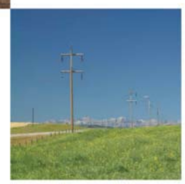
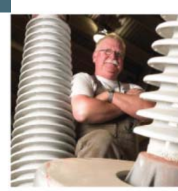
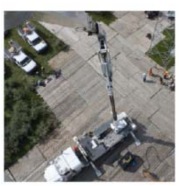


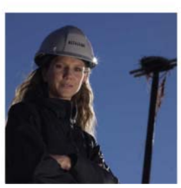
Management's Discussion and Analysis

AltaLink, L.P.

July 29, 2011







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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) reflects events known to us as of July 29, 2011. 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 July 29, 2011, 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 condensed interim financial statements for the three and six months ended June 30, 2011 and our audited annual financial statements for the years ended December 31, 2010 and 2009 (the Financial Statements) and the notes thereto.

This is the first year in which we have prepared condensed interim financial statements have been prepared under International Financial Reporting Standards (IFRS). We have applied IFRS 1 First time Adoption of International Reporting Standards to prepare the opening statement of financial position as at January 1, 2010, the transition date.

Until December 31, 2010, we prepared our financial statements in accordance with Canadian generally accepted accounting principles (C-GAAP), which differ in some areas from IFRS. In preparing the condensed interim financial statements for 2011, we have adjusted certain amounts reported previously in the financial statements to effect the transition to IFRS. Please refer to note 23 – Explanation of transition from Canadian GAAP to IFRS in the financial statements.

Amounts are stated in Canadian dollars unless otherwise stated.

Unless otherwise noted, references in this MD&A to "we", "us", "our", "AltaLink" or "the Partnership" mean AltaLink, L.P. and references to a "quarter" and "year" refer to the three-month period ended June 30, 2011 and twelve-month period ended December 31, 2010.

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

Executive Summary

Highlights

For the three months ended June 30, 2011:

- We reduced our workplace injury frequency rate from 0.32 to 0.24 per 200,000 man hours compared to the same period in 2010;
- We invested $129.0 million (three months ended June 30, 2010 - $109.7 million) on capital projects to reinforce and expand the transmission system;
- We achieved before tax income of $17.1 million (three months ended June 30, 2010 - $20.3 million);
- The AUC approved the Cassils Bowmanton Whitla (CBW) facility applications;
- The oral hearing for the Heartland facility application was completed in May 2011; and,
- The oral hearings for our General Tariff Application and the AUC's Generic Cost of Capital proceeding were completed.

Our Business and Strategies

We own and operate regulated electricity transmission facilities in the Province of Alberta. Through our transmission facilities, we deliver electricity safely, reliably and efficiently to approximately 85% of Alberta's population to meet continuously changing customer needs under all operating conditions. We connect generation plants to major load centres, cities and large industrial plants throughout our 212,000 square kilometre service area, which covers a diverse geographic area, including most major urban centres in central and southern Alberta. Our transmission facilities comprise approximately half of the total kilometres in the Alberta Interconnected Electric System (AIES), including interconnections between the AIES and British Columbia's transmission system that link Alberta with the North American western interconnected system.

For more details regarding our business please refer to the "Our Business and Strategies" section of our MD&A for the year ended December 31, 2010.

Our Capability to Deliver Results

We have a number of 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 with 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, AltaLink Investments, L.P. (AILP). Through their indirect ownership in AILP, SNC-Lavalin Inc. (SNC-Lavalin) and Macquarie Transmission Alberta Ltd. (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.

Please refer to the "Our Partnership Structure" section for more details.

Operational Excellence

We design and implement operational, maintenance and capital investment practices to fulfill our commitment to the safe, reliable and cost effective operation of our transmission business. To do 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 to provide engineering, procurement and construction services for our capital projects. SNC-Lavalin has significant global experience in the electricity industry including the planning, design and construction of approximately 110,000 kilometres of transmission and distribution lines and approximately 1,600 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.

In our 2011 to 2013 GTA, we summarized our plans for a competitive bidding process for engineering, procurement and construction services after the current contract expires in 2012. To date, we have initiated a request for qualifications process to be followed by requests for proposals later this year, both of which will be monitored by an independent fairness advisor.

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 are key to our ability to deliver. We have established a proven track record of reliability, safety and cost effectiveness that compares favourably with our peers and we align our short-term and long-term incentive pay with the needs of our customers.

Environmental Leadership

We provide environmental leadership through innovative practices and sound risk management. We were the first Canadian utility to implement an Avian Protection Plan to mitigate avian interactions with our facilities**.** AltaLink is actively involved in and provides funding for ferruginous hawk research programs, including the installation of artificial nest poles throughout Southern Alberta. All new transformer installations feature secondary oil spill containment. Where possible, we parallel existing rights of way for new facilities to reduce fragmentation of the landscape. We plan to use high voltage direct current technology for our proposed Western Alberta Transmission Line, reduce land use impacts and improve efficiency.

Stakeholder Engagement

We actively engage our stakeholders by providing them with timely, easy to understand information about our proposed transmission projects and gather their input in group or individual meetings to identify routes with the lowest overall impact on land use and landowners.

How We Measure Our Performance

Delivering Customer Value

We use certain key measures to determine whether we are meeting our goals and the needs of our customers. Our performance compares favourably to other transmission facility owners in Canada 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. We have a strong track record in reliability, and 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. During the six months ended June 30, 2011 we delivered results that continue to outperform recent industry benchmarks, reducing our workplace injury frequency rate from 0.32 to 0.24 per 200,000 man hours, compared to the same period in 2010. Our safety management initiatives encompass all aspects of our safety systems. We are committed to continuously improving our safety culture and safety management processes.

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. We will continue to seek business improvements across our organization while delivering reliable and safe transmission service to our customers.

Financial and Operational Performance

Transmission Tariffs

We recognize our revenue based on transmission tariffs approved by the AUC, including adjustments arising from deferral accounts established under regulatory decisions related to those tariffs. On March 4, 2011, the AUC issued Decision 2011-082 approving our Interim Tariff of $336.2 million for the year 2011. The AUC completed an oral hearing in May 2011 to consider our General Tariff Application for 2011 to 2013. In July 2011, the AUC completed its oral hearing for its Generic Cost of Capital proceeding which considered the capital structure and return on common equity for all utilities in its jurisdiction. The outcome of these proceedings may have a material impact on our future net income and capital structure. We will reflect any adjustments arising from the AUC's decisions, expected in late 2011, in the fiscal periods in which they are received.

Please see the "Regulatory Tariff Revenues" section in the MD&A for the year ended December 31, 2010 for more information on the risk factors and uncertainties associated with regulated tariffs.

Growth in Regulated Capital Assets

We measure growth in our regulated capital assets (both rate base and construction work in progress (CWIP)) 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 construction work in progress 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 accrue regulated interest costs and return on equity attributed to our construction work in progress. We do not receive cash flow related to revenue from our construction work in progress until the projects are completed and added to our rate base.

Our long-term capital program includes more than $500 million of capital replacement and upgrade projects and more than $4 billion of direct assign expansion projects. In our most recent general tariff application, we have forecast capital expenditures of $890.3 million for 2011, $1,794.6 million for 2012 and $2,096.3 million for 2013. Our actual capital program may vary from our current forecast, depending on the timing of regulatory approvals, directions from the Alberta Electric System Operator (AESO), and other factors beyond our control. In particular, recent developments related to our Major Capital Projects (see below) may materially impact our forecast capital expenditures.

In our GTA, we outlined our plans to finance these capital expenditures through a combination of debt and equity consistent with our deemed capital structure.

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 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 indirectly owns a 76.92% limited partnership interest in AHLP through subsidiaries and Macquarie owns a 23.08% limited partnership interest in AHLP. On February 11, 2011, SNC-Lavalin announced an agreement to acquire Macquarie Transmission Alberta Ltd., subject to customary closing conditions and regulatory approval from the AUC. The parties filed an application to obtain AUC approval of the agreement in April 2011. We expect AUC approval of the transaction in 2011. We do not expect that this change in ownership will result in any change to our operations, results, financial condition or the level of support provided by our owners.

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 Act (Alberta)* 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.

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 new transmission infrastructure. For more than 30 years there has been limited expansion of the main backbone of the transmission grid in Alberta. This lack of expansion, together with an increased demand for electricity and the construction of new generation facilities, has resulted in increased loading and congestion on the AIES. The following table is an overview of the main projects currently in process. Please refer to the "Major Capital Projects" section in the MD&A for the year ended December 31, 2010 for more information.

On June 2, 2011, the AESO released its draft long-term transmission plan, updating its forecasts, economic trends, changing consumer demand and regulatory requirements. The draft plan reaffirms the need for four critical transmission infrastructure projects, as well as the major regional transmission projects identified in its 2009 plan.

Overview

Project/ Description	Need Application	Facility Application	Status
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.	AUC approved 2009	• Multiple applications planned. • Four applications filed and approved to date. • Cassils Bownmanton Whitla applications approved in June 2011 • Planning, siting and consultation underway for future applications.	• Approved elements under construction.
Western Alberta Transmission Line Reinforce system backbone between Edmonton and Calgary as monopole HVDC transmission line and converter substations.	CTI designation in 2009	• Filed in March, 2011 with a projected cost of $1.4 billion +/- 20%.	• Hearing is scheduled for November, 2011.
Heartland Region Transmission Development Double-circuit 500 kV transmission line between the Ellerslie Substation and a new substation in the Gibbons-Redwater area and 240 kV loop from the new substation to service industrial load.	CTI designation in 2009	• Filed in September, 2010. • Oral hearing completed in Q2, 2011.	• Awaiting decision for Facility Application.
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.	AUC approved 2008	• All applications approved.	• Under construction.
Keephills 3 Generation Interconnection Interconnect expansion of coal-fired generation facilities at Keephills, west of Edmonton.	AUC approved 2008	• All applications approved.	• Completed.
Edmonton Region Transmission System Upgrade Debottleneck 240 kV system for load growth and decommissioning of coal-fired generation.	AUC approved 2009	• Four filed to date; two approved; two awaiting decision. • One application planned for 2011.	• Approved elements completed or under construction.
East Calgary Transmission Development Reinforce transmission system in east Calgary and interconnect proposed Shepard Energy Centre.	In progress	• Filed in June 2011.	• Awaiting hearing on Facility Application.

Project/ Description	Need Application	Facility Application	Status
Foothills Area Transmission Development Expand and construct substations and transmission lines in south Calgary region to reinforce local transmission and further interconnect wind energy into the AIES.	In progress	• Multiple applications planned. • Planning, siting and consultation underway for future facility applications.	• Awaiting Need Application filing by AESO.
Yellowhead Rebuild and reinforcement of 138 kV system in Yellowhead region.	AUC approved in 2010	• All applications approved.	• Under construction.
Hanna Reinforcement and enhancements of the transmission system in southeastern Alberta.	AUC approved in 2010	• Three applications filed.	• Awaiting decision for Facility Applications. • One hearing complete.

CTI – Critical Transmission Infrastructure

Other Regional 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. This includes projects in the Red Deer, Central-East and Athabasca regions.

Non-GAAP Financial Measures

We use certain financial metrics that are not defined under IFRS. For more details regarding our non-GAAP financial measures please refer to the "Non-GAAP Financial Measures" section of our MD&A for the year ended December 31, 2010.

Financial Position

Financial analysis has been performed using the information from the Financial Statements prepared in accordance with IFRS for both the current period and comparative periods unless otherwise stated. The following table discusses significant changes, over $10.0 million, in our statement of financial position during the six months ended June 30, 2011. Our financial statements include more detailed information regarding the changes in our property, plant and equipment.

	Increase/(Decrease) ($ Millions)	Explanation
Cash and cash equivalents	(12.8)	During the period, we used $12.8 million in cash, to finance our capital expenditure program.
Property, plant and equipment	193.4	During the period, we had $229.7 million in net additions to construction work in progress and property plant and equipment, partially offset by $36.3 million in depreciation (see Note 7 to the condensed interim financial statements for more detail).
Short-term debt	115.5	During the period, we issued $115.5 million of short-term debt to finance our capital expenditure program (see Note 11 to the condensed interim financial statements for more detail).

	Increase/(Decrease) ($ Millions)	Explanation
Deferred revenue	19.3	During the period, we transferred $25.5 million from third party deposits, received $6.0 million through transmission tariff for salvage costs and recognized $12.2 million as revenue (see Note 12 to the condensed interim financial statements for more detail).
Other non-current liabilities	(13.5)	During the period, we reclassified various financial liabilities related to regulated activities into current, based on expected settlement periods.
Partners' equity	63.9	During the period, we received $45.0 million in equity injections from AILP, and we generated net income of $34.4 million, which was partially offset by distributions to partners of $15.5 million.

Liquidity and Capital Resources

Liquidity

We have two bank credit facilities which provide for an aggregate of $600.0 million in available credit. The $550.0 million commercial paper backstop facility provides support to the $400.0 million commercial paper program, while the $50.0 million operating facility is used for general corporate purposes. As at June 30, 2011 we had $110.8 million of commercial paper outstanding under our commercial paper program and $4.7 million in borrowings under our operating line of credit, leaving us with $484.5 million of available liquidity under our bank credit facilities. Our liquidity requirements are expected to increase over the next few years to accommodate higher capital expenditures and working capital requirements. In our 2011-2013 GTA, we are forecasting an increase of our credit facilities to $0.9 billion in 2011, $1.8 billion in 2012 and $2.3 billion in 2013.

Liquidity Ratios [1]

	Six months ended	
	June 30, 2011	June 30, 2010
Interest coverage		
EBIT coverage [2, 3]	**2.17X**	2.54X
EBITDA coverage [2, 4]	**3.59X**	4.19X
FFO coverage [2, 5]	**1.56X**	2.86X
FFO/debt [6]	**10.02%**	13.51%
Debt/total capitalization [7]	**56.91%**	57.93%

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 is gross of the offset for capitalized borrowing costs and excludes amortization of deferred financing fees on debt.
3. EBIT coverage - Income before interest expense and income tax expense (EBIT) divided by interest expense.
4. EBITDA coverage - Income before interest expense, income tax expense, 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, plus outstanding letters of credit.
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 covenant with a limit of 75%.

Working Capital

At June 30, 2011, our working capital deficiency was $223.0 million compared with $178.9 million at June 30, 2010. The working capital deficiency includes commercial paper issued to finance our capital expenditure program. Our commercial paper program is backstopped by our bank credit facilities and our intent is to refinance commercial paper with long-term debt later in 2011, as outlined in our General Tariff Application.

The electricity transmission industry is a long-cycle capital intensive business that requires sufficient cash to fund capital expansion projects and planned maintenance. We fund our transmission business from cash provided by operating activities, and to the extent necessary, through borrowings under our commercial paper program or drawing on our committed bank credit facilities. We expect this working capital deficiency to continue in the future due to our system expansion plans.

Cash Flows

	Six months ended	
	June 30, 2011	June 30, 2010
(in millions of dollars)		
Cash and cash equivalents, beginning of period	**$ 12.8**	$ 8.3
Cash flow provided by (used in):		
Operating activities	**72.6**	59.8
Investing activities	**(230.4)**	(212.8)
Financing activities	**145.0**	144.7
Cash and cash equivalents, end of period	**$ —**	$ —

Operating Activities

For the six months ended June 30, 2011, cash flow provided by operating activities was $12.8 million greater than the same period in 2010 due to an increase in non-cash working capital.

Investing Activities

For the six months ended June 30, 2011 our investing activities included capital expenditures of $233.8 million compared to $223.2 million invested during the same period in 2010.

Most of our current year capital expenditures relate to the Southern Alberta Transmission Reinforcement project, Heartland Regional Transmission Development project, Yellowhead, Edmonton Region Transmission System Upgrade, and the Western Alberta Transmission Line project.

Financing Activities

For the six months ended June 30, 2011, cash flow provided by financing activities increased by $0.3 million compared to the same period in 2010, primarily due to:

- Issuing $115.5 million in short-term debt, compared to issuing $34.7 million during the same period in 2010;
- No change in long-term debt (2010 - $125.0 million); and
- Equity contributions from AILP of $45.0 million (2010 – nil) and distributions of $15.5 million to AILP (2010 - $14.0 million).

Earnings Coverage

	Twelve months ended **June 30, 2011**
Earnings-to-interest coverage on total debt [1,2]	**2.17X**[3]

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 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. Our interest requirement on long-term debt for the twelve months ended June 30, 2011, was $53.1 million, including the pro-forma effect of interest payable on the Series 2010-2 notes issued in November 2010. Our earnings before interest and income tax, for the purposes of calculating this ratio, were approximately $115.1 million.

Credit Ratings

	Six months ended	
	June 30, 2011	June 30, 2010
DBRS – Commercial paper[1]	**R-1 (low)**	**R-1 (low)**
DBRS – Senior secured bonds and medium-term notes[1]	**A**	**A**
Standard & Poor's - Senior secured bonds and medium-term notes [2]	**A-**	**A-**

1. On February 15, 2011, DBRS confirmed the above ratings, both with Stable trends.
2. On November 30, 2010, Standard & Poor's confirmed the above rating with a Stable trend.

Results of Operations

Revenue

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(in millions of dollars)				
Operations	**$ 79.5**	$ 68.9	**$ 151.1**	$ 132.8
Other	**5.2**	10.8	**9.8**	15.1

Revenue from operations includes all revenue earned from our ordinary business activities, i.e. the provision of electricity transmission services. Our transmission tariff includes recovery of operating costs, depreciation and amortization expenses, return on rate base and allowance for funds used during construction (AFUDC). Other revenue includes revenue received from third parties, such as other utilities, and contributions received towards the construction of assets.

Details about differences between IFRS and C-GAAP for revenue and the other items included in this section can be found in the Financial Statements, Note 23 – *Explanation of the transition from Canadian GAAP to IFRS.*

Our revenue from operations increased by $10.6 and $18.3 million for the three and six months ended June 30, 2011, respectively, compared to the same periods in 2010, primarily due to additional investments made in our capital assets as well as recovery of increased operating expense through our transmission tariff.

Costs recovered from third parties, included within other revenue decreased by $6.2 and $6.4 million for the three and six months ended June 30, 2011 compared to the same periods in 2010 primarily due to less transmission construction service projects executed. Revenue associated with costs recovered from third parties is received on a cost recovery basis and therefore there is no net income impact. The remainder of other revenue is comparable for the three and six months ended June 30, 2011 and 2010.

Comprehensive Income

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(in millions of dollars)				
Comprehensive income	**$ 17.1**	$ 20.3	**$ 34.4**	$ 37.3

Our net income for the three and six months ended June 30, 2011 decreased by $3.2 and $2.9 million, respectively, compared to the same periods in 2010. Our 2010 results included one-time adjustments resulting from the AUC's final determination on our 2009-10 GTA compliance filing, including recovery of costs related to a transmission project voided by the regulator in 2007.

Other comprehensive income includes actuarial gains and losses on our defined benefit employee benefit plans. Under IFRS these gains and losses are recognized below the net income line as IFRS recognizes that the performance of defined benefit employee plans does not reflect the performance of our operations. No such gains and losses have been recognized for the three and six month periods ended June 30, 2011 and 2010.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(in millions of dollars)				
EBITDA	**$ 51.3**	$ 51.2	**$ 101.4**	$ 97.4

Our EBITDA for the three and six months ended June 30, 2011 increased compared to the same periods in 2010. The reasons for these increases are similar to those noted above for the changes in our net income for the same periods. Please refer to "Non-GAAP Financial Measures" for more information about how we calculate EBITDA.

Operating Expenses

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(in millions of dollars)				
Operating expenses	**$ 18.5**	$ 22.1	**$ 35.8**	$ 38.0

Our operating expenses include salaries and wages, contracted manpower, general and administration costs. Our operating expenses for the three and six months ended June 30, 2011 are lower than the same periods in 2010, which included additional costs related to cost recovery projects. Expenses incurred for cost recovery projects are recovered through revenue and therefore have no net income impact as discussed under "revenue" above.

Property Taxes and Other

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(in millions of dollars)				
Property taxes and other	**$ 13.9**	$ 6.6	**$ 22.9**	$ 12.6

Property taxes and other are flow through costs that are recovered through the regulated deferral and reserve account mechanisms. To the extent that actual costs vary from amounts approved in our tariff, the difference is refunded to or collected from the AESO. Our property taxes and other expenses for the three and six months ended June 30, 2011 increased compared to the same periods in 2010 primarily due to an increase in salvage expenses incurred.

Depreciation and Amortization

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(in millions of dollars)				
Depreciation and amortization	**$ 21.2**	$ 19.9	**$ 40.9**	$ 39.4

We calculate depreciation on a straight-line basis using various rates ranging from 1.85% to 14.43% which are approved by the AUC. Depreciation for the three and six months ended June 30, 2011 increased by $1.3 and $1.5 million, respectively, compared to the same periods in 2010, primarily due to capital projects that have since been completed and added to our regulatory rate base. Expected 2011 depreciation rates are being used until a decision is reached by the AUC on our 2011-2013 GTA.

Finance Costs

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(in millions of dollars)				
Finance Costs	**$ 13.0**	$ 11.0	**$ 26.0**	$ 20.7

Finance costs include interest costs and amortization of deferred financing fees less capitalized borrowing costs. Our interest expense for the three and six months ended June 30, 2011 increased by $2.0 million and $5.3 million, respectively, compared to the same periods in 2010 due to additional debt incurred to finance our capital expenditure program. Our total debt at June 30, 2011 was $182.6 million higher than a year earlier.

Selected Financial Information Derived from our Financial Statements

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net income per unit ($/unit)	**0.052**	0.061	**0.104**	0.113
Funds generated from operations ($ millions)	**20.6**	28.0	**46.0**	69.5
Distributions per unit ($/unit)	**0.023**	0.021	**0.047**	0.042
Total assets ($ millions)	**2,685.7**	2,284.6	**2,685.7**	2,284.6
Short and long-term debt ($ millions)	**1,146.4**	963.8	**1,146.4**	963.8

Summary of Quarterly Financial Information

QUARTER ENDED	REVENUE ($MILLIONS)	NET INCOME ($MILLIONS)	UNITS OUTSTANDING (MILLIONS)	NET INCOME PER UNIT ($/UNIT)
JUNE 30, 2011	**84.7**	**17.1**	**331.9**	**0.052**
MARCH 31, 2011	76.3	17.4	331.9	0.052
DECEMBER 31, 2010	96.2	15.5	331.9	0.047
SEPTEMBER 30, 2010	81.4	13.4	331.9	0.041
JUNE 30, 2010	79.7	20.3	331.9	0.061
MARCH 31, 2010	68.2	17.1	331.9	0.051
DECEMBER 31, 2009	76.4	21.7	331.9	0.065
SEPTEMBER 30, 2009	60.6	9.8	331.9	0.030
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

Periods prior to January 1, 2010 were accounted for following Canadian Generally Accepted Accounting Principles.

Risk Management

Our transmission business is subject to a variety of risks and uncertainties, which are more fully described in our annual MD&A for the year ended December 31, 2010. 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 and Statutory Liability Protection

Our current insurance policies provide coverage for a variety of losses and expenses that could impact our business. This 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. We believe the extent of this coverage is prudent in the context of our transmission business and utility industry practice, and we anticipate that this coverage will be maintained.

Consistent with past AUC decisions, we do not carry insurance for loss or damage to transmission lines, towers, poles, or physical damage to certain owned vehicles. It is not always possible or economically feasible to insure against all risks on our assets or for other exposure to liabilities, and we may decide not to carry insurance against certain risks as a result of high premiums or for other reasons. In accordance with prudent industry practice and AUC directives, we self insure against certain risks for which commercial insurance is not maintained. In the event of an uninsured loss greater than $100,000, we would apply to the AUC to recover the loss through increased funding to our self-insurance reserve or through an increased tariff. Our most recent general tariff application included an application for the recovery of approximately $7.0 million in costs related to damaged transmission lines caused by severe storms in early 2010 (see "Risk Factors and Uncertainties – Regulated Operations" in the MD&A year ended December 31, 2010).

The Liability Protection Regulation limits our liability in the course of carrying out our duties, responsibilities and functions under the Electric Utilities Act to direct loss or damage arising from our negligence, wilful misconduct or breach of contract. Direct loss or damage is defined in the regulation to exclude loss of profits, loss of revenue, loss of production, loss of earnings, loss of contract or other indirect, special or consequential loss or damage.

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. For more details regarding our risk factors and uncertainties please refer to the "Risk Factors and Uncertainties" section of our MD&A for the year ended December 31, 2010. Risk factors and uncertainties have not materially changed for the six months ended June 30, 2011.

- 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

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 direct assigned capital projects. The AUC has reviewed and approved the terms and conditions of this contract in Decision 2003-061 and subsequent decisions. We have incurred $112.1 million for construction related services with SNC-Lavalin ATP Inc. during the six months ended June 30, 2011, respectively, compared to $132.1 million for the same period in 2010. On June 30, 2011, our accounts payable and accrued liabilities included $64.1 million owing to SNC-ATP under this agreement, compared to $88.6 million at December 31, 2010.

As at June 30, 2011, 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%.

Please see note 14 – *Related party transactions* in the Financial Statements for more details.

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.

Off Balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. We currently have no such off-balance sheet arrangements. Please see note 21 – *Commitments* in the Financial Statements for details of capital and lease commitments.

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:

- Expected regulatory decisions on matters that may impact revenue, such as the 2011-13 General Tariff Application and 2011 Generic Cost of Capital proceeding;
- The recovery and settlement of financial assets and liabilities related to regulated activities;
- Key economic assumptions used in cash flow projections;
- The estimated useful lives of assets;
- The recoverability of tangible and 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; and
- The accruals for capital projects, and payroll and other employee-related liabilities.

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

Accounting Changes

Changes in Accounting Policies for 2011

The CICA Accounting Standards Board requires the conversion to IFRS from Canadian GAAP for publicly accountable profit-oriented enterprises for both interim and annual financial statements beginning on or after January 1, 2011.

We have completed the transition to IFRS. This is the first year in which we are issuing Financial Statements under IFRS. Our quarterly statements in 2011 are in compliance with the interim reporting requirements found in IAS 34 – *Interim financial reporting*. Our first annual IFRS compliant financial statements will be for the year ending December 31, 2011.

See note 23 – *Explanation of transition from C-GAAP to IFRS* in the Financial Statements showing how we reconciled the differences between our financial statements under C-GAAP and IFRS.

Applying the changes in accounting standards did not have a material impact on retained earnings. There have been no significant impacts on the way we apply to the regulator for tariff applications, how we receive tariff and how we conduct our operations. The majority of adjustments were reclassifications on the Statement of Financial Position and Statement of Comprehensive Income.

We have recognized all revenue from our core operations in one line on the Statement of Comprehensive Income and all revenue from third parties as other revenue.

We have presented expenses in our Statement of Comprehensive Income by nature, classified as follows:

- Operating expenses – included in operating expenses are employee salaries and benefits, contracted labour and general and administration expenses.
- Property taxes and other – included are property taxes, salvage expenses, annual structure payments and hearing and credit facility costs. These costs are fully recovered from the AESO on a deferral and reserve account basis.
- Depreciation and amortization – as a capital intensive business, this is a significant expense for us. We have disclosed this item separately as a result.

Reclassifications on the Statement of Financial Position include:

- Moving software and land rights from PP&E to intangible assets;
- Moving third party contributions from PP&E to deferred revenue; and
- Recognizing assets and liabilities arising from regulated activities as financial assets, financial liabilities and deferred revenue.

Future Accounting Changes That May Impact Our Financial Statements

We intend to apply the following new and revised IFRS that have been issued but are not yet effective when they become effective:

New and revised standards	Effective date
• Amendments to IFRS 7 – Financial Instruments and Disclosures	Periods beginning on or after July 1, 2011
• Amendments to IAS 12 – *Income taxes*	Periods beginning on or after January 1, 2012
• Amendments to IAS 1 – *Presentation of Financial Statements*	Periods beginning on or after July 1, 2012
• IFRS 9 – *Financial instruments*	Periods beginning on or after January 1, 2013
• IFRS 10 – *Consolidated Financial Statements*	Periods beginning on or after January 1, 2013
• IFRS 11 – *Joint Arrangements*	Periods beginning on or after January 1, 2013
• IFRS 12 – *Disclosure of Interests in Other Entities*	Periods beginning on or after January 1, 2013
• IFRS 13 – *Fair Value Measurement*	Periods beginning on or after January 1, 2013
• Amendments to IAS 19 – *Employee Benefits*	Periods beginning on or after January 1, 2013
• Amendments to IAS 27 – *Consolidated and Separate Financial Statements*	Periods beginning on or after January 1, 2013
• Amendments to IAS 28 – *Investments in Associates and Joint Ventures*	Periods beginning on or after January 1, 2013

We do not anticipate that the amendments to IFRS 7 will have a significant effect on the Partnership's disclosures as it is our practice to settle transactions in cash. However, if the Partnership enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

As the Partnership is not a taxable entity, the amendments to IAS 12 are not expected to impact the Partnership's Financial Statements.

The amendments to IAS 1 relate to the presentation of Other Comprehensive Income. We do not expect the amendments to have a material impact on our Financial Statements.

We are currently evaluating the impact of the revisions and amendments to IFRS 9, 10, 11, 12 & 13 and IAS 19, 27 & 28; however, we do not expect they will have a material effect on our financial reporting.

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 deemed 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 AltaLink;
- Decisions from the AUC concerning outstanding tariff and other applications which are consistent with past regulatory principles and are obtained in a timely manner;
- Approved rate-of-return and deemed capital structures for our transmission business which are sufficient to foster a stable investment climate;
- 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 the AUC does not provide specific relief to sustain our credit metrics over a growth period characterized by large multi-year transmission facility projects;
- 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 and Uncertainties" in our annual MD&A 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, 2011. 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.