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

May 4, 2010

ALTALINK

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This Management's Discussion and Analysis (MD&A) reflects events known to us as of May 4, 2010. This MD&A is intended to provide you with an understanding of our business, our strategy, our performance, our expectations for the future, and how we manage risk and financial resources. Our Board of Directors approved this MD&A on May 4, 2010, based on the recommendation of our Audit Committee, which reviewed this MD&A in accordance with its terms of reference.

You should read this MD&A in conjunction with our legal advisory on Forward Looking Information, which we have included at the end of this MD&A, as well as our unaudited interim financial statements for the three months ended March 31, 2010, our audited annual financial statements for the years ended December 31, 2009 and 2008 (the Financial Statements) and the notes thereto, and our MD&A for the year ended December 31, 2009.

We have prepared our unaudited interim financial statements for the three months ended March 31, 2010 in accordance with Canadian generally accepted accounting principles (GAAP), using the same accounting policies and procedures that we used to prepare our audited annual financial statements for the year ended December 31, 2009.

Unless otherwise noted, references in this MD&A to "we", "us", "our", "Altalink" or "the Partnership" mean Altalink, L.P and its subsidiaries, and references to a "quarter" and "year" refer to the three month period ended March 31, 2010 and twelve month period ended December 31, 2009, respectively.

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

Executive Summary

First Quarter Highlights

For the three months ended March 31, 2010:

- We achieved before tax net income of $17.1 million;
- We incurred capital expenditures of $113.4 million for customers' facilities;
- We generated funds from operations of $36.1 million;
- We issued $125.0 million of 30-year senior debt; and
- We reduced our workplace injury frequency incidents by 50% compared to the same period in 2009.

Our Business

We are an electricity transmission facility owner, whose business is the ownership and operation of regulated electricity transmission facilities solely in the Province of Alberta. We also own and operate the facilities that interconnect British Columbia's transmission system with the Alberta Interconnected Electric System (AIES), allowing electricity to flow into and out of Alberta from the North American western interconnected system.

We are the largest transmission facility owner in Alberta's electricity industry, delivering electricity to approximately 85% of Alberta's population under a wide variety of operating conditions and continuously changing customer demands. Our transmission facilities comprise approximately half of the total kilometres in Alberta's high-voltage electricity transmission system and approximately half of gross plant invested in the AIES. Our system interconnects and operates synchronously (i.e., on the same phase and frequency) with other Alberta electricity transmission and distribution utilities.

Our 212,000 square kilometre service area includes most major urban centres in Alberta, connecting generation plants to major load centres, cities and large industrial plants throughout central and southern Alberta. Our transmission system includes transmission lines, substations, telecontrol facilities and other related assets, which are generally situated on lands that we hold under easements, licences or permits for rights-of-way. We own and operate approximately 11,800 kilometres of 69kV to 500kV high-voltage transmission lines, most of which are overhead facilities. Lines are comprised of wood or metal support structures, conductors, foundations, insulators, connecting hardware and grounding systems. Our system includes approximately 270 substations, which are made up of high-voltage power transformers, power circuit breakers, switches, capacitor and reactor banks, protection and control systems, metering and monitoring systems, buildings and security systems. Other assets support the ongoing maintenance and operation of our transmission facilities. Other assets include office and service buildings, transport and work equipment and other office and information technology assets.

We monitor, control and manage our transmission facilities through our control centre, which operates continuously on a real-time basis and coordinates with the AESO and other transmission facility owners. We maintain and operate our own telecommunication system, including microwave radio, fibre optic cable, power line carrier and mobile radio systems. The reliability and availability of telecommunication services used in the management, protection and control of our transmission facilities enables us to provide safe, reliable and cost effective service to our customers.

Our Partnership Structure

We are a limited partnership, formed under the laws of Alberta on July 3, 2001 pursuant to the Limited Partnership Agreement between AltaLink Management Ltd. (AML), as general partner, and AltaLink Investments L.P. (AILP), as the sole limited partner. As general partner, AML manages the regulated electricity transmission facilities that we own and operate in the Province of Alberta.

AILP has one limited partner, AltaLink Holdings, L.P. (AHLP). AltaLink Investments Management Ltd. (AIML) is the general partner of both AILP and AHLP. SNC-Lavalin Inc. indirectly owns a 76.92% limited partnership interest in AHLP through subsidiaries and Macquarie Transmission Alberta Ltd. owns a 23.08% limited partnership interest in AHLP.

Regulatory Environment

We are an electric utility regulated by the Alberta Utilities Commission (AUC), pursuant to the *Electric Utilities Act (Alberta) (EUA)*, the *Public Utilities Act (Alberta),* the Alberta Utilities Commission (AUC) Act and the Hydro and *Electric Energy Act (Alberta).* Through various regulatory decisions, these statutes and their respective regulations impact our tariffs, rates, construction, operations and financing.

Our Capability to Deliver Results

We have numerous core competencies and resources that enable us to achieve our corporate objectives.

Financial strength
We align our financing strategy with the regulated capital structure approved by the AUC and targets for our key financial metrics. We finance our operations and maintenance capital expenditures from operating cash flows. We intend to fund the growth in capital expenditures from the balance of our operating cash flows, additional borrowings under our capital markets platform, and equity contributions from our limited partner, AILP. Through their indirect ownership in AILP, SNC-Lavalin and Macquarie provide solid financial sponsorship and the capacity to contribute the additional equity needed to finance the capital investments we expect to make in the future.

Operational excellence
We design and implement operational, maintenance and capital investment practices to fulfil our commitment to the safe, reliable and cost effective operation of our transmission business. In doing so, we employ experienced people with the necessary expertise and knowledge. Our maintenance programs are designed to sustain the useful function of existing transmission assets to ensure that those assets operate in an efficient and reliable manner. Our program-based maintenance activities cover the broad functional spectrum of the transmission business, including tools, safety, lines, substations, telecommunications, metering, vehicles, buildings, control centre and information technology. We utilize life extension and long-range asset replacement programs to ensure timely and effective replacement of assets which have reached the end of their useful life.

Capital project execution
In 2002, we entered into an exclusive 10-year contract with a wholly-owned subsidiary of SNC-Lavalin Inc. to provide engineering, procurement and construction management services for our capital projects. SNC-Lavalin has significant global experience in the electricity industry including the planning, design and construction of approximately 90,000 kilometres of transmission and distribution lines and approximately 1,500 substations. This strategic outsourcing arrangement enhances our capability to deliver results to our customers by facilitating design and execution of our capital projects in a timely and cost-effective manner.

Organizational leadership and people
Our leadership team's experience and expertise, combined with our employees' knowledge and dedication to "keeping the lights on" through operational excellence, enables us to maintain our financial stability. We have established a proven track record of reliability, safety and cost effectiveness that compares favourably with our peers and we align our long-term and short-term incentive pay with the needs of our customers.

We strive continuously to enhance programs to attract, retain and develop a high quality workforce to enable us to not only sustain our business, but to remain at the forefront of innovation and continuous improvement.

To ensure that our people are engaged and aligned with our corporate strategies and business plans, we conduct employee engagement surveys. Our latest survey confirmed that our employees continue to be proud to work at AltaLink and value our focus on quality and customers, workplace safety, and job flexibility.

Environmental leadership
All aspects of our business are subject to one or more levels of environmental regulation. We seek opportunities to provide environmental leadership through innovative practices and sound risk management. We employ our comprehensive environmental management system to manage the environmental risks and impacts related to our operations, including management of chemicals and spills, land and rights of way, treated wood and other waste. Where possible, we reduce our environmental footprint by using existing rights of way for new facilities and by applying technologies such as high voltage direct current transmission, which can reduce environmental impacts per energy unit transmitted. We are the first Canadian transmission utility to implement a comprehensive avian protection plan and have been at the forefront of applying new technologies such as Green Jacket, which protects wildlife from contact with substations.

Stakeholder engagement
Our robust stakeholder engagement practices provide our audiences with timely, easy to understand information about transmission projects. Our key to success is our process, which is designed to gather stakeholder input to help us identify routes on our new projects with the lowest overall impact on land use and landowners. We also partner with our stakeholders by improving our landowner consultation and reaching innovative agreements, such as two new partnerships with First Nations. 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.

How We Measure Our Performance

Delivering Customer Value

We use 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 Electricity Association (CEA) provides benchmarking data for several of our key measures, allowing us to compare our performance against other transmission facility owners in Canada. Our performance has compared favourably with the CEA benchmarks for reliability, safety and cost effectiveness since our inception.

Reliability
We operate our transmission system so as to minimize disruption of service to our customers. Nevertheless, severe weather and other unplanned events cause 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.

Safety

The safety of our employees, contractors and the public is one of our core values, with our ultimate goal being an accident-free workplace. While our safety statistics for 2009 are comparable with recent industry benchmarks, they are worse than our safety performance for the preceding five year period. To help bring our safety performance back to top quartile rankings, we have implemented a Safety Management Initiative, looking at every aspect of our safety systems – from our safety practices and procedures to our leadership. We continue to conduct detailed assessments and are implementing actions to improve on our 2009 safety performance and a return to continuous improvement. For the first three months of 2010, our average injury frequency rate decreased significantly from 0.88 to 0.42 compared to the same quarter in 2009.

Cost effectiveness

Our goal is to provide Albertans with cost effective transmission service. Electricity is at the core of our economy and critical to our society. Therefore, we focus on ensuring reliability of supply to our customers while delivering services cost effectively. Our continuous improvement culture embraces our maintenance process, centralized work planning and scheduling, and unit cost based estimating. We will continue to seek business improvements across our organization while delivering reliable and safe transmission service to our customers. For a more detailed discussion on our financial metrics, please refer to Results of Operations in this MD&A.

Financial and Operational Performance

Revenue requirements for 2009 and 2010

We estimate our transmission tariff revenue based on revenue requirements approved by the AUC taking into consideration our best estimates regarding future regulatory applications, such as the settlement of deferral amounts, reserves and other regulatory assets and liabilities. We currently await the AUC's decision on a compliance filing that will give effect to its recent decisions on our 2009-10 General Tariff Application and the 2009 Generic Cost of Capital. The AUC has approved interim tariff rates of $282.2 million and $290.5 million for 2009 and 2010 respectively, based on our initial compliance filing. On February 24, 2010 we amended our compliance filing to reduce these interim tariff rates to $279.9 million and $288.3 million for 2009 and 2010 respectively. Any adjustments arising from the AUC's decision on these and other regulatory matters will be reflected in the fiscal periods in which these decisions are issued.

Growth in regulated capital assets

We measure growth in our regulated capital assets (both rate base and assets under construction) as one of the key indicators of future revenue streams. As a regulated utility, we earn most of our net income from allowed returns on equity invested in our regulated capital assets, which are the foundation for providing fair returns to our equity investors. We calculate our allowed returns on equity by multiplying our mid-year investments in rate base and assets under construction by the equity ratio and rate of return approved by the AUC. Our operating cash flow relates primarily to the return on equity, recovery of deemed income taxes, and depreciation related to our rate base. We capitalize interest costs and return on equity attributed to our assets under construction. We do not receive cash flow related to our assets under construction until the projects are completed and added to our rate base.

Our 2010 forecast for capital expenditures is $533.0 million, including $519.0 million of additions to our rate base. Our capital program includes more than 600 capital replacement and upgrade and more than 30 direct assign projects to be added to our rate base. Our actual 2010 capital program may vary significantly from our current forecast, depending on the timing of regulatory approvals, directions from the AESO, and other factors beyond our control.

Our 2010 forecast for capital expenditures is lower than forecast in our 2009-10 GTA primarily due to delays on our Western Alberta Transmission Line and Southern Alberta Transmission Reinforcement projects.

Major Capital Projects

Transmission Planning and Development

The increasing reliability risks of Alberta's aging transmission system, combined with limited capacity within the system to support the province's economic growth, requires the development of much needed transmission infrastructure. For more than 20 years, there has been limited expansion of the main backbone of the transmission grid in Alberta. To cope with these increased demands, we expect that the AESO will direct us and other Transmission Facility Owners (TFOs) to upgrade and expand the AIES over the next several years. The AESO has already directed us to proceed with facility applications related to several major projects contemplated within its long range plans. In addition, the Alberta Department of Energy has issued a Transmission Regulation which, among other things, requires the AESO to establish rules or practices respecting competitive tenders, the preparation of cost estimates, project scope documents and schedule documents for projects. The Department has indicated that future critical transmission infrastructure projects may be subject to competitive bids under these rules or practices. We expect to submit such bids when the details of the related projects are announced.

There have been no changes in any processes related to the ongoing requirement for us to obtain the AUC's approval for facility applications, including obtaining approval for the specific routing for transmission facilities and our obligation to consult extensively with affected landowners and other stakeholders prior to proposing specific routes to the AUC for approval.

System Expansion Plans

Transmission System Expansion Plans

The Alberta Electric System Operator's (AESO) *Transmission System Plan* was updated in June 2009 and identified a substantial number of existing and proposed transmission development projects in Alberta in the next 10 years to ensure a reliable supply of electricity. We expect to develop several of these major transmission projects, as either or both of the AESO's need applications and our facility applications are approved by the Alberta Utilities Commission (AUC). In addition, there are transmission developments designated as critical transmission infrastructure for which we have been or may be directed to file facility applications. If the AUC approves our facility applications, we are responsible for constructing and operating the related transmission facilities. Please refer to our annual MD&A and Recent Developments in this MD&A for more information on our systems expansion plans and major capital projects.

The following table summarizes the current status of our major capital projects.

Project/ Description	Need Application	Facility Application	Status
South West 240 Project Double circuit 240 KV transmission line and substations between Pincher Creek and Lethbridge to interconnect wind generation.	Approved 2005	Approved in 2009	Scheduled completion in 2010
Southeast Alberta Transmission Development Regional facilities to meet forecast customer load growth, restore the inter-tie to path rating and enable interconnection of proposed wind generation.	Approved 2008	Ten applications filed, nine of these approved in 2009/10	Approved elements under construction
Southern Alberta Transmission Reinforcement Large-scale project to construct transmission lines and substations across southern Alberta to interconnect up to 2,700 MW of proposed wind generation projects.	Approved 2009	Multiple applications for Phase I and II starting in 2010	Planning and consulting on proposed routes

Project/ Description	Need Application	Facility Application	Status
Keephills 3 Generation Interconnection Interconnect expansion of coal-fired generation facilities at Keephills, west of Edmonton.	Approved 2008	Approved in 2009/10	Approved elements under construction
Western Alberta Transmission Line Reinforce system backbone between Edmonton and Calgary.	CTI designation in 2009 *	Application expected in 2011	Planning and consulting started in 2010
Heartland Region Transmission Development Double circuit 500kV transmission line between Ellerslie and new substation in Gibbons-Redwater area.	CTI designation in 2009 *	Application expected in 2010	Planning and consulting on proposed routes
Edmonton Region Transmission System Upgrades Debottleneck 240 kV system for load growth and decommissioning of coal-fired generation.	Approved 2009	Two of five applications filed in 2009, remaining to be filed in 2010. One approved in 2010.	Approved elements under construction
Foothills Area Transmission Development Expand and upgrade substations and transmission lines in the south Calgary region.	Filing expected in 2010	Directed by AESO to prepare applications	Preparing for planning and consultation

* Projects designated as Critical Transmission Infrastructure under *Electric Statutes Amendment Act, 2009.*

Additional regional area developments

The AESO has identified the need to upgrade transmission facilities within several geographic regions of Alberta to meet forecast customer load requirements as well as to interconnect future generation projects. The estimated order of magnitude as to the potential investment in transmission facilities in these regions may exceed $1 billion.

We have received direction letters or requests for services from the AESO regarding proposed transmission developments in the Hanna, Red Deer, Yellowhead, and Central-East regions. These activities include order of magnitude estimates for the AESO need applications, preliminary engineering to develop project proposals for the AESO, and the commencement of activities, including landowner consultation, required to submit facility applications to the AUC. We expect to begin filing facility applications for projects related to these regional developments in 2010.

Non-GAAP Financial 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.

We believe that earnings before interest and tax (EBIT) and earnings before interest, tax, depreciation and amortization (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 certain expenses. We use 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 provided by operating activities, before considering the effects of non-cash working capital.

Funds from operations (FFO) represents funds generated from operating activities before changes in non-cash working capital. You should not consider FFO to be 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.

Financial Position

Change in Property, Plant and Equipment

	For the three months ended	
	March 31, 2010	March 31, 2009
	(in millions of dollars)	
Opening balance, beginning of year	**$ 1,688.0**	$ 1,223.6
Net additions	**114.2**	45.4
Depreciation and other	**(20.5)**	(18.9)
Site restoration cost	**(2.1)**	146.5
Closing balance	**$ 1,779.6**	$ 1,396.6

The following table discusses significant changes in our balance sheet during the first quarter of 2010. Our financial statements include more detailed information regarding the changes in our property, plant and equipment.

	Increase/(Decrease) ($ Millions)	Explanation
Property, plant and equipment	$ 91.7	We incurred $115.4 million in construction costs for directly assigned transmission projects and capital replacement and upgrades on our existing facilities.
Accounts payable and accrued liabilities	(4.7)	Our accounts payable and accrued liabilities fluctuate with capital construction activity levels and the timing of payments to our major suppliers.
Regulatory liabilities	7.6	During the first quarter of 2010 our direct assigned capital deferral account increased as capital additions were lower than forecast in our GTA. Our long-term debt deferral account increased because the timing and terms of our senior note issues differed from the GTA forecast.
Long-term debt	76.9	We issued $125.0 million of medium-term notes to pay down our commercial paper of $48.0 million and finance our capital expenditure program.

Liquidity and Capital Resources

Liquidity

We generally issue commercial paper to finance our day-to-day cash requirements. We believe that our $400.0 million commercial paper backstop facility and our $85.0 million revolving line of credit provide us with sufficient liquidity to finance our planned operations and capital projects for 2010. As at March 31, 2010, we used $0.1 million of our revolving line of credit and had no commercial paper outstanding under our commercial paper program, leaving us with $484.9 million of available liquidity under our bank credit facilities.

We have increased our capital expenditure program significantly, a trend we expect will continue for several years as we move forward with major capital projects assigned to us by the AESO. 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 AILP. None of our long-term debt instruments are scheduled to mature until 2012. We plan to use our capital markets platform to refinance long-term debt instruments as they mature.

We use short-term interest-bearing instruments with major Canadian banks to invest temporary cash balances and amounts we receive from customers in advance of construction and operating and maintenance charges. We have strict short-term investment policies and have never invested in asset-backed commercial paper. We remit to the AESO all investment income related to amounts received from customers for construction projects and retain investment income we earn on amounts received from customers for future operating and maintenance costs.

Liquidity Ratios [1]

	For the three months ended	
	March 31, 2010	March 31, 2009
	(in millions of dollars)	
Interest coverage:		
EBIT coverage [2, 3]	**2.50x**	2.21X
EBITDA coverage [2, 4]	**4.34x**	4.15X
FFO coverage [2, 5]	**3.17x**	2.69X
FFO/debt [6]	**13.94%**	13.68%
Debt/total capitalization [7]	**56.22%**	60.92%

1.Refer to "Non-GAAP Financial Measures" for further information concerning the non-GAAP financial measures used in this table.
2.For the purposes of calculating the coverage ratios, interest expense excludes amortization of deferred financing fees on debt.
3.EBIT coverage - Net income before interest expense and income taxes (EBIT) divided by interest expense.
4.EBITDA coverage - Net income before interest expense, income taxes, depreciation and amortization (EBITDA) divided by interest expense.
5.FFO coverage – Funds from operations (FFO) divided by interest expense
6.FFO/debt – Funds from operations for the last twelve months divided by short-term and long-term debt, excluding deferred financing fees.
7.Debt/total capitalization – Debt includes short-term and long-term debt, excluding deferred financing fees plus outstanding letters of credit divided by total capitalization (debt plus partners' equity). The AltaLink Master Trust Indenture contains a debt/total capitalization limit of 75%.

Cash Flows

	For the three months ended	
	March 31, 2010	March 31, 2009
	(in millions of dollars)	
Cash and cash equivalents, beginning of year	**$ 8.3**	$ —
Cash flow from (used in)		
Operating activities	**45.5**	32.1
Investing activities	**(114.5)**	(40.3)
Financing activities	**69.6**	8.2
Cash and cash equivalents, end of period	**$ 8.9**	$ —

Operating activities

During the first quarter, our operating activities provided cash of $45.5 million, an increase of $13.4 million from the first quarter of 2009. Higher net income, net of non-cash items, increased our funds from operations by $9.3 million from the comparative quarter. Our net change in non-cash working capital items generated $4.1 million more cash than the comparative quarter, which included collection of retroactive increases in interim tariff rates for 2009.

Investing activities

Our investing activities included capital expenditures of $113.4 million during the first quarter of 2010 compared to $49.6 million invested during the first quarter of 2009. The majority of these expenditures relate to Southwest 240 kV project, Edmonton Region 240 kV transmission system upgrade, Keephills 3 Generation Interconnection project, Southern Alberta Transmission Reinforcement project, Heartland Region project, and the 500 kV Edmonton to Calgary project.

Financing activities

Cash provided by financing activities of $69.6 million during the first quarter increased by $61.4 million from the same period last year. Our debt increased by $77.1 million this quarter, as we issued $125.0 million of senior debt and reduced our commercial paper by $48.0 million. During the first quarter of 2009, we received $15.0 million of equity contributions from AILP and reduced our debt by $1.1 million. This quarter we distributed $7.0 million to AILP, an increase of $1.3 million from the same quarter in 2009.

Earnings Coverage

	For the twelve months ended	
	March 31, 2010	March 31, 2009
Earnings-to-interest coverage on total debt [1,2]	**2.21X[3]**	1.98X[4]

1. Earnings-to-interest coverage on total debt is a non-GAAP financial measure. As a result of distributing securities by way of a medium-term note program using the debt shelf procedures, we must include updated earnings coverage ratios with our financial statements. Refer to "Non-GAAP Financial Measures" for further information concerning the non-GAAP financial measures used in this MD&A.
2. Earnings-to-interest coverage on total debt equals 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 this ratio by giving pro-forma effect to any long-term debt issued during the period and the use of the proceeds from such long-term debt issues.
3. Annual interest requirement on long-term debt was $50.8 million, including the pro-forma effect of interest payable on the Series 2008-1 notes issued in May 2009 and the Series 2010-1 notes issued in March 2010. Our earnings before interest and income tax, for the purposes of calculating this ratio, were approximately $112.3 million.
4. Annual interest requirement on long-term debt was $41.9 million, including the pro-forma effect of interest payable on the Series 2008-1 notes issued in May 2008. Our earnings before interest and income tax, for the purposes of calculating this ratio, were approximately $83.1 million.

Credit Ratings

	For the three months ended	
	March 31, 2010	March 31, 2009
Credit Ratings		
DBRS – Commercial Paper[1]	**R-1 (low)**	**R-1 (low)**
DBRS – Senior Secured Bonds and Medium-Term Notes[1]	**A**	**A**
Standard & Poors - Senior Secured Bonds and Medium-Term Notes [2]	**A-**	**A-**

1. On October 7, 2009, following the 2009-10 GTA Decision, DBRS issued a comment letter confirming the above ratings with a negative trend, pending the 2009 GCOC Decision. On November 30, 2009 following the 2009 GCOC Decision, DBRS confirmed its ratings at "A" and R-1 (low) and changed the trend to stable from negative.
2. On April 21, 2009, Standard & Poors confirmed the above rating with a stable trend.

In the 2009-10 GTA Decision, the AUC demonstrated support for our credit ratings by: (i) directing the continued use of the future income tax method (this provides us with higher tariffs and cash flow to support our cash flow credit metrics during the construction of major transmission projects), (ii) allowing us to recover all costs incurred for the Genesee to Langdon 500kV project, and (iii) stating that, if necessary, we may apply for additional relief to sustain our cash flow credit metrics through non-traditional regulatory accounting measures such as the capitalization of AFUDC during construction.

Results of Operations

Revenue

	2010	2009
For the three months ended March 31,	**(in millions of dollars)**	
Total revenue	**$ 68.3**	$ 59.3
AFUDC equity	**2.4**	1.3

Our tariff revenue for the first quarter of 2010 was $7.4 million higher than the first quarter of 2009, primarily due to higher capital investments and system growth, and higher equity returns awarded in the GCOC decision in November, 2009. The GCOC decision increased our rate of return on common equity from 8.75% to 9.00% and our regulated equity ratio from 33% to 36%.

We also earn an increasing proportion of our revenues through the allowance for funds used during construction, which we capitalize to assets under construction. Due to the increase in our construction activity, our revenue from AFUDC equity increased by $1.1 million compared with the first quarter of 2009.

Net income

	2010	2009
		(in millions of dollars)
For the three months ended March 31,	**$ 17.1**	$ 12.1

During the first quarter of 2010, we earned net income of $17.1 million, an increase of $5.0 million compared to the first quarter of 2009, primarily due to the impacts of capital investments and higher equity returns awarded under the 2009 GCOC decision.

Earnings before interest, taxes, depreciation and amortization (EBITDA[1])

	2010	2009
		(in millions of dollars)
For the three months ended March 31,	**$ 49.4**	$ 41.3

1.Refer to "Non-GAAP Financial Measures" for further information concerning the non-GAAP financial measures used in this MD&A.

During the first quarter of 2010, our EBITDA totalled $49.4 million, an increase of $8.1 million compared with the same quarter in 2009. The reason for this increase is similar to that for changes in our net income for the same period. Please refer to "Non-GAAP Financial Measures" for more information about how we calculate EBITDA.

Operating expenses, including property taxes

	2010	2009
		(in millions of dollars)
For the three months ended March 31,	**$ 21.5**	$ 21.2

Our operating expenses include salaries and wages, contracted manpower, general and administration costs, property taxes, and insurance. Our operating expenses for the first quarter of 2010 are comparable to the first quarter of 2009.

Depreciation and accretion

	2010	2009
		(in millions of dollars)
For the three months ended March 31,	**$ 20.5**	$ 18.9

We calculate depreciation on a straight-line basis using various rates ranging from 1.73% to 20.00% which are approved by the AUC. Compared with the same period in 2009, depreciation for the first quarter of 2010 has increased due to capital projects that have since been completed and added to our regulatory rate base.

Interest and amortization of deferred financing fees

	2010	2009
		(in millions of dollars)
For the three months ended March 31,	**$ 11.8**	$ 10.3

Our interest expense for the first quarter of 2010 was $1.5 million higher than the first quarter of 2009 due to additional debt incurred to finance our capital expenditures. Our total debt at March 31, 2009 was $76.9 million higher than a year earlier.

Risk Management

Risk Management

Our transmission business is subject to a variety of risks and uncertainties, including those described below. You should carefully consider these risk factors and uncertainties in addition to the other information contained in this MD&A, the corresponding financial statements, our annual information form, press releases, material change reports and our other continuous disclosure documents.

Risk Controls and Other Mitigating Measures

We have instituted controls and other mitigating measures to manage the risks we face. Under our risk management program, we conduct annual risk evaluations to identify and assess our most significant risks and the strategies through which we manage them.

Insurance

We believe that our insurance program is adequate and prudent for our business risks. Our insurance coverage includes general liability, physical loss of or damage to property and boiler and machinery (including substations), directors' and officers' liability, fiduciary liability, employment practices liability, non-owned aircraft liability and vehicle liability. The Liability Protection Regulation limits our liability to direct loss or damage arising from our negligence, wilful misconduct or breach of contract. Direct loss or damage does not include loss of profits, loss of revenue, loss of production, loss of earnings, loss of contract or other indirect special or consequential loss or damage. During our general tariff applications, the AUC reviews the scope and costs of our insurance program. We can apply to the AUC to recover uninsured losses greater than $100,000 through our self-insurance reserve, which is funded through transmission tariffs.

We do not carry commercial insurance against all of our business risks. In some cases, insurance premiums are too expensive or the coverage is not available at all. For example, we do not purchase insurance coverage against loss or damage to transmission lines, towers, poles, or physical damage to certain owned vehicles. Although we maintain liability insurance, including pollution liability, such insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions. Some of our insurance policies exclude coverage for damages resulting from environmental contamination.

Risk Factors and Uncertainties

Despite our initiatives in managing risks, there can be no assurance that one or more of them will not adversely affect our business. Our results of operations, financial position and performance and, accordingly, the value of our outstanding securities, could be adversely affected if we are unable to adequately control or mitigate the effects of such risks on our business.

The following are the more significant items that have an impact on our financial position and results of operations. Risk factors and uncertainties have not materially changed for the quarter ended March 31, 2010.

- Regulated operations
- Project execution risk
- Regulatory financial risk
- Reliability risk
- Restructuring of electricity industry
- Capital resources
- Labour relations
- Availability of people

- Environment, health and safety
- Electric and magnetic fields
- Annual impairment tests
- Competition
- Credit ratings

These risks are discussed more thoroughly in our annual MD&A.

Transactions with Related Parties

In the normal course of business, we enter into various transactions with AML, AILP, AIML and AHLP. We record these transactions at exchange values based on normal commercial rates. AML employs the people who provide administrative and operational services to our business. We have indemnified AML for all associated expenses and liabilities.

In 2002, we executed a ten-year contract under which a subsidiary of SNC-Lavalin Inc. (SNC-ATP) provides engineering, procurement and construction management services for our directly assigned capital projects. The AUC has reviewed and approved the terms and conditions of this contract in Decision 2003-061 and subsequent decisions, including Decision 2009-051 issued on October 2, 2009. We have paid SNC-ATP $65.3 million for construction related services during the three months ended March 31, 2010 (three months ended March 31, 2009 - $18.0 million). On March 31, 2010, our accounts payable and accrued liabilities included $77.2 million owing to SNC-ATP under this agreement, compared to $83.0 million at December 31, 2009.

As at March 31, 2010, we were indebted to AILP for $85.0 million in principal and $1.1 million of accrued interest under our Series 3 Subordinated Bridge Bond, which is due on October 1, 2012. We make quarterly interest payments of $1.7 million to AILP at an annual interest rate of 8.0%.

Legal Proceedings

We have not commenced and are not currently contemplating any material legal proceedings. We are not aware of any material legal proceedings that have been commenced or are being contemplated against us.

On June 5, 2009, we were served with an action alleging that the plaintiff and we had concluded a binding agreement to sell certain lands in Calgary, Alberta to the plaintiff. The final outcome of this matter is uncertain and there can be no assurance that this matter will be resolved in our favour. Even if this matter is not resolved in our favour, we do not expect the outcome to have a material adverse impact on our financial position, results of operations or liquidity.

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, such as our asset retirement obligations and site restoration costs, or the recoverability of costs associated with the direct assigned capital deferral account for projects that have been delayed in the regulatory process;
- The recoverability of intangible assets with indefinite lives, such as goodwill;
- 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 regulated assets and liabilities, including the related transmission tariff revenue impact arising from deferral and reserve accounts, interim tariffs and other matters awaiting regulatory decisions.

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

Accounting Changes

Changes in Accounting Policies for 2010

There were no changes impacting the three months ended March 31, 2010.

Future Accounting Changes That May Impact Our Financial Statements

International financial reporting standards (IFRS)

Transition to IFRS in Canada
Our first annual IFRS financial statements will be for the year ending December 31, 2011.

Staff Notice 52-320 of the Canadian Securities Administrators requires us to discuss in our interim and annual MD&A the elements, timing and status of our IFRS conversion plan. We refer you to detailed information in this regard that we have previously provided within our MD&A's since the second quarter of 2008 as well as the following update:

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

We have completed the first three phases and are currently in the last phase of the project. The Execution phase consists of executing the changes to the information systems and business processes, final approval of our IFRS accounting policies, developing final IFRS accounting policies and procedures and associated documentation, developing revised internal controls and disclosure controls as a result of implementing IFRS, embedding IFRS into business processes and the transfer of knowledge and training of the appropriate individuals. In addition, this last phase will result in an IFRS compliant January 1, 2010 opening IFRS Statement of Financial Position and IFRS compliant financial statements for all periods ending 2011 with comparative IFRS figures for 2010.

Accounting for Rate-regulated Activities under IFRS
IFRS currently does not have specific guidance for accounting for rate-regulated activities. However, as discussed previously, in July 2009, the IASB issued an exposure draft providing proposed guidance for the recognition, measurement, presentation and disclosure of rate-regulated activities. Recent developments since the issuance of the exposure draft indicate that the outcome of the IASB's project on the accounting of rate-regulated activities is uncertain. During the February 2010 IASB meetings, the IASB directed the IASB staff to continue its research and analysis on the project and to focus on whether regulatory assets and regulatory liabilities exist in accordance with the current Framework for Preparation and Presentation of Financial Statements and whether they are consistent with other current IFRSs. The IASB did however tentatively finalize the transition relief for first time adopters (IFRS 1 exemption for rate-regulated entities) and it is expected to be included in the omnibus Improvements to IFRSs due to be issued in April 2010. (placeholder for final comment when the guidance is issued, which will be before May 4)

At this stage, we are unable to determine the impact that IFRS will have on our financial position and results of operations. A major factor in determining the extent of the impact that IFRS will have on us is the final outcome of the IASB's current project to develop a standard for accounting for rate-regulated activities. As discussed in our MD&A for the year ended December 31, 2009, it appears that the IASB will not issue a final standard on rate-regulated activities in 2010 as originally planned; however, interim guidance may be issued. We will continue to closely monitor the IASB's progress on this project and revise our conversion project plan accordingly.

Impact on Information Systems

We currently have a significant IT initiative underway in anticipation of the implementation of IFRS on January 1, 2011. As a result of the continuing uncertainty of a final standard on rate-regulated activities, in order to meet financial reporting requirements in absence of guidance from the IASB, we are implementing an information system strategy that will include two ledgers which will allow us to report financial information as required by our regulator and separately to report financial information under IFRS. The modifications to our information systems are scheduled to be implemented by the last quarter of 2010. This timing will allow us to test the IT modifications prior to going live in 2011.

IFRS 1

IFRS 1, First-time adoption of International Financial Reporting Standards, provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion to IFRS from other GAAP shall be recognized directly in retained earnings. However, IFRS 1 provides mandatory exceptions which prohibit retrospective application of IFRS and optional exemptions from retrospective application of certain IFRS. We anticipate electing the following IFRS 1 exemptions at the date of transition, however final decisions cannot be made at this time until the IASB issues guidance on rate-regulated activities:

- Business combination – we expect to apply the business combinations exemption to not apply IFRS 3 Business Combinations retrospectively to past business combinations. Accordingly, we will not restate past business combinations that took place prior to the transition date.
- Employee benefits - we expect to elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS.
- Tentatively finalized PP&E and intangible asset exemption for entities with rate-regulated activities – when finalized, we expect to elect to use the carrying amount of all of our PP&E and intangible assets used in our rate-regulated activities as deemed cost at the date of transition to IFRS.

Impact on Reporting and Internal Controls

We will update and test all entity level, information technology, disclosure and business process controls to reflect changes arising from the conversion to IFRS. As accounting policies are finalized, we will make appropriate changes to internal control over financial reporting and disclosure controls and procedures. If we make any changes in accounting policies, we may need to add controls or procedures to address first time adoption as well as ongoing IFRS reporting requirements.

Training and Communication

We have begun to provide IFRS training for the audit committee, steering committee, and working teams and specific training for relevant accounting, finance and operational staff. We have also begun to provide in-depth training for appropriate staff and will continue to roll out such training once we have finalised accounting policies and procedures. Our communications team is represented on the working committee to ensure that stakeholder queries during the conversion to IFRS can be properly addressed.

The IASB has a number of on-going projects on its agenda, in addition to its project on rate-regulated activities, that may result in changes to existing IFRS prior to our conversion to IFRS. Our IFRS team continues to assess new and amended accounting standards that the IASB issues during the conversion period and the potential impact of each on our financial statements. We will update the IFRS changeover plan to reflect any new issues that have an impact.

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 "anticipate", "believe", "contemplate", "continue", "enable", "expect", "forecast", "future", "intend", "may", "plan", "potential", "will" 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 (including deferral and reserve accounts; capital structure and return-on-equity; financing plans; treatment of costs for applicable test periods including income tax, operating expenses, depreciation, capital costs for direct assigned projects and maintenance programs, financing costs related to long-term debt, and short-term borrowing and projected growth in our rate base and assets under construction); transmission system expansion forecasts; the anticipated direct assignment of transmission development projects to us from the AESO pursuant to approved need applications or, in the case of critical transmission infrastructure, our eligibility to submit facility applications pursuant to designations by the Government of Alberta or competitive bidding processes; 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);
- 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);
- 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);
- 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 risk 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 or that we are not designated for filing a facility application;
- 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 May 4, 2010. 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, readers should not place undue reliance on these forward-looking statements. Any forward-looking information contained in this document is expressly qualified by this statement.

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