first Employee Engagement Survey to help us ensure that employees continue to be proud to work at AltaLink. Overall, the results of the survey were very positive. Our employees see our strengths as quality and customer focus, workplace safety, job flexibility and perceptions about how the organization as a whole is managed. We will continue to strive to improve our workplace.

In 2008, *Calgary Inc*. magazine named AltaLink as "Calgary's Best Place to Work" in the energy oil and gas sector.

GROWTH IN RATE BASE

We measure growth in the rate base of our regulatory assets as a key indicator of future revenue streams. As a regulated utility, the returns to our investors are based on our rate base. The returns are determined by multiplying the mid-year regulatory deemed equity portion of the rate base by the return on equity rate allowed by the regulator. Our revenues also include the recovery of the forecasted costs of operating the transmission system. Our rate base and our revenues have increased as a result of capital investments we have made to reinforce and expand Alberta's transmission grid. The AESO has identified a need for several billion dollars of further capital investment in major transmission projects, including projects proposed within our service area.

($ Millions)	2008	2007	2006	2005
Rate base				
Mid-year	$ 1,012.1 [1]	$ 930.2	$ 815.8	$ 741.1

By regulation, returns on equity, which are included in transmission tariffs, are calculated using the mid-year rate base. Forecast additions approved in general tariff applications are adjusted to actual additions through deferral accounts approved by the regulator.

1. Estimate

MAJOR CAPITAL PROJECTS

Impact of Current Economic Conditions

The oil and gas sector has delayed or cancelled a number of capital projects due to the current economic conditions. While Alberta is not immune to the economic slowdown, a key component of the Government's energy strategy is the development of much needed transmission infrastructure. We expect infrastructure projects to continue upon direction of the AESO. Our focus will be to secure permits to construct and licences to operate in a timely fashion.

We are currently involved in the following major capital projects.

Southwest Development Project

On August 10, 2007, we applied to the AUC for a permit to build and licence to operate the Southwest development project, between Pincher Creek and Lethbridge. The double circuit 240 kV transmission line is needed to support growing demand and to connect the fast-growing wind generation in the region. The AUC hearing to review our application was held in December, 2008. We expect that the AUC will issue its decision in the first quarter of 2009.

The Blood First Nation and the Piikani First Nation have approved transmission permits to cross reserve lands as well as a unique limited partnership opportunity under which the First Nations can invest in the portion of the transmission lines that cross their lands. The transmission permits are now fully executed, including all necessary approvals from Indian and Northern Affairs Canada. The limited partnership arrangements are fully negotiated and the First Nations have the option to invest once the transmission lines are in service. As general partner, we will retain full control over the construction and operation of these transmission lines.

South Alberta Transmission Development (SATD) Project

The SATD is a large-scale project designed to interconnect up to 2,700 MW of wind power into the Alberta transmission system. We have provided the AESO with several transmission options to interconnect the potential wind generation projects.

The AESO has submitted the Needs Identification Document for the project, which is expected to be developed in three separate phases. This will allow for flexibility in the development of the transmission system to match the development of the wind generation industry. The estimated total cost for the project is approximately $1.8 billion before escalation.

Edmonton to Calgary Transmission Development

Construction of new transmission facilities between the Edmonton and Calgary regions is required to reinforce Alberta's transmission system. While we are protected against liability from outages, we are concerned about our ability to provide continuous electricity service to southern Alberta through the 2009-2010 winter peaks. In December, 2008, energy demand hit an all-time record high in the province, further straining the capacity of the electrical system. We are working with the AESO to find short-term mitigation measures that will reduce the reliability risk until a long-term solution can be developed.

The AESO hosted a number of open houses across central Alberta in the second and third quarters of 2008 as part of their consultation regarding the need to reinforce the transmission system between Edmonton and Calgary. The AESO hosted another 12 open houses between November 24, 2008 and December 11, 2008 looking at far eastern and western routes. The AESO expanded the study area for the transmission reinforcement because of the feedback it received at the first round of open houses between May and September 2008. To-date, they have spoken with more than 1,000 people who visited the open houses to learn more about the need for new transmission lines. At each of the open houses, we supported the AESO in explaining the role of a transmission company when siting and building lines. We are awaiting further direction from the AESO once it has completed its review of the input received at the open houses.

Heartland Project

The AESO has identified that current and future proposals for oil sands upgraders in the Heartland area northeast of Edmonton will require transmission reinforcement in the Fort Saskatchewan area. This transmission reinforcement project (the Heartland Project) is at an early stage of development. The AESO has determined two concepts that can provide the transmission reinforcement require both constructed at double circuit 500kV. The Heartland Project may cross both our service region and EPCOR Utilities' service region. The AESO has directed both EPCOR and AltaLink to proceed with the necessary work required to file a permit and licence application for the Project.

In anticipation that the route(s) chosen for the Heartland Project may be in both our and EPCOR's services areas, we have formed a limited partnership with EPCOR known as Heartland Transmission, L.P. It is proposed that the construction and ownership of the Heartland Project transmission facilities would be transferred to the limited partnership to operate on behalf of both businesses, subject to AUC approval of the need and the facilities applications as well as the proposed limited partnership structure. We expect the Heartland region transmission development to occur over the next five years.

Keephills 3 Generation Interconnection Project

We are working on several transmission projects required to interconnect the expansion of TransAlta/EPCOR 450 MW coal-fired generation facilities at Keephills, west of Edmonton. These projects include upgrades to the existing 240 kV transmission system in the region as well as the facilities required at the Keephills location to interconnect the new generation. The projects are targeted for completion in stages between 2009 and 2010 with an estimated total cost of $220.0 million. The AUC has approved the need for three projects totalling approximately $100.0 million and the remaining projects are awaiting approval of the need. As directed by the AESO, we have begun the work required to receive permit and licence approvals from the AUC in 2009.

KEG Transmission Line Conversion Project

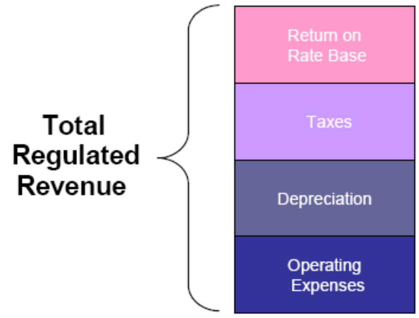
The project included the conversion of the Keephills-Ellerslie-Genesee substations from 240kV to 500kV. We own and operate the transmission lines connecting the KEG system, a 500kV system that had been energized at 240kV. The system connects generating plants at our Keephills and Ellerslie substations and at EPCOR's Genesee substation.

On April 6, 2008, the KEG transmission line became the first 500kV line to be energized in Alberta in more than 20 years.

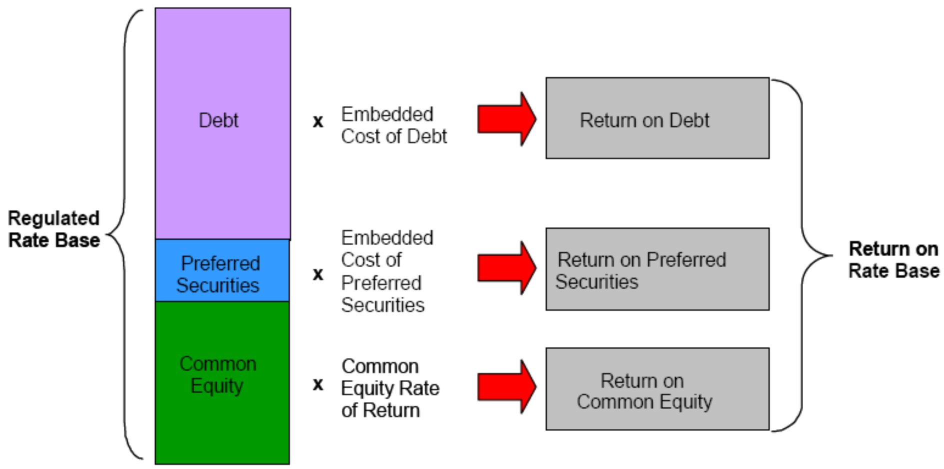
REGULATORY TARIFFS

We are regulated by the AUC under a cost-of-service methodology under which all prudently incurred costs are recovered in addition to an allowed return on our rate base.

The principal components of our approved transmission tariff are outlined as follows (the diagram does not represent the relative importance of the components in our approved tariff):



- *Return on Rate Base* – is the fair return on capital that we have invested in the regulated rate base taking into account a deemed capital structure comprising debt, preferred securities (if any) and common equity, which is used to finance the regulated transmission business or rate base, calculated on the following basis (the diagram does not necessarily represent the components, or the relative sizes of such components, within an approved tariff):



- *Taxes* – is the allowance for the recovery of taxes (including income taxes) paid or deemed to have been paid;
- *Depreciation* – is an allowance for a return of capital and is the depreciation on the regulated asset base, as approved by the AUC, and is net of any contributed capital amortization (assets paid for by third parties but that we own and operate); and
- *Operating Expenses* – are determined to be the prudent operating costs.

Decision 2008-076 was issued on August 26, 2008 confirming full recovery of the Direct Assign capital deferral account for May 2004 through December 2006 and the disposition of other deferral accounts. On January 30, 2009, we were directed to settle the related regulatory liabilities with the AESO in the amount of $1.4 million, to be paid by February 17, 2009.

In addition to the applications related to major capital projects noted above, the more significant applications that the AUC is expected to consider in 2009 include the following:

- General Tariff Application for the fiscal years ending December 31, 2009 and 2010 (filed on September 16, 2008);
- Generic Cost of Capital proceeding to review potential changes to the generic return on equity formula and the capital structure of utilities;
- A review of rate related implications of utility asset dispositions; and,
- Direct Assign capital deferral account for the year 2007 (expected to be filed in the first quarter of 2009).

General Tariff Applications

On February 16, 2007, the AUC issued Decision 2007-012 outlining our revenue requirement and the disposition of our deferral and reserve accounts, as amended, for the period from January 1, 2007 to December 31, 2008. The Decision also outlined the settlement of the self-insurance reserve account for the period from May 1, 2004 to December 31, 2005. On June 19, 2007, the AUC issued Decision 2007-050 that approved our compliance filing with AUC directives from Decision 2007-012 regarding the 2007 and 2008 tariffs. Decision 2007-012 approved a reduction in the deemed common equity ratio from 35% to 33%, and an increase in the allowance for deemed income tax in the revenue requirement from 75% to 100%.

On September 16, 2008, we filed our GTA for the 2009-2010 test years in which we requested increases in transmission tariff revenue, primarily due to growth in our rate base and capital expenditure outlook. These increases are directly related to requests from the AESO and our customers to build new transmission assets for their growing needs and to ensure that we meet their most important concern, which is reliability. The application also requests the recovery of increased costs for operating and maintaining the growing transmission system and continuing to meet compliance requirements. To minimize the impact of financing large transmission projects on future transmission tariffs, we have requested an increase in equity thickness from 33% to 38%, as well as delaying the implementation of the regulator's previous directive to switch from the use of future income taxes to flow-through taxes in determining our revenue requirements. We believe that it is in the best interests of all stakeholders, particularly ratepayers, to increase our revenue requirement in the short-term to maintain high credit ratings during the construction of major capital projects so that future tariffs reflect significantly lower interest costs.

On December 9, 2008, we received Decision 2008-129 approving an interim tariff starting January 1, 2009, representing a 3% increase over the 2008 tariff. We expect that the 2009-2010 GTA will be heard by the AUC in the second quarter of 2009 and that the AUC will issue its decision later in the year.

Generic Cost of Capital (GCOC)

The AUC issued Decision 2004-052 on July 2, 2004 in which it approved a 35% deemed common equity ratio for our business and a 9.6% return on equity (ROE) for the period ended December 31, 2004. The decision was the result of the AUC's generic cost of capital hearing for the purpose of considering a standardized approach to determining the rate of return on equity and capital structure for all of the gas and electric utilities under its jurisdiction, including our business.

The rate of return on common equity was adjusted annually for the years 2005 through 2008. The adjustment was calculated as 75% of the change in yield of long-term Government of Canada bonds. If the adjustment exceeded +/-2%, the AUC would have considered undertaking a review of the formula. On November 30, 2006, the AUC issued an amended order setting the 2007 ROE at 8.51%. On November 30, 2007, the AUC issued an amended order setting the 2008 ROE at 8.75%.

The AUC has initiated a GCOC proceeding to review the level of the generic return on equity for 2009, the generic ROE adjustment mechanism, and capital structure of utilities on a utility specific basis. Together with other Alberta utilities, we have submitted evidence in this proceeding and have requested an increase in our equity thickness to 38% and a fair return on equity of 11%. The AUC has set the GCOC hearing to begin in May, 2009 and we expect that it will issue its decision later in the year.

Asset Disposition Proceeding

We are participating in an AUC proceeding regarding utility asset dispositions. On April 2, 2008 the AUC released a Notice of Commission Initiated Proceeding to consider the potential rate related implications for Alberta utilities of the Supreme Court of Canada's Calgary Stores Block Decision *(Stores Block Decision: ATCO Gas & Pipelines Ltd. V. Alberta (Energy & Utilities Board), 2006 SCC 4, [2006] 1 S.C.R. 140).* The AUC indicated the principal objectives in initiating this proceeding were to provide interested parties with an opportunity to:

- Advance and defend their interpretation of the Stores Block Decision;
- Identify and explore the potential implications of the Stores Block Decision to utility regulation in Alberta; and
- Develop a consistent, principled approach to applying the guidance provided by the Stores Block Decision.

On November 28, 2008, the AUC suspended the proceeding until further notice, acknowledging that additional clarification of the Stores Block Decision by the courts can provide additional direction for the Commission.

2007 Capital Deferral Account Application

We plan to file an application in the first quarter of 2009 for the disposition of the balance in the Direct Assign capital deferral account for 2007. This application will include a request for inclusion in rate base of the $38.7 million in costs associated with the voided Edmonton to Calgary 500kV Transmission Development Project.

LIQUIDITY AND CAPITAL RESOURCES

	For the year ended December 31, 2008	For the year ended December 31, 2007
($ Millions)		
Cash and cash equivalents, beginning of year	**$ 0.0**	$ 0.0
Cash flow from (used in)		
Operating activities	**138.4**	94.0
Investing activities	**(140.5)**	(217.5)
Financing activities	**2.1**	123.5
Cash and cash equivalents, end of year	**$ 0.0**	$ 0.0
Ratios [1]		
Interest coverage:		
EBIT coverage [2, 5]	**1.96X**	1.92X
EBITDA coverage [3, 5]	**3.75X**	3.62X
Cash flow coverage [4, 5]	**2.67X**	2.47X
Cash flow/total debt [4, 6]	**13.74%**	12.58%
Debt/total capitalization [6, 7]	**62.03%**	62.11%

1. Non-GAAP measures - We use certain financial metrics that are not defined under Canadian generally accepted accounting principles. Such "non-GAAP financial measures" provide our management and our investors with additional insight into our financial performance and financial condition, expanding on the information that we provide in our financial statements. In particular, our investors, lenders and credit rating agencies use certain non-GAAP financial measures to calculate debt covenants and financial ratios.
2. EBIT Coverage - Is equal to net income before interest expense and income taxes (EBIT) divided by interest.
3. EBITDA Coverage - We use earnings before income taxes, depreciation and amortization (EBITDA) to measure our operating performance, before considering our financing strategy or recognizing costs for the consumption and replacement of our capital assets. We also use EBITDA as a proxy for cash flows from operations, before considering the effects of non-cash working capital. EBIT and EBITDA are non-GAAP Measures. We believe that EBIT and EBITDA are useful supplemental measures to analyze our

operating performance and to provide an indication of the results generated by our principal business activities prior to the consideration of other income and expenses. EBIT and EBITDA may not be comparable to similar measures used by other entities.

4. Cash flow – Consists of funds generated from operations. Funds generated from operations (FFO) is a non-GAAP measure that represents funds generated from operating activities before changes in non-cash working capital. FFO should not be considered an alternative to, or more meaningful than, "cash provided by operating activities". We believe that FFO is a useful supplemental measure to analyze the Partnership's ability to generate cash flow to fund capital investment and working capital requirements. FFO may not be comparable to similar measures used by other entities.
5. Interest expense – Interest expense excluding amortization of deferred financing fees on debt.
6. Debt – Consists of short-term and long-term debt, adjusted to remove deferred financing fees due.
7. Total Capitalization - Consists of debt and partners' equity.

Pro Forma Earnings Coverage

	For the year ended December 31, 2008	For the year ended December 31, 2007
Earnings-to-interest coverage on total debt [1]	**1.95X[2]**	1.92X[3]

1. Earnings-to-interest coverage on total debt is equal to net income before interest expense (excluding amortization of deferred financing fees) on all indebtedness and income taxes divided by annual interest requirements on long-term debt (including capitalized interest). We calculate the foregoing ratios after giving pro-forma effect to any long-term debt issues in the period and the use of the proceeds from the long-term debt issues.
2. Our required interest payments on all of our debt amounted to approximately $42.7 million for the 12 months ended December 31, 2008. That includes the additional interest payable on our $100.0 million debt issue which was refinanced at 5.243%. Our earnings before interest and income tax for the 12 months ended December 31, 2008 were approximately $83.4 million, which are 1.95 times our interest requirements on all of our debt for this period.
3. No adjustment is required for 2007 as the related debt was outstanding throughout the year.

Credit Ratings

	For the year ended December 31, 2008	For the year ended December 31, 2007
Credit Ratings		
DBRS – Commercial Paper	**R-1 (low)**	**R-1 (low)**
DBRS – Senior Secured Bonds	**A**	**A**
S&P – Senior Secured Bonds	**A-**	**A-**

On May 9, 2008, S&P confirmed the above rating with a stable trend. On September 18, 2008, DBRS confirmed our "A" rating for our Senior Secured Bonds and Medium-Term Notes, and changed the trend to negative from stable. Our commercial paper was confirmed at R-1 (low), with the trend remaining stable.

Operating Activities

For the year ended December 31, 2008, our cash provided by operating activities increased by $44.3 million compared to the same period in 2007, primarily due to changes in our non-cash working capital of $31.7 million. Our accounts receivable decreased by $21.9 million as there was only one monthly tariff revenue payment receivable from the AESO at December 31, 2008 compared with two outstanding payments at December 31, 2007, due to the timing of due dates, which are twenty working days following the prior month end. Our November 2008 billings were settled prior to December 31, 2008 whereas our November 2007 billings were settled in early January, 2008. In addition, our net income increased by $3.1 million during the year, even after deducting an additional $6.6 million of depreciation expense, resulting from the growth in our regulatory asset base.

For the fourth quarter ended December 31, 2008, our cash provided by operating activities was $28.9 million, marginally higher than in the fourth quarter of 2007.

Investing Activities

Our investing activities included capital expenditures of $174.4 million for 2008, compared to $230.5 million in 2007. Our lower construction activity in 2008 reflects the timing of regulatory approvals and directions from the AESO for larger transmission projects. During the year, our regulatory rate base grew significantly as we completed and energized capital projects with a total value of $176.6 million, compared to $179.0 million in 2007.

Our capital expenditures are summarized in the following table:

	For the year ended December 31, 2008	For the year ended December 31, 2007
Capital additions		
Direct assigned	**$ 104,731**	$ 121,002
Capital upgrades & replacement	**58,079**	43,355
Corporate services, IT & other	**13,751**	14,664
Total capital additions	**176,561**	179,021
Change in assets under construction	**(2,789)**	31,718
Less: Allowance for funds used during construction (AFUDC)	**(5,750)**	(7,201)
Salvage and other non-cash working capital items	**6,422**	26,948
Capital expenditures	**$ 174,444**	$ 230,486

The foregoing information regarding our capital expenditures and rate base additions has been adjusted to remove the impact of non-cash items such as AFUDC, salvage costs and non-cash working capital.

During 2008, we significantly increased our spending on capital upgrades and replacements to extend the life and enhance the reliability of our system. Such expenditures totalled $58.1 million during 2008 compared to $43.4 million in 2007. We completed $104.7 million on new facilities for our customers, compared to $121.0 million in 2007, which included $65.0 million of additions for the KEG project. These amounts included work in progress at the beginning of each year. At the end of 2008, our work in progress totalled $113.0 million compared to $115.8 million at the end of 2007. Our investment in work in progress will be included in our regulatory rate base in future years when these projects are energized. Significant projects currently in progress at December 31, 2008 include the Southwest Development from Lethbridge to Pincher Creek, the Waupisoo substation in Northern Alberta and the Enbridge Rosyth Upgrade project.

During the fourth quarter of 2008, cash used in investing activities was $45.0 million compared with $50.0 million in the fourth quarter of 2007.

Financing Activities

During 2008, our cash provided by operating activities was sufficient to fund 83% of our cash requirements for investing activities and to pay distributions of $22.0 million to our limited partner, AILP. During 2008, our financing activities provided net cash of $2.1 million. We increased our long-term debt by $24.5 million during 2008, primarily to fund the remaining 17% of our capital expenditure program.

During 2007, our financing activities provided 57% of the cash we required to fund our capital expenditures and other investing activities. The remaining 43% was generated by our operating activities. Our financing activities for 2007 included an equity injection of $45.0 million from AILP and we increased our long-term debt by $100.7 million to finance our working capital requirements and capital expenditures.

During the fourth quarter of 2008, our financing activities provided 36% of the cash required to fund capital spending and other investing activities. The remaining 64% was generated by our operating activities. The percentages for the fourth quarter of 2007 were similar.

Our Series 03-1 4.450% $100.0 million senior notes matured on June 5, 2008. In May, 2008 we refinanced the maturing debt issue under our capital markets platform by issuing $100.0 million of Series 08-1 5.243% medium-term notes, for which the AUC approved our debt application in May, 2008. As a result of the refinancing, our interest expense will increase by $0.8 million annually with a corresponding increase in our tariff revenue. We increased our long-term debt during 2008 by issuing commercial paper, bankers' acceptances and bank loans, which we intend to refinance in the future by issuing medium-term notes with a minimum term to maturity of seven years. In November, 2008 the AUC approved the issuance of up to $150.0 million of medium-term notes to refinance our money market debt. As at December 31, 2008, we have all of the regulatory approvals necessary to issue medium-term notes when conditions in the corporate debt markets improve.

Liquidity

We generally issue commercial paper to finance day-to-day requirements. Since September 2008, commercial paper markets have been significantly less active due to the global credit crisis. During the fourth quarter of 2008, we occasionally drew down on our $200.0 million commercial paper backstop facility for brief periods of time when commercial paper markets were effectively closed due to the global credit crisis. Between our $200.0 million commercial paper backstop facility and our $85.0 million revolving line of credit, our liquidity was more than sufficient to finance our operations and capital projects. As at December 31, 2008, our commercial paper, bankers' acceptances and bank loans totalled $164.7 million, leaving us with $120.3 million of availability for money market debt. We have all approvals necessary to issue up to $150.0 million of medium-term notes and are well-positioned to refinance our commercial paper when credit market conditions improve.

We plan to finance significant capital investments, working capital and any maturities of long-term debt through a prudent combination of cash flow from operating activities, new long-term debt and equity contributions from partners.

Our next long-term debt maturity occurs in 2012, and we expect that our capital expenditure program will increase significantly in 2009 and in future years. As discussed under Major Projects, we expect to receive all required permits and approvals for the Southwest Development and Keephills Interconnection, as well as numerous smaller projects. In our 2009/2010 GTA, we have requested approval to increase our money market debt facilities from $285.0 million to $600.0 million to significantly increase our liquidity in anticipation of increased construction activity and our expectation that the AESO will direct us to proceed with permit and licence applications for larger projects such as Heartland, the Southern Alberta Development and the Edmonton to Calgary line.

During 2007 and 2008, temporary excess cash balances and cash received in advance of construction and operating and maintenance charges were invested in short-term interest-bearing instruments with major Canadian banks. We have strict policies in place with regard to short-term investments and we have never invested any funds in asset-backed commercial paper.

ACCOUNTING POLICY AND RELATED DISCLOSURES

CHANGES IN ACCOUNTING POLICIES

Changes Impacting the 2008 Financial Statements

Financial Instruments

Effective January 1, 2007, we adopted the following revised accounting standards:

- Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530*, Comprehensive Income*;
- Section 3251, *Equity*;

- Section 3855, *Financial Instruments – Recognition and Measurement*;
- Section 3861, *Financial Instruments – Disclosure and Presentation;* and
- Section 3865, *Hedges*.

The adoption of these standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings for 2007. For further information, please see note 3(a) to the Financial Statements.

Effective January 1, 2008, we adopted the following revised Handbook Sections:

- Section 3862 – *Financial Instruments – Disclosures*. This section describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, *Financial Instruments – Presentation* replaced Section 3861, *Financial Instruments – Disclosure and Presentation.*
- Section 3863 – *Financial Instruments – Presentation*. This section establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of *Financial Instruments – Presentation* does not have any effect on our financial statements.

The recognition, de-recognition and measurement policies followed in the financial statements for periods prior to the adoption of these standards have not been reversed and, therefore, those financial statements are not restated.

Capital Disclosures
As described in note 3 of the Financial Statements, effective January 1, 2008, we have adopted the new CICA Handbook Section 1535, *Capital Disclosures*. This section requires us to disclose our capital structure, description of and compliance with externally imposed capital requirements and our objectives, policies and processes for managing our capital.

Inventories – Materials and Supplies
As described in note 3 of the Financial Statements, effective January 1, 2008, we have adopted the new CICA Handbook Section 3031, *Inventories*. This section requires us to expand our disclosure on the measurement and recognition of materials and supplies. The adoption of *Inventories* did not have an effect on our income statement but resulted in a reclassification on the balance sheet.

Contributions and Operating and Maintenance Charges in Advance
Prior to January 1, 2008, contributions in advance of construction included cash received in advance for capital projects as well as cash received in advance for future operating and maintenance costs. As the latter amounts have become more significant, effective January 1, 2008, these amounts have been shown separately on the financial statements. However, there has been no change in the accounting policy.

CHANGES IMPACTING FUTURE FINANCIAL STATEMENTS

Goodwill and Intangible Assets
CICA Handbook Section 3064 – *Goodwill and Intangible Assets* must be adopted for fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062 and as a result, there is no impact on our financial statements. We will adopt this standard on January 1, 2009.

Accounting for Rate-Regulated Operations
Beginning on January 1, 2009, Section 1100 of the CICA Handbook – *Generally Accepted Accounting Principles* has been amended to remove a temporary exemption related to the recognition of assets and liabilities arising from rate-regulation. In addition, effective the same date, section 3465 of the CICA Handbook – *Income Taxes* – has also been amended. The adoption of the new standards is expected to have an impact on the following:

- Recognition, measurement, disclosure and presentation of asset retirement obligations;
- Reserve and deferral accounts;
- Future income tax liabilities; and
- Allowance for funds used during construction.

For a more detailed description of these expected changes, see note 3 (f) to the Financial Statements.

International Financial Reporting Standards (IFRS)

Impact of IFRS
On February 13, 2008, the CICA Accounting Standards Board confirmed that the conversion to IFRS from Canadian GAAP will be required for publicly accountable profit-oriented enterprises for both interim and annual financial statements beginning on or after January 1, 2011.

In Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies relating to Changeover to IFRS,* the Canadian Securities Administrators noted the conversion to IFRS represents a change due to the implementation of new accounting standards. As a result, the transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. The Notice requires us to discuss in our interim and annual MD&A the elements, timing and status of our IFRS conversion plan. This information was detailed in the second quarter MD&A and an update is provided below.

We have established a Steering Committee to review the adoption of IFRS, a project team and working groups to carry out the detailed tasks involved in the conversion project. The project team and working groups provide position papers and regular updates to management, the Steering Committee and the Audit Committee. Employee education sessions are being provided to increase knowledge and awareness of IFRS and its impacts. We have also engaged an external expert advisor.

We are participating in various industry and peer groups, including the Canadian Electric Association. We are also reviewing discussion papers, exposure drafts and standards released by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee. We will continue to assess the impact of the proposed standards on our financial statements and disclosure as additional information becomes available. Financial impacts cannot be reasonably determined at this time.

Our IFRS conversion project consists of four phases:
- Phase 1 – Project initiation and initial assessment
- Phase 2 – Detailed assessment
- Phase 3 – Design
- Phase 4 – Execution

Current status:
- Phase 1 - The initial, high-level assessment of the relevant IFRS standards was completed on schedule by year's end. This includes an assessment of the key areas of impact on financial reporting, the accounting process, accounting policies, information technology and data systems, regulatory reporting and other business activities that may be influenced by GAAP measures such as debt covenants, capital requirements and compensation arrangements.

Based on our initial assessments, we have identified that the following areas have the greatest potential impact on our accounting operations:

- Property, plant and equipment;
- Rate-regulated operations; and
- The initial adoption of IFRS under the provisions of IFRS 1 – *First Time Adoption of International Accounting Standards.*

- Phase 2 – The detailed assessment has been started. A pilot project on the inventories section has been completed. It included an assessment of potential impacts on the following:
  - Accounting;
  - Financial reporting;
  - Treasury;
  - Regulatory systems and processes; and
  - Operations systems and processes.

  As part of the project, we also made the required changes to systems and processes.

  In addition, the assessment included a detailed analysis of IFRS and Canadian GAAP accounting and disclosure differences that are applicable to our business. We also determined the IFRS 1 requirements and benefits of the optional exemptions that provide relief to the requirement of full retrospective application. We completed the inventory analysis by the end of the year and implemented changes for the December 31, 2008 financial statements.

Transition Matters

IFRS 1, *First Time Adoption of International Accounting Standards,* provides transitional guidance and relief for an entity adopting IFRS for the first time. The IASB has issued, on September 25, 2008, an exposure draft relating to certain proposed amendments to the IFRS 1 standard to assist Canadian entities adopting IFRS for the first time in carrying out a smoother transition. One such exemption relating to rate-regulated accounting would, if adopted, result in a significant reduction in the time and effort required to transition from the current Canadian accounting model to IFRS. If the proposal in the exposure draft is accepted, it is anticipated an amended IFRS 1 standard will be issued late in 2009. We provided a joint response, together with an industry group, to the IASB by the deadline of January 23, 2009.

On January 14, 2009, the AUC issued a draft IFRS Regulatory Accounting Procedures Handbook which provides guidance on accounting procedures and requirements in order to specify the methodology and the basis of accounting for presenting financial information in a rate application or other reporting to the AUC. We have provided comments to the AUC on this draft handbook.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment in which we operate often requires amounts to be recorded at estimated values until these amounts are finalized in regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates. We base our estimates and judgments on historical experience, including experience with the regulatory process, current conditions and various other assumptions that are believed to be reasonable under the circumstances. These factors form the basis for making judgments about the carrying values of assets and liabilities. They are also the basis for identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments. Examples of significant estimates include:

- Key economic assumptions used to determine the fair value of residual cash flows;

- The allowance for doubtful accounts;
- The estimated useful lives of assets;
- The recoverability of intangible assets including estimates of future costs to retire physical assets or the recoverability of costs associated with direct assigned projects that have been delayed in the regulatory process;
- The recoverability of intangible assets with indefinite lives, such as goodwill;
- Future income tax liability;
- The accruals for payroll and other employee-related liabilities;
- Certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets; and,
- The recovery and settlement of the regulated assets and liabilities.

Goodwill

Goodwill represents the excess of the amount paid over the fair value of the net assets or operations acquired. Goodwill is carried at initial cost less any write-down for impairment. Goodwill impairment occurs when the carrying value of the reporting unit exceeds its fair value. If that happens, we recognize an impairment loss. In the last quarter of each fiscal year, and as economic events dictate, we review the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value.

We performed a goodwill impairment test in December 2008. We examined the business and regulatory environment, the ownership structure, the financing activities, credit ratings and interest rates. The current economic conditions were considered while doing this analysis. Although the economic conditions may cause some transmission projects to be delayed somewhat, the infrastructure needs of the province must be addressed to ensure the reliability of the system. We also performed a discounted cash flow and net fair value analysis, which compared favourably to the carrying amount of goodwill. We concluded that the carrying value of the goodwill has not been impaired since the last fair value determination in December 2007.

Edmonton to Calgary 500kV Transmission Line Project

As of December 31, 2008, approximately $38.7 million in capital expenditures has been incurred related to the Edmonton to Calgary 500kV transmission line project and was included in property, plant and equipment. We incurred these expenditures pursuant to direction letters issued by the AESO, which is a normal step in the regulatory process. In addition, the AESO has acknowledged that these costs should be recovered and that it is prepared to support us in an application for recovery. It is our opinion that these expenditures will be recovered through the regulatory process. We plan to file the Direct Assign capital deferral account application for 2007 with the AUC during Q1 2009 requesting that an amount of $38.7 million be added to rate base effective December 31, 2007. Should a need for an adjustment arise as a result of the regulatory process, we will reflect the impact in the financial statements related to the period when the regulatory decision is made.

Revenue Recognition

Revenues from rate-regulated operations are recognized on the accrual basis in accordance with rates and policies set by the regulator. They include an estimate of services provided but not yet billed. Any revenue that has been received but not yet earned is classified as other liabilities in the financial statements.

Asset Retirement Obligations

We recognize the fair value of liabilities associated with the retirement of tangible long-lived assets, and record a corresponding increase to the carrying amount of the related assets. This corresponding increase is amortized to earnings in a systematic manner over the useful lives of the assets. We recognize our statutory, contractual and legal obligations for asset retirements. The discounted present value of the liability accretes over time for changes in the present value, with the accretion expense included in depreciation.

Asset retirement obligations are legal obligations that may apply to both the retirement of an entire transmission line, or to parts of the larger system. Interim retirement obligations are recognized in the latter circumstance when a component is retired prior to the retirement of the entire transmission line. Asset retirement obligations are recorded as a liability, with a corresponding increase to property, plant and equipment.

Since we determined that there are no legal obligations associated with the interim retirement of electric substations and telecom sites, interim asset retirement obligations for these sites have not been recognized. While there will be future retirement obligations associated with the final retirement of these assets, we have not recognized any obligation at this time because the date of final removal cannot be reasonably determined.

Employee Future Benefits

All accrued obligations for employee benefit plans and post-retirement benefits are determined using the projected benefit method. In valuing post-retirement benefits as well as cost of pension benefits, we use best estimate assumptions, except for the discount rate, where we use the long-term market rate of high quality debt instruments at the measurement date. Current service costs are expensed in the period. In accordance with GAAP, cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the benefit obligation, or fair value of plan assets are amortized over the expected average remaining service period of active employees receiving benefits under the plan. For valuing pension assets, we use market values. When the recognition of a transfer of employees and employee related benefits results in both a curtailment and a settlement of obligations the curtailment is accounted for prior to the settlement. Under regulatory accounting principles the expense ultimately recognized in these financial statements is that which is recognized for ratemaking purposes. Although the current market downturn has significantly affected the fair value of the defined benefit plan assets, changes are not material as there are only eleven members in the plan.

TRANSACTIONS WITH RELATED PARTIES

We enter into various transactions with our general partner, AML, our limited partner, AILP, AILP's general partner, AIML, and with AILP's limited partner, AHLP. These transactions are in the normal course of operations and are recorded at the exchange values based on normal commercial rates. The people who provide administrative and operational services to our business are employed by our general partner, AML. We have indemnified AML for all associated expenses and liabilities.

We recorded interest expense of $6.8 million for the year ended December 31, 2008 on our $85.0 million Series 3 Subordinated Bridge Bond, the same amount that was paid to AILP in 2007. The bond has a repayment date of October 1, 2012, with interest being paid quarterly. As at December 31, 2008, the balance owing on the bond was $85.0 million, together with accrued interest of $1.1 million.

In 2008, our business paid SNC-Lavalin ATP (ATP), a subsidiary of SNC-Lavalin, $54.4 million for construction related services. That compares to payments of $110.4 million for the year ended December 31, 2007. Payments for the three months ended December 31, 2008 totalled $15.9 million compared to $22.7 million in 2007. All of these payments were capitalized in various projects. On December 31, 2008, our payables included $17.2 million owing to ATP compared to $21.9 million on December 31, 2007. The reduction in the amount payable compared to the previous year-end was due to delays in construction of two major projects as a result of delays in the regulatory approval process. In 2002, we executed a ten-year contract with SNC-Lavalin Inc. for the provision of engineering, procurement and construction management services for directly assigned capital projects that we have undertaken. These services have been provided to AltaLink on behalf of SNC-Lavalin Inc. by its subsidiary SNC-Lavalin ATP Inc. The terms and conditions of this contract were reviewed by the AUC in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the AUC Audit and Compliance Group.

RESULTS OF OPERATIONS

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from our financial statements for the three most recently completed financial years is detailed below:

	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Total revenue ($ millions)	$ 233.4	$ 213.4	$ 201.4
Net income ($ millions)	40.7	37.6	35.6
Net income per unit ($ per unit)	0.123	0.113	0.107
Funds generated from operations ($ millions) [1]	113.4	100.7	98.1
Distributions per unit ($ per unit)	0.066	0.065	0.060
Total assets ($ millions)	1,511.0	1,450.3	1,323.2
Long-term debt, excluding current portion ($ millions) [2]	825.2	800.9	700.2

1. See notes 1 and 4 under Liquidity and Capital Resources
2. The long-term debt balance is shown before deducting the deferred financing fees, which have been offset against this amount in the Financial Statements, in accordance with the requirements of the financial instruments accounting standards.

Revenues

During 2008, our revenue increased by $20.0 million compared to the previous year. Our transmission tariffs increased by $21.4 million while the allowance for funds used during construction (AFUDC) and miscellaneous revenue have decreased marginally. Transmission tariff revenue received from the AESO accounted for 95% of our total revenue in 2008, compared with 94% in 2007. The year over year increase in tariff revenue results primarily from growth in our regulated rate base for transmission assets, recovery of higher operating costs due to system growth, recovery of depreciation charges on new capital additions, and higher allowed returns on capital invested as the allowed rate of return on equity increased from 8.51% in 2007 to 8.75% in 2008.

Miscellaneous revenues include services provided on a cost recovery basis to other utilities. The provision of such services has no significant impact on net income.

Revenues

	2008	2007	2006
($ millions)	**$ 233.4**	$ 213.4	$ 201.4

Approved Return on Equity

	2008	2007	2006
(Percent)	**8.75%**	8.51%	8.93%

Operating Expenses (including Property Taxes)

Operating expenses include salaries and wages net of transfers to capital projects, contracted manpower, general staff related costs, insurance and property taxes. The $8.1 million increase for the year in operating expenses in 2008 compared to 2007 reflects wage increases and general inflation, and additional manpower and related expenses incurred as a result of our continued growth. We recover a portion of the increased operating costs through miscellaneous revenue for services provided to other utilities.

The $3.2 million increase in operating expenses in 2007 compared to 2006 is partially due to increased labour charges incurred as a result of wage increases and our growing operations and maintenance associated with a larger and aging asset base.

Operating Expenses (Including Property Taxes)

	2008	2007	2006
($ millions)	**$ 78.1**	$ 70.0	$ 66.8

Depreciation Expense

Depreciation is calculated on a straight-line basis with various rates ranging from 1.99% to 33.33% as approved by the AUC. The $6.5 million increase for the year in depreciation and accretion expense in 2008 compared to 2007, is due to the capital projects that were completed and added to property, plant and equipment. The depreciation expense in 2007 is comparable to 2006.

Depreciation Expense

	2008	2007	2006
($ millions)	**$ 71.5**	$ 64.9	$ 61.8

Interest Expense

Our interest expense increased by $2.1 million in 2008 compared to 2007, primarily due to the refinancing of our maturing long-term debt and additional borrowings of $24.3 million used to fund our ongoing capital expenditure programs. The increase was partially offset by lower interest rates on money market debt.

The $5.4 million increase in interest expense in 2007 compared to 2006 is due to the increase in long-term debt during 2007 compared to 2006. Our long-term debt increased by $100.7 million during 2007 and the average effective interest rates increased from 4.89% to 4.34% from 2006 to 2007.

Interest Expense

	2008	2007	2006
($ millions)	**$ 42.5**	$ 40.8	$ 35.4

Net Income and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) [1]

Our net income increased during 2008 primarily due to higher transmission tariff revenue derived from our continuing investment in regulatory transmission assets, which is partially offset by higher operating expenses, depreciation and interest expense attributable to the growth in rate base assets, which are explained further above.

Our net income for 2007 was higher than in 2006 for similar reasons. Our transmission revenue increased by $11.4 million, and was partially offset by higher operating, depreciation and interest expenses. Most of these year over year variances were directly attributable to the continuing growth in our regulatory rate base assets.

During 2008, our EBITDA of $159.4 million surpassed our 2007 EBITDA of $147.6 million, for the same reasons as the increases in our net income for those periods. For the year 2007, EBITDA as a percentage of revenue was 69.2%, which is not significantly different from that of 2006, which was 68.3%.

Net Income

	2008	2007	2006
($ millions)	**$ 40.7**	$ 37.6	$ 35.6

EBITDA

	2008	2007	2006
($ millions)	**$ 159.4**	$ 147.6	$ 137.5

1. See notes 1 and 3 under Liquidity and Capital Resources.

Financial Position

The following outlines the significant changes in our balance sheet from December 31, 2007 to December 31, 2008:

	Increase/(Decrease) ($millions)	Explanation
Accounts receivable	$ (21.9)	Our accounts receivable from our principal customer, the AESO, decreased from December 31, 2007 due to the timing of due dates.
Property, plant and equipment	72.0	We incurred construction costs for new transmission projects, including the Southwest Development, the Waupisoo substation, and the Enbridge Rosyth Upgrade project and capital maintenance.
Long-term Debt	24.5	We increased our borrowings to fund capital projects, net of operating cash flows.
Operating and maintenance charges in advance	5.4	The increase is due to contributions of future operating and maintenance charges related to new construction projects.
Operating and maintenance charges deferred revenue	5.4	The increase is due to contributions of future operating and maintenance charges related to new construction projects.
Long-term regulatory liabilities	5.3	We incurred lower expenses for property tax and direct assigned capital projects than forecasted in our tariffs. As these expenditures are under deferral accounts, we are obliged to refund the unspent portion of the amounts that the AUC had approved in our deferral account applications.
Contributions in advance of construction	1.2	The increase is mainly due to new construction contributions, which are partially offset by refunds, annual interest payments to the AESO and to funds used in construction projects.

Results for the Fourth Quarter 2008

Net Income

Our net Income for the three months ended December 31, 2008 was $0.5 million higher than for the same period in 2007, primarily due to the increase in transmission tariff revenue. That increase is partially offset by higher operating expenses, depreciation and interest expense as explained below.

Revenues

Our revenue for the quarter totalled $59.6 million and increased by $7.6 million compared with the same quarter in 2007. Transmission tariffs approved by the AUC increased by $10.7 million which was partially offset by a $1.2 million decrease in miscellaneous revenue. Tariff revenues received from the AESO have increased primarily due to growth in transmission assets and recovery of increased operating costs. Miscellaneous revenues include services provided on a cost recovery basis to other utilities, which fluctuates from quarter to quarter. We provide such miscellaneous services on a cost recovery basis and there is no material impact on net income.

Operating Expenses (including Property Taxes)

Our operating expenses include salaries and wages net of transfers to capital projects, contracted manpower, general staff related costs and insurance. The $2.8 million increase in our operating expenses in Q4 2008 compared to Q4 2007 is mainly attributable to higher property taxes, which have no net income effect as variances from the approved tariff are refundable or recoverable by way of our deferral account, which is included in regulatory assets and liabilities. The quarter over quarter increase in our operating costs also reflects wage increases and general inflation, and additional manpower and related expenses incurred primarily as a result of our continued growth. To the extent that our operating costs relate to miscellaneous services from other utilities, we fully recover those costs in our miscellaneous revenue.

Depreciation and Accretion Expense

We calculate depreciation on a straight-line basis using various rates ranging from 1.99% to 33.33% which are approved by the AUC. The $2.2 million increase in depreciation and accretion expense in Q4 2008 compared to Q4 2007 is due to the capital projects that were completed and added to property, plant and equipment.

Interest Expense

Our interest expense in Q4 2008 was relatively the same as the same period in 2007. Although our debt levels at December 31, 2008 were $24.3 million higher, interest rates on our money market debt dropped considerably as compared with the same period in 2007. Interest costs on our long-term debt were higher than the same period in 2007 due to the refinancing of senior notes that matured in June 2008.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) [1]

For the three months ended December 31, 2008, our EBITDA totalled $40.7 million, $2.7 million higher than the $38.0 million we recorded in the corresponding quarter in 2007. The increase in our EBITDA for the quarter reflects the higher net income and depreciation expenses explained above.

[1] EBITDA is equal to net income before financing expenses, taxes, depreciation (including accretion) and amortization.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

QUARTER ENDED	TOTAL REVENUE ($MILLIONS)	NET INCOME ($MILLIONS)	UNITS OUTSTANDING ($MILLIONS)	NET INCOME PER UNIT ($/UNIT)
DECEMBER 31, 2008	59.6	8.5	331.9	0.026
SEPTEMBER 30, 2008	57.6	11.0	331.9	0.033
JUNE 30, 2008	58.5	9.6	331.9	0.029
MARCH 31, 2008	57.6	11.6	331.9	0.035
DECEMBER 31, 2007	52.0	8.0	331.9	0.024
SEPTEMBER 30, 2007	54.7	10.0	331.9	0.030
JUNE 30, 2007	52.9	8.3	331.9	0.025
MARCH 31, 2007	53.9	11.2	331.9	0.033
DECEMBER 31, 2006	53.7	11.0	331.9	0.033
SEPTEMBER 30, 2006	48.0	6.0	331.9	0.018
JUNE 30, 2006	49.5	7.6	331.9	0.023
MARCH 31, 2006	50.2	11.0	331.9	0.033

Prior to January 1, 2007, AFUDC was recorded in total revenue only in December and January as the related revenues were not material on a quarterly basis. As a result, our net incomes for the first and fourth quarters of each year were higher than for other quarters. Starting in 2007, we record AFUDC in total revenue on a monthly basis.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2008, and December 31, 2007, we had no off-balance sheet arrangements except for the contracted commitments which are disclosed in Note 14 to the Financial Statements.

RISKS AND UNCERTAINTIES

Our transmission business is subject to a variety of risks and uncertainties that may have material and adverse effects, financial and otherwise, on the results of our operations. For a more detailed description of the risks we face, please see the section of our Annual Information Form entitled *Risk Factors*.

We have instituted controls and other mitigating measures to manage these risks. Our risk management program includes an annual risk assessment that identifies and provides an overview of the top risks we face and the strategies we use to manage the risks.

The following are the more significant items that have an impact on our financial condition and the results of our operations. These items have also been identified throughout our management discussion and analysis.

Current Economic Conditions
The current crisis in global financial markets and economic conditions in Canada may reduce the urgency of proposed transmission projects. We continue to follow the AESO's direction with respect to the permitting, licencing and construction of transmission projects in accordance with the needs identified by the AESO. These economic circumstances may also adversely affect our ability to issue long-term debt and commercial paper. We manage these risks through our capital markets platform, which incorporates adequate liquidity to finance our operations and capital expenditure programs in the near term.

Regulatory Approvals
We are dependent upon decisions made by the AUC, which approves the revenue requirement or tariff for the transmission business. The revenue tariffs are designed to permit the regulated transmission business a reasonable opportunity to recover costs incurred to provide its services, as well as a fair return on the equity of the owners. If our actual costs exceed approved costs, our financial performance will be adversely affected. We closely monitor our operating costs and strive for continuous improvement in the cost efficiency of our operations.

Actual costs could exceed approved costs in the following circumstances:

- If we incur operational, maintenance or administration costs above those included in our approved revenue requirement;
- If we incur costs due to capital expenditures to upgrade or replace components in the existing system at levels above those provided for in the AUC decisions; or
- If we incur additional financing charges because of increased debt balances or changes in interest rates.

To the extent that any costs are disallowed through rates, it could have a material adverse effect on our financial performance.

Legislative Changes
The Alberta government issued its energy strategy in December 2008. This may lead to changes in current regulatory processes and the legislation and regulations underlying our transmission business. While we anticipate that such changes may be intended to streamline regulatory processes and support our ongoing efforts to permit and execute major transmission infrastructure projects, there is no assurance that any legislation or regulatory changes will not adversely impact us.

Capital Resources

Our financial position and performance could be adversely affected if we fail to arrange sufficient and cost-effective financing to fund, among other things, the repayment of maturing debt. Alberta's transmission regulation requires the AUC to foster stable investment and access to capital for transmission projects and we have applied for transmission tariffs that we believe are sufficient to raise equity and issue debt to fund repayment of all existing debt when due and our anticipated capital expenditures. There is no assurance that the AUC will approve the revenue requirement that we have applied for in our tariff applications or that the approved tariffs will adequately support our current credit ratings and our ability to access long-term debt markets. We rely entirely on AILP to contribute equity as required and we do not presently issue other equity securities as a primary source of capital. Our ability to arrange sufficient and cost-effective debt financing could be affected by numerous factors, including:

- The regulatory environment in Alberta;
- The results of our operations and financial position;
- Conditions in the capital and bank credit markets;
- The ratings assigned to our business and to our business's securities by debt rating agencies; and
- General economic conditions.

There can be no assurance that capital will be available on acceptable terms to us and in sufficient quantities to fund our planned capital expenditures and to repay existing debt maturities when due. None of AILP, AHLP, or any owners of AHLP is obligated to provide further funding to us.

Labour Relations

Approximately 58% of our employees are members of labour unions with collective bargaining agreements. The provisions of such agreements can affect the flexibility and efficiency of the operation of the transmission business. We have agreements with two unions, the International Brotherhood of Electrical Workers (IBEW) and the United Utility Workers Association (UUWA). In 2007, we renewed our collective bargaining agreement with the UUWA on acceptable terms to December 31, 2009. In December 2006, we renewed our collective agreement with the IBEW on acceptable terms until December 31, 2009. Our relationships with the labour unions are considered to be satisfactory. There can be no assurance that current relations will go unchanged in future negotiations with one or more of the unions, or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain or to renew the agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes. Any such disruption could have an adverse effect on our operational results, cash flow or net income.

Insurance

There can be no assurance that we will be able to obtain or maintain adequate insurance in the future at rates we consider reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise. A significant uninsured claim or a claim in excess of the coverage we maintain could have a material adverse effect on our operational results, cash flow or net income if the related amounts are not provided for in approved revenue requirements.

We do not carry insurance for loss of or damage to transmission lines, towers, poles or physical damage to certain owned vehicles. In the event of a large, uninsured loss that is not otherwise recoverable through rates, we would apply to the AUC to recover the loss (or liability) through an increased tariff or increased funding of its customer-funded, self-insurance reserve. However, there can be no assurance that the AUC would approve any such application, in whole or in part. Losses resulting from repair costs, lost revenue or other liability could substantially exceed insurance coverage (if any) and any increased tariff. Any major damage to our facilities could result in repair costs and customer claims that are substantial in amount, any of which might adversely affect our business, results of operations, financial position and prospects.

Damage from Weather or Other Disasters

Our facilities are exposed to the effects of severe weather conditions or other acts of nature. Losses could arise from damage to assets or facilities from sources beyond our control. Such losses could substantially exceed insurance coverage or may not be approved by the AUC for recovery, in whole or in part, through increased funding to our customer funded self-insurance reserve or through any increased tariff. Any major damage to our facilities could result in repair costs that are substantial in amount, any of which might adversely affect the business, results of operations, financial positions and prospects.

Operations and Maintenance

Our transmission system requires ongoing maintenance, improvement and replacement. We could experience service disruptions or increased costs if we are unable to obtain AUC approval for maintenance or operating expenditures, or if we do not carry out required maintenance programs. Such disruptions may have a material adverse effect on our operational results, cash flow or net income.

Environmental and Safety

We are subject to various laws, regulations and guidelines governing safety and the management, transportation and disposal of hazardous substances relating to the protection of the environment. Failure to comply with such laws or regulations could result in civil or criminal penalties. Such costs may be material to us, and may have a material adverse effect on our operational results, cash flow or net income.

FORWARD LOOKING INFORMATION

Prospective investors should be aware that this MD&A may contain certain statements or disclosures that constitute forward-looking information under applicable securities laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that we anticipate or expect may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as “forecast”, “future”, “may”, “will”, “expect”, “anticipate”, “believe”, “potential”, “enable”, “plan”, “continue”, “contemplate” or other comparable terminology. Forward-looking information presented in such statements or disclosures may, without limitation, relate to applications to the AUC for approval of, among other things, our revenue requirements and deferral and reserve accounts, anticipated income taxes and treatment of costs for applicable test periods, operating expenses, maintenance programs, capital costs and direct assigned projects, capital structure and return on equity, return on rate base, financing plans, interest rates, short-term borrowing rates, business strategy, plans and objectives of management for future operations, forecast business results, and anticipated financial performance or condition of AltaLink.

Various factors or assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. These factors and assumptions include, but are not limited to:

- No unforeseen changes in the legislative and operating framework for Alberta’s electricity market (refer to “*ALBERTA’S ELECTRICITY MARKET STRUCTURE*” in our Annual Information Form (AIF), for example)
- Decisions from the AUC concerning outstanding tariff and other applications which are consistent with past regulatory practices and decisions (refer to “*THE TRANSMISSION BUSINESS - Business Strategy; - Revenue Tariffs*” and “*ALBERTA’S ELECTRICITY MARKET STRUCTURE*” in our AIF, for example);
- No unforeseen changes in rate-of-return and deemed capital structures for our transmission businesses (refer to “*THE TRANSMISSION BUSINESS - Business Strategy; - Revenue Tariffs*” and “*ALBERTA’S ELECTRICITY MARKET STRUCTURE*” in our AIF, for example);
- A stable competitive environment; and
- No significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

These assumptions and factors are based on information currently available to us including information obtained by our business from third-party industry analysts. In some occurrences, material assumptions and factors are presented or discussed elsewhere in this document in connection with the statements or disclosure containing the forward-looking information. We caution prospective investors that the foregoing list of material factors and assumptions is not exhaustive.

The forward-looking information in statements or disclosures in this MD&A is based in whole or in part on factors which may cause our actual results, performance or achievements to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. These factors are based on information currently available to us including information obtained by our business from third-party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- The risks associated with being subject to extensive regulation including risks associated with AUC action or inaction;
- The potential for service disruptions and increased costs if we fail to maintain and improve our aging asset base;
- The risks to our facilities posed by severe weather, other natural disasters or catastrophic events and our limited insurance coverage for losses resulting from these events;
- The risks associated with forecasting our revenue requirements and the possibility that we could incur operational, maintenance and administrative costs above those included in our approved revenue requirement; and
- The risk that we are not able to arrange sufficient cost effective financing to repay maturing debt and to fund capital expenditures, distributions and other obligations.

Other factors which could cause our actual results, performance or achievements to differ materially from those contemplated (whether expressly or by implication) in the forward-looking statements or other forward-looking information are disclosed in our publicly filed disclosure documents, including those found under "*RISK FACTORS*" in this document and in our Annual Information Form. Such risk factors that could lead to such differences include, without limitation:

- Legislative and regulatory developments that could affect costs and revenues;
- The speed and degree of competition entering the market;
- Global capital markets activity;
- Timing and extent of changes in prevailing interest rates;
- Currency exchange rates;
- Inflation levels and general economic conditions in geographic areas where we operate;
- Results of financing efforts;
- Changes in counterparty risk; and
- The impact of accounting standards issued by Canadian standard setters.

All forward-looking information is given as of February 27, 2009. We are not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of these risks, uncertainties and assumptions, prospective investors should not place undue reliance on these forward-looking statements. This statement expressly qualifies any forward-looking information contained in this document.

ADDITIONAL INFORMATION

Additional information relating to our business including our Annual Information Form is available on SEDAR at www.sedar.com.