MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

JULY 29, 2009

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) reflects events known to us as of July 29, 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 unaudited interim financial statements for the three and six months ended June 30, 2009, the audited annual financial statements for the years ended December 31, 2008 and 2007 (the Financial Statements) and the notes to the Financial Statements. You should also read the Forward Looking Information legal advisory at the end of this MD&A.

The unaudited interim 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, 2008. The only exceptions to this are the changes in accounting policies cited in note 2 to the unaudited interim 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, and references to a "quarter" refer to the three months ended June 30, 2009.

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 11,800 kilometres of transmission lines and 270 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 the Alberta Electric System Operator (AESO). 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).

SNC-Lavalin 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. While growth has slowed down recently, there is still a significant backlog of electricity infrastructure. 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. Please refer to our first quarter MD&A dated May 1, 2009 for a detailed list of things we are doing to achieve our environmental goals.

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, as shown in the MD&A for the year ended December 31, 2008, we have consistently outperformed the CEA benchmarks for reliability, safety and cost effectiveness.

Reliability

We operate our transmission system 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 duration of system outages for the benefit of our customers. For the six months ended June 30, 2009, our reliability performance continued to be favourable compared with the industry. The duration and frequency of our outages, as measured by the system availability interruption duration index (SAIDI) and system availability interruption frequency index (SAIFI), performed better than the previous years' averages. However, our recent three year average has deteriorated due to a number of events impacting high-load areas.

Safety

Our highest priority is the safety of our employees, contractors and the public. Even though our safety statistics compare favourably with industry benchmarks, we strive for continuous improvement with our ultimate goal being an accident-free workplace. For the six months ended June 30, 2009, our average injury frequency rate was slightly over our internally set targets but remained below industry benchmarks. Please refer to our first quarter MD&A dated May 1, 2009 for further information on our safety programs.

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 costs account for less than 6% of the average electricity bill in Alberta.

Financial and Operational Highlights

Here are some of our financial and operational highlights for the second quarter of 2009:

- We achieved before tax net income of $13.0 million for the quarter and $25.0 million for the year-to-date;
- We safely and efficiently carried out our capital construction program with expenditures of $65.0 million for facilities for our customers ($111.9 million for the year-to-date);
- On May 14, 2009, we issued $100.0 million of long-term debt to improve our liquidity and to fund our capital expenditure program; and,
- We completed the defence of our GTA & GCOC applications.

OUR PEOPLE

We have more than 450 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, a key focus is the need for transmission growth, as an enabler for the Alberta economy. 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.

In September 2008, 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.

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 on our rate base are key to our investors. The returns are determined by multiplying the regulatory deemed equity portion of the mid-year 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 in Alberta. Our mid-year rate base for 2008 is $1,011.5 million, up from $930.5 million in 2007.

MAJOR CAPITAL PROJECTS

Impact of Current Economic Conditions

While economic growth has slowed down in Alberta and across Canada, the Alberta Government continues to move forward with its long range provincial energy strategy, which includes the development of much needed transmission infrastructure. On June 1, 2009, the Government introduced Bill 50 – the *Electric Statutes Amendment Act* into the Legislature. The Bill proposes to legislate the need for critical transmission infrastructure projects. It is expected that Bill 50 will be further debated during the fall 2009 session of the legislature. The Bill would exempt the AESO from filing a Need application but it would not change our obligation with respect to obtaining a permit and licence from the AUC. We remain focused on securing permits to construct and licences to operate new transmission lines and substations in a timely fashion, as directed by the AESO. On June 2, 2009 the AESO published the 2009 Ten Year Transmission System Plan which included up to $14.0 billion of transmission development in Alberta.

We are currently involved in the following major capital projects:

Southwest Development Project

The Southwest development project includes a double circuit 240 kV transmission line between Pincher Creek and Lethbridge. The project is the first major step to support the growing need to interconnect the significant wind generation potential in the region. On March 10, 2009, the AUC approved our application.

The Blood First Nation and the Piikani First Nation approved transmission permits to cross reserve lands. We are in discussions with the Blood First Nations with respect to possible minor route refinements.

We started substation construction and right-of-way preparation in July and expect to start line construction in August 2009. We anticipate that the project will be in-service during the second quarter of 2010.

Southern Alberta Transmission Reinforcement (SATR) Project

The SATR is a large-scale project designed to interconnect up to 2,700 MW of wind power into the Alberta transmission system.

Currently, the AESO proposes to develop the project 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 first phase has an estimated cost of $900 million, plus or minus 30%, and includes a double circuit 240kV line from the West Brooks to the Whitla areas, a double circuit line from the Foothills to Peigan areas, a 240kV substation in Milo, a transformer in Coleman, and a new Medicine Hat substation and area line re-configuration.

On June 29, 2009, the AUC completed the hearing to examine the Need filed by the AESO. The AESO has issued direction letters to AltaLink to initiate the necessary work to file permit and licence applications for the first phase projects as well as a portion of the second phase projects. We have identified preliminary routes and initiated landowner consultation through open houses commencing in June 2009. Consultation and route refinement will continue through the remainder of 2009 and into 2010, with the filing of permit and licence applications anticipated in 2010.

Edmonton to Calgary Transmission Development

The AESO has indicated that 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. 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 during 2008 as part of their consultation regarding the need to reinforce the transmission system between Edmonton and Calgary. To date, the AESO has 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. Should we receive direction from the AESO, we will begin consultation as soon as practical.

Heartland Project

The AESO has identified that increased electricity demand due to residential, commercial and industrial growth in the 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 proposed two concepts that can provide the transmission reinforcement required, both constructed at double circuit 500kV. 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.

We initiated landowner consultation on preliminary route options in the second quarter of 2009 and intend to continue the consultation process in anticipation of filing a permit and licence application in 2010.

Keephills 3 Generation Interconnection and Debottlenecking Projects

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. As directed by the AESO, we have begun the work required to receive permit and licence approvals from the AUC.

On January 21, 2009, we received our permit and licence to begin upgrades at the Keephills substation. We filed a second Facility Application for the Ellerslie substation of just under $50.0 million on January 28, 2009 and have filed the permit and licence for the line between these two substations in the second quarter. We are currently forecasting a 2010 in-service date.

Foothills Area Transmission Development (FATD) Project

The FATD project is to enable the integration of southern Alberta wind generation interconnected by the SATR project into the south/central load regions. The project will require expansion and/or upgrades to a number of substations and upgraded transfer capacity to a number of transmission lines in the Calgary region. We are currently working with the AESO and ENMAX on the initial stages of project development.

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. Please refer to the first quarter MD&A dated May 1, 2009 for a description of the principal components of our approved transmission tariff.

In addition to the applications related to major capital projects noted above, the significant AltaLink 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;
- Generic Cost of Capital proceeding to review potential changes to the generic return on equity formula and the capital structure of utilities; and,
- Direct Assign capital deferral account applications for the years 2007 and 2008.

General Tariff Applications

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 cost of financing large transmission projects on future transmission tariffs, we have requested an increase in our equity ratio 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 requirement. We believe that it is in the best interests of all stakeholders, particularly ratepayers, 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 and stating that our existing terms and conditions from Decision 2007-050 would remain in effect. The 2009-2010 GTA hearing concluded on April 30, 2009. We filed our arguments on June 15, 2009. The intervenors completed their reply arguments on July 6, 2009 and the record closed on that date. We expect that the AUC will issue its decision in the fourth quarter of 2009.

Please refer to the first quarter MD&A dated May 1, 2009 for a description of the disposition of the 2007-2008 GTA.

Generic Cost of Capital (GCOC)

The AUC issued Decision 2004-052 on July 2, 2004 in which it approved the 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%. On December 1, 2008, we received a letter from the AUC confirming that we should use the interim ROE placeholder of 8.75% pending the outcome of the 2009 GCOC Proceeding.

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 ratio to 38% and a return on equity of 11%. The AUC held the GCOC hearing in May 2009. Arguments were due July 23, 2009 with reply arguments due August 13, 2009. We expect that the AUC will issue its decision in the fourth quarter of 2009.

2007 and 2008 Capital Deferral Account Applications

In the 2009-2010 GTA, we have requested approval from the AUC to include the voided Edmonton to Calgary 500kV Transmission Development Project in rate base, effective December 31, 2007. We also expect to file an application later in 2009 for the disposition of the balances in the Direct Assign capital deferral accounts for 2007 and 2008.

LIQUIDITY AND CAPITAL RESOURCES

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
($ Millions)		
Cash and cash equivalents, beginning of year	**$ 0.0**	$ 0.0
Cash flow from (used in)		
Operating activities	**47.7**	76.8
Investing activities	**(99.0)**	(65.5)
Financing activities	**51.3**	(11.3)
Cash and cash equivalents, end of period	**$ 0.0**	$ 0.0
Ratios [1]		
Interest coverage:		
EBIT coverage [2, 5]	**2.24X**	2.01X
EBITDA coverage [3, 5]	**4.15X**	3.72X
Cash flow coverage [4, 5]	**2.61X**	2.42X
Annualized cash flow/total debt [4, 6]	**13.62%**	12.96%
Debt/total capitalization [6, 7]	**60.03%**	61.61%

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 during the last twelve months 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 our 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.
7. Total capitalization - Consists of debt and partners' equity.

Earnings Coverage

	For the twelve months ended June 30, 2009	For the twelve months ended June 30, 2008
Earnings-to-interest coverage on total debt [1]	**2.02X[2]**	1.91X[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 $43.8 million for the 12 months ended June 30, 2009. That includes the additional interest payable on our $100.0 million debt issue (2008-1) which was refinanced at 5.243%. Our earnings before interest and income tax for the 12 months ended June 30, 2009 were approximately $88.3 million, which is 2.02 times our interest requirements on all of our debt for this period.
3. Our required interest payments on all of our debt amounted to approximately $43.1 million for the 12 months ended June 30, 2008. That includes the additional interest payable on our $100.0 million debt issue (2008-1 additional issue) which was refinanced at 5.243%. Our earnings before interest and income tax for the 12 months ended June 30, 2008 were approximately $82.4 million, which is 1.91 times our interest requirements on all our debt for this period.

Credit Ratings

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
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 April 21, 2009 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 six months ended June 30, 2009, our cash provided by operating activities was $29.2 million lower than the same period in 2008, primarily due to changes in our non-cash working capital. During the first half of 2008, we received seven monthly payments from the AESO, compared with six payments in the same period in 2009, as two monthly payments were outstanding at December 31, 2007. Monthly payments from the AESO are due twenty working days following the month-end. Therefore, depending on the month, two monthly payments may be outstanding from time to time. Payments from the AESO are always received on the due date.

For the first half of 2009, cash provided by our operating activities was sufficient to fund 32% of our cash requirements for capital expenditures after paying distributions of $11.4 million to our limited partner, AILP compared with 85% for the first half of 2008. These figures were 15% and 39% for the second quarter of 2009 and 2008, respectively.

In addition, we recorded non-cash adjustments related to gains on sale of $3.7 million which were principally for land expropriated by Alberta Infrastructure for road developments.

Investing Activities

Our investing activities included capital expenditures of $111.9 million for the first half of 2009, compared to $77.5 million during the same period in 2008. Our higher construction activity in 2009 reflects the timing of receipt of regulatory approvals as well as directions from the AESO for larger transmission projects. During the quarter, our regulatory rate base increased as we completed and energized capital projects with a total value of $25.2 million, compared to $26.3 million in 2008.

Our capital expenditures are summarized in the following table:

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Capital additions		
Direct assigned	**$ 12,857**	$ 21,583
Capital upgrades & replacement	**13,418**	15,240
Corporate services, IT & other	**13,776**	1,496
Total capital additions	**40,051**	38,319
Change in assets under construction	**90,042**	41,353
Less: Allowance for funds used during construction (AFUDC)	**(6,888)**	(5,511)
Salvage and other non-cash working capital items	**(11,326)**	3,338
Capital expenditures	**$ 111,879**	$ 77,499

> 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 the first half of 2009, we invested $100.4 million of capital expenditures on new facilities for our customers, compared to $44.0 million in 2008. We also maintained our existing assets by investing $29.2 million on capital upgrades and replacements ($23.3 million in the same period in 2008) to extend the life and enhance the reliability of our system. In addition, we invested $8.6 million in corporate facilities compared with $6.4 million in 2008. Of these amounts, $40.1 million were added to our rate base. Our investment in assets under construction will be included in our regulatory rate base in future periods when these projects are energized. Significant projects currently in progress at June 30, 2009 include the Southwest Development from Lethbridge to Pincher Creek, the Keephills 3 generation interconnection, debottlenecking projects in the Edmonton region and the Statoil Leismer facility.

Financing Activities

During the first half of 2009, our financing activities provided net cash of $51.3 million. We received an equity investment of $42.5 million from AILP which was primarily used to fund 68% of our capital expenditure program. During the three months ended June 30, 2009, our financing activities provided net cash of $43.2 million, including an equity investment of $27.5 million from AILP.

During the first half of 2008, we used $11.3 million of net cash in our financing activities, primarily for distributions of $10.9 million to our partners. During the quarter ended June 30, 2008, our net cash provided by financing activities changed marginally as we refinanced a $100.0 million long-term debt issue that had come due in June 2008.

On May 14, 2009, we issued a $100.0 million medium-term note and used proceeds to reduce our money market debt and to fund our capital expenditure program.

Liquidity

We generally issue commercial paper to finance day-to-day requirements. At various times since September 2008, commercial paper markets have been significantly less active due to the global credit crisis. During the last quarter of 2008 and early 2009, we occasionally relied on our $200.0 million commercial paper backstop facility for brief periods of time when commercial paper markets were effectively closed. Between our $200.0 million commercial paper backstop facility and our $85.0 million revolving line of credit, our liquidity was sufficient to finance our operations and capital projects. As at June 30, 2009, our commercial paper totalled $74.9 million, leaving us with $210.1 million of available liquidity under our bank credit facilities.

We expect that our capital expenditure program will increase significantly in 2009 and in future years. We plan to finance the projected capital investments, working capital requirements 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.

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.

During 2008 and 2009, 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 2009 Financial Statements

As described in note 3 to the unaudited interim financial statements, we adopted the provisions of the following CICA Handbook Sections:

- Section 1535, *Capital Disclosures*;
- Section 3031, *Inventories;*
- Section 3064*, Goodwill and Intangible Assets;* and
- Section 1100, *Accounting for Rate-Regulated Operations.*

Please refer to note 3 for more details of the changes required as a result of the implementation of these standards.

CHANGES IMPACTING FUTURE FINANCIAL STATEMENTS

International Financial Reporting Standards (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 of 2008 and in subsequent MD&As. An update is provided below.

An internal AltaLink Steering Committee continues to provide oversight for our adoption of IFRS, including overseeing our IFRS project team and working groups in carrying 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, the Audit Committee and the external auditors. Employee education sessions have been provided and will continue to be provided to increase knowledge and awareness of IFRS and its impacts.

We continue to participate in various industry 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 reasonably be determined at this time.

We have completed the detailed assessment of the impact of IFRS on our accounting processes, financial statements, treasury operations, regulatory systems and processes and operating systems and processes. The detailed assessment included analysis of the issues raised in Phase 1 and our proposed recommendations to resolve these issues.

We anticipate making significant changes to systems and processes so that IFRS adjustments and disclosure requirements will be fully automated, minimizing the need for manual adjustments.

Based on the detailed assessments that we completed, we have identified certain areas with the greatest potential for changes to our financial statements upon transition to IFRS. We are still in the process of identifying the financial impact of these changes, if they materialise. The IASB issued an exposure draft on July 23, 2009 of a proposed standard for the recognition, measurement, presentation and disclosure of rate-regulated activities under IFRS. The exposure draft included the following:

- We should apply the standard to regulatory assets and liabilities existing at the beginning of the first comparative period presented in the annual financial statements in which we first apply IFRS (in our case, this will be January 1, 2010). We should recognize any adjustments arising on transition in the opening balance of retained earnings;
- We should include any amounts determined using our previous GAAP in the carrying amount of property, plant and equipment or intangible assets;
- We should include in the cost of self-constructed property, plant and equipment all the amounts the regulator permits to be included in their cost; and
- We should consider the recoverability and impairment of regulatory assets.

Please refer to our first quarter MD&A dated May 1, 2009 for a more detailed description of our current assessment of the issues that are expected to have the most significant impact on our processes and disclosures.

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. The following are the more significant estimates that have an impact on our financial condition and the results of our operations:

- 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, including the related transmission tariff revenue impact, as well as the impact of using the interim tariff rates.

These critical accounting estimates are discussed more thoroughly in the annual MD&A.

Edmonton to Calgary 500kV Transmission Line Project

Approximately $38.7 million in capital expenditures was incurred related to the Edmonton to Calgary 500kV transmission line project and is 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. In the 2009-2010 GTA, we have requested approval from the AUC to include these costs in 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.

TRANSACTIONS WITH RELATED PARTIES

We enter into various transactions with our general partner, our limited partner, and its general partner, as well as with AILP's limited partner. 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. We have indemnified our general partner for all associated expenses and liabilities.

In 2002, we executed a ten-year contract with SNC-Lavalin Inc. (SNC-Lavalin) for the provision of engineering, procurement and construction management services for directly assigned capital projects. These services have been provided to AltaLink on behalf of SNC-Lavalin, by its subsidiary SNC-Lavalin ATP Inc. (SNC-ATP). 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.

We recorded interest expense of $1.7 million for the second quarter of 2009 ($1.7 million for the second quarter of 2008) and $6.8 million for the year ended December 31, 2008 on our $85.0 million Series 3 Subordinated Bridge Bond due to AILP. The bond has a repayment date of October 1, 2012, with interest being paid quarterly. As at June 30, 2009, the balance owing on the bond was $85.0 million, together with accrued interest of $1.1 million.

In the first half of 2009, our business paid SNC-ATP $48.3 million for construction related services. Payments for the six months ended June 30, 2008 totalled $24.7 million ($30.2 million for the second quarter of 2009 compared to $14.4 million for the second quarter of 2008). All of these payments were capitalized in various projects. On June 30, 2009, our payables included $30.6 million owing to SNC-ATP compared to $19.8 million on June 30, 2008 and $17.2 million at December 31, 2008.

RESULTS OF OPERATIONS

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from our financial statements for the most recent period is detailed below:

	For the six months ended June 30, 2009	For the six months ended June 30, 2008	**For the three months ended June 30, 2009**	For the three months ended June 30, 2008
Total revenue ($ millions)	$ 120.7	$ 116.1	$ 61.4	$ 58.5
Net income ($ millions)	25.0	21.2	13.0	9.6
Net income per unit ($ per unit)	0.075	0.064	0.039	0.029
Funds generated from operations ($ millions) [1]	52.8	50.9	26.1	23.6
Distributions per unit ($ per unit)	0.034	0.033	0.017	0.017
Total assets ($ millions)	1,855.2	1,462.5	1,885.2	1,462.5
Long-term debt, excluding current portion ($ millions) [2]	845.9	800.5	845.9	800.5

[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.

FINANCIAL POSITION

The following outlines the significant changes in our balance sheet from December 31, 2008 to June 30, 2009:

	Increase/(Decrease) ($millions)	Explanation
Property, plant and equipment	$ 314.2	On January 1, 2009, we reclassified $145.4 million of provision for future removal and site restoration previously netted against property, plant and equipment. We also changed the estimate of our asset retirement obligations in June 2009, resulting in a further $86.6 million increase. The remaining increase is due to construction activity for new transmission projects, including the Southwest Development, the Keephills 3 project, the Statoil Leismer facility as well as capital maintenance.
Contributions in advance of construction and construction liability	19.0	The increase is mainly due to new construction contributions, which are partially offset by refunds, annual interest payments to the AESO and by funds used in construction projects.
Operating and maintenance charges in advance and deferred revenue	4.9	The increase is due to contributions of future operating and maintenance charges related to new construction projects.
Accounts payable and accrued liabilities	16.3	Our accounts payable increase is mainly due to higher trade payables due to the higher level of capital construction activity.
Regulatory liabilities, long-term	136.7	$145.4 million is due to the reclassification on January 1, 2009 to the provision for future removal and site restoration from property, plant and equipment. [1]
Asset retirement obligations	88.6	The increase is mainly due to the change in the estimate of our asset retirement obligation, amounting to $86.6 million. [2]
Partners' capital	42.5	We received an equity investment of $42.5 million from our limited partner.

[1] Please refer to note 3d of the financial statements for the three and six months ended June 30, 2009.

[2] Please refer to note 4 of the financial statements for the three and six months ended June 30, 2009.

RESULTS FOR THE SECOND QUARTER 2009

Net Income

Our net income for the three months ended June 30, 2009 was $3.4 million higher than for the same period in 2008, primarily due to gains on disposals of assets and higher investment in transmission assets. The AUC approved an interim increase of 3% in our tariff revenue for 2009, which is partially offset by the expected impact of deferral accounts. As explained below, operating expenses and depreciation increased compared to the same period last year.

For the first half of 2009, our net income was $3.8 million higher than for the corresponding period in 2008 largely for the same reasons discussed above.

Revenues

Our revenue for the quarter totalled $61.4 million and increased by $2.9 million compared with the same quarter in 2008. Transmission tariffs approved by the AUC increased by $2.2 million based on an interim tariff increase of 3%. Our 2009 tariff will not be finalized until the AUC renders its decision on our 2009-2010 GTA & GCOC Proceedings late in 2009. AFUDC equity is $0.3 million higher in Q2 2009 compared with Q2 2008 as our assets under construction have increased during 2009 compared to the same period in 2008. Miscellaneous revenues include services provided primarily on a cost recovery basis to other utilities, which fluctuates from quarter to quarter. We provide such miscellaneous services primarily on a cost recovery basis, as such, there is no material impact on net income.

For the six months ended June 30, 2009, our revenue increased by $4.6 million compared with the corresponding period in 2008 mainly due to a $3.5 million increase in transmission tariff resulting from the 3% interim tariff increase.

Operating Expenses (including Property Taxes)

Our operating expenses include salaries and wages net of transfers to capital projects, contracted manpower, general costs, property taxes and insurance. The $0.6 million increase in our operating expenses in Q2 2009 compared to Q2 2008 ($3.2 million for the year-to-date) reflects wage increases, general inflation and additional manpower and related expenses related to 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 $1.2 million increase in depreciation and accretion expense in Q2 2009 compared to Q2 2008 ($2.2 million increase for the year-to-date) is due to the capital projects that were completed and added to property, plant and equipment.

Interest Expense

Our interest expense for the first half of 2009 as well as the second quarter of 2009 was comparable to the same periods in 2008. Although our money market debt levels at June 30, 2009 were higher than a year ago, interest rates on our money market debt were lower than the corresponding periods in 2008.

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

For the three months ended June 30, 2009, our EBITDA totalled $42.8 million, $4.6 million higher than the $38.2 million we recorded in the corresponding quarter in 2008. For the first half of 2009, our EBITDA totalled $84.1 million, $5.6 million higher than the $78.5 million we recorded in the corresponding period in 2008. The increase in our EBITDA for the quarter reflects the higher net income as 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)
JUNE 30, 2009	61.4	13.0	331.9	0.039
MARCH 31, 2009	59.3	12.1	331.9	0.036
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

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 income 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.

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:

- *Regulatory Approvals and Tariff Decisions*
- *Project Risk*
- *Restructuring of Electricity Industry*
- *Capital Resources*
- *Annual Impairment Tests*
- *Labour Relations*
- *Availability of People*
- *Transmission Development Resources*
- *Insurance*
- *Damage from Weather or Other Disasters*
- *Operating and Maintenance Risks*
- *Environmental, Health and Safety Risks*
- *Permits*
- *Provincial Economy*

- *Interest Rates*
- *Competition*
- *Credit Ratings*
- *Lack of Public Market for Bonds*
- *Effect of Redemption on Investment Return*
- *Market Value of Bonds*

These risks are discussed more thoroughly in the 2008 Annual Information Form.

FORWARD LOOKING INFORMATION

Prospective investors should be aware that this MD&A contains certain statements or disclosures that may 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", "intend", "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 and short-term borrowing rates; projected growth in our rate base, transmission system expansion forecasts and our anticipated direct assignment of transmission development projects from the AESO; the timing and development of transmission projects and the anticipated capital costs of such projects; business strategy, plans and objectives of management for future operations; forecast business results; and our anticipated financial performance or condition.

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 changes in the legislative and operating framework for Alberta's electricity market which are adverse to our business (see "*ALBERTA'S ELECTRICITY MARKET STRUCTURE*" and "*TRANSMISSION SYSTEM PLANNING AND DEVELOPMENT – Provincial Energy Strategy*" and "*TRANSMISSION SYSTEM PLANNING AND DEVELOPMENT – System Expansion Plans"* in our Annual Information Form (AIF), for example);
- Decisions from the AUC concerning outstanding tariff and other applications which are consistent with past regulatory principles and are obtained in a timely manner (see "*THE TRANSMISSION BUSINESS - Revenue Tariffs*" and "*ALBERTA'S ELECTRICITY MARKET STRUCTURE*" in our AIF, for example);
- Approved rate-of-return and deemed capital structures for our transmission business which are sufficient to foster a stable investment climate (see "*THE TRANSMISSION BUSINESS - Revenue Tariffs*" and "*ALBERTA'S ELECTRICITY MARKET STRUCTURE*" in our AIF, for example);
- A stable competitive environment;
- Obtaining sufficient capital on acceptable terms to finance our transmission system expansion; 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 risk that transmission projects are not directly assigned to us by the AESO;
- The risk that we are not able to arrange sufficient cost effective financing to repay maturing debt and to fund capital expenditures and other obligations;
- The risk that system expansion plans are delayed;
- The risks that the actual costs of completing a transmission project significantly exceed estimated costs;
- 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 potential for service disruptions and increased costs if we fail to maintain and improve our aging asset base; and
- The risks associated with forecasting our revenue requirements and the possibility that we could incur operational, maintenance or administrative costs above those included in our approved revenue requirement.

We caution investors that the above list of factors is not exclusive. 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. Risk factors that could lead to such differences include, without limitation:

- Legislative and regulatory developments that could affect costs or 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 July 29, 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.