



Management's Discussion and Analysis

AltaLink, L.P.

July 26, 2012




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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 26, 2012. 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 26, 2012, 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, 2012 and 2011 (Second Quarter Financial Statements), and our audited financial statements for the years ended December 31, 2011 and 2010 (the Financial Statements) and the notes thereto.

The financial information in this MD&A is presented in Canadian dollars, which is our functional currency.

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, 2012 and twelve-month period ended December 31, 2011, respectively.

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

Executive Summary

Highlights

For the quarter ended June 30, 2012:

- We invested $226.5 million on capital projects to reinforce and expand the transmission system;
- We earned comprehensive income of $25.9 million;
- We carried out construction activities on the Heartland, Cassils to Bowmanton, Bowmanton to Whitla, and other projects approved by the Alberta Utilities Commission (AUC);
- We increased our bank credit facilities to $1.25 billion to provide additional liquidity to finance our capital program; and,
- We issued $300.0 million of medium-term notes maturing on June 30, 2042 at an interest rate of 3.99%.

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, 2011.

Our Capability to Deliver Results

We leverage our core competencies and resources to deliver results for our stakeholders.

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 Group Inc. (SNC) provides 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 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

We execute our capital projects program through the use of an Engineering, Procurement and Construction Management (EPCM) model. This strategic outsourcing arrangement enhances our capability to deliver results to consumers by facilitating design and construction of our capital projects in a timely and cost-effective manner.

In our 2011-2012 General Tariff Application (GTA), we summarized our plans for a competitive procurement process for EPCM services after our 10-year contract with SNC-Lavalin ATP Inc. expired in April 2012. All projects underway and past the Proposal to Provide Service submission stage at the expiry date will be completed by SNC-Lavalin ATP Inc. under the previous contract. On April 30, 2012, we entered into five-year contracts with SNC-Lavalin ATP Inc. and Burns & McDonnell Canada Ltd. to provide EPCM services for future capital projects.

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.

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. We employ over 675 skilled and dedicated people and are continuing to increase our workforce to deliver on the major transmission projects planned in Alberta.

Approximately 60% of our employees are members of the International Brotherhood of Electrical Workers (IBEW) or the United Utility Workers Association (UUWA). In May 2012, we finalized a two-year collective agreement with the IBEW effective January 1, 2012. Later this year, we expect to commence bargaining to renew the UUWA collective agreement, which expires on December 31, 2012. Since our inception, neither union has engaged in a work stoppage in connection with our business and there are no material outstanding grievances with either union.

Environmental Leadership

We provide environmental leadership through innovative practices and sound risk management. In designing and constructing new transmission facilities, we consider ways to reduce land use impacts and improve efficiency. We strive to be leaders in environmental best practices, such as our Avian Protection Plan that was the first of its kind in Canada.

Stakeholder Engagement

We actively engage our stakeholders by providing them with timely, easy to understand information about our operations and proposed transmission projects and gather their input through a variety of methods to reduce the 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.

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. During the twelve months ended June 30, 2012, we reduced the number of service disruptions, decreasing our System Average Interruption Duration Index (SAIDI) to 0.41 from 0.70 for the preceding twelve-month period. 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. The frequency of our service disruptions also decreased, thereby decreasing the System Average Interruption Frequency Index (SAIFI) to 0.67 from 1.14 compared to the preceding twelve-month period.

On July 9, 2012, Alberta established a new summer peak for electricity demand of 9,885MW, eclipsing the previous high set in 2011 of 9,552MW. Unplanned outages at six generation units required the Alberta Electric System Operator (AESO) to reduce energy consumption across the province to ensure the overall reliability of the system. As a result of the lack of available supply, the AESO ordered rotating power outages across Alberta.

A strong, efficient transmission system ensures Albertans have access to multiple generation resources from across the province, instead of a limited number of local generation sources. A strong transmission system also ensures that all generators compete, driving down the price of energy and producing the electricity required to keep Alberta's economy growing.

Safety

Our safety management initiatives encompass all aspects of our safety systems. We are committed to continuously improving our safety culture and safety management processes. During the twelve months ended June 30, 2012 our workplace injury frequency rate (AIFR) increased to 1.03 from 0.27 per 200,000 man hours. Our safety statistics include all man-hours worked by contractors and sub-contractors. 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 revenue based on transmission tariffs approved by the AUC, including adjustments arising from deferral accounts established under those tariffs. During 2011, the AUC issued Decision 2011-453 on our General Tariff Application (GTA Decision) for 2011-2012 and Decision 2011-474 on the Generic Cost of Capital (GCOC Decision). In these decisions, the AUC approved measures to mitigate the impact of major capital projects on our credit ratings.

On April 10, 2012, we filed an amended compliance filing to give effect to the AUC directives contained in these regulatory decisions. We expect the AUC to issue a decision on this filing later this year.

On June 4, 2012, the AUC issued Decision 2012-154 concerning the applications made in February 2012 by us and other regulated utilities for Review and Variance of AUC Decision 2011-474. In Decision 2012-154, the AUC ordered that, notwithstanding Decision 2011-474, it would establish a proceeding to consider and evaluate the issue of stranded assets to determine who, as between utilities and ratepayers, bears the risk in relation to stranded assets.

We intend to file our General Tariff Application for the 2013-2014 test period in the near future. We expect the AUC to consider our application on a timely basis and issue a decision in mid-2013.

Growth in Regulated Capital Assets

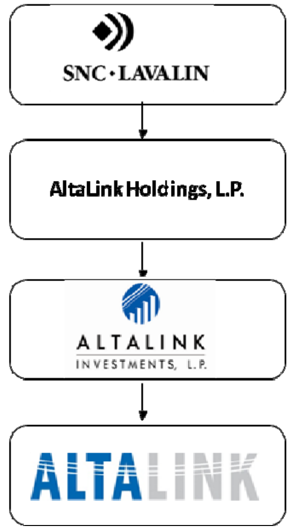
Growth in our regulated capital assets (both rate base and construction work-in-progress (CWIP)) provides reliability of supply of transmission service to our customers and is one of the key indicators of future revenue streams. As a regulated utility, we earn most of our net income from allowed returns on equity invested in our regulated capital assets. Our regulated capital assets 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 CWIP by the equity ratio and rate of return approved by the AUC. Our operating cash flow relates primarily to (i) the return on equity on our rate base and, as approved in the GTA Decision, most of our CWIP; (ii) recovery of deemed income taxes, and (iii) recovery of depreciation on our rate base assets.

In our April 10, 2012 compliance filing with the AUC, we forecast our 2012 capital expenditures to be over $900.0 million. Our actual capital program may vary from our compliance filing, depending on the timing of regulatory approvals, directions from the Alberta Electric System Operator (AESO), and other factors beyond our control. In particular, certain recent developments that we discuss in the Major Capital Projects section of this MD&A may materially impact our capital expenditure outlook.

We finance our 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. Both AILP and its sole limited partner, AltaLink Holdings, L.P. (AHLP) are managed by AltaLink Investments Management Ltd. (AIML).



Regulated Tariff Revenue

We are an electric utility regulated by the 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.

We receive all of our regulated transmission tariffs, including settlements of deferral and reserve accounts, from the AESO. We and other transmission facility owners are permitted to charge a tariff for the use of our transmission facilities. Such tariffs are regulated by the AUC under the provisions of the EUA in respect of rates and terms and conditions of service. Under the *Transmission Regulation*, the AUC must consider that it is in the public interest to provide consumers the benefit of unconstrained transmission access to competitive generation and the wholesale electricity market. In regulating transmission tariffs, the AUC must facilitate sufficient investment to ensure the timely upgrade, enhancement or expansion of transmission facilities, and foster a stable investment climate and a continued stream of capital investment for the transmission system.

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 (transmission lines operating at 240kV and higher). 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. Please refer to the "Major Capital Projects" section in the MD&A for the year ended December 31, 2011 for more details.

The following table is an overview of the main projects currently in progress:

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 in 2009		
Stage I		• Four applications approved. • One application planned for 2012.	• Approved elements completed or under construction.
Stage II		• Multiple applications planned.	• Working on facility applications.
Western Alberta Transmission Line Reinforce system backbone between Edmonton and Calgary as HVDC transmission line and converter substations.	CTI designation in 2009	• Filed in March 2011.	• Oral evidence portion related to facility application completed in July 2012.
Heartland Region Transmission Development Double-circuit 500kV transmission line between the Ellerslie Substation and a new substation in the Gibbons-Redwater area and 240kV loop from the new substation to service industrial load.	CTI designation in 2009	• All applications approved.	• Under construction.
Edmonton Region Transmission System Upgrade Debottleneck 240kV system for load growth and decommissioning of coal-fired generation.	AUC approved in 2009	• Five applications filed to date; four approved.	• Approved elements completed or under construction.
East Calgary Transmission Development Reinforce transmission system in east Calgary and interconnect proposed Shepard Energy Centre.	Filed in June, 2011	• All applications filed	• Awaiting decision on need and facility applications.
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.	Filed in July, 2012	• Three facility applications were filed in July 2012.	• Awaiting decision on need and facility applications.
Yellowhead Rebuild and reinforcement of 138kV system in Yellowhead region.	AUC approved in 2011	• All applications approved.	• Approved elements completed or under construction.
Hanna Reinforcement and enhancements of the transmission system in southeastern Alberta.	AUC approved in 2011	• All applications approved.	• Approved elements under construction.

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 accounting principles generally accepted in Canada, i.e. IFRS.

These non-GAAP financial measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other companies.

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, 2011.

Financial Position

In the following table, we discuss significant changes (over $50.0 million) in our statement of financial position during the six months ended June 30, 2012. Our Second Quarter Financial Statements include more detailed information regarding the changes in our property, plant and equipment.

	Increase/(Decrease) ($ Millions)	Explanation
Property, plant and equipment (Note 7)	340.2	We added $386.7 million to capital assets and construction work-in-progress, partially offset by $43.3 million in depreciation.
Commercial paper and bank credit facilities (Note 9(a))	(19.0)	We incurred short-term debt to finance our capital expenditure program. We repaid all short-term debt with proceeds from long-term debt issued on June 29, 2012.
Long-term debt, maturing in less than one year (Note 9(b))	239.0	We reclassified $325.0 million of long-term debt that will mature on June 30, 2013. On January 3, 2012, we repaid $85.0 million of subordinated notes.
Long-term debt (Note 9(b))	(25.3)	We issued $300 million of long-term debt on June 29, 2012 and reclassified long-term debt maturing in less than one year.
Partners' equity	130.5	We received $99.8 million in equity injections from AILP and generated net income of $48.4 million. We distributed $17.7 million to our partners.

Liquidity and Capital Resources

Liquidity

We generally issue commercial paper to finance our day-to-day cash requirements. The commercial paper program, together with our two lines of credit, provides us with sufficient liquidity to finance our planned operations and capital projects.

We increased our bank credit facilities to $1.25 billion from $0.9 billion effective June 30, 2012. Our bank credit facilities include a $1.175 billion revolving credit facility that supports our commercial paper program. All bank credit facilities may be used for general corporate purposes. We may further increase our bank credit facilities if required to sustain higher capital expenditure levels and working capital requirements.

As at June 30, 2012 we had no commercial paper outstanding under our commercial paper program, which was fully repaid on June 29, 2012 using the proceeds from our $300.0 million medium-term note issue. As at June 30, 2012, we had $19.4 million of cash on hand and $1.25 billion of liquidity remaining under our 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.

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 remit to the AESO all investment income related to deposits received from customers for construction projects and retain investment income we earn on deposits received from customers for future operating and maintenance costs.

Liquidity Ratios [1]

	Six months ended	
	June 30, 2012	June 30, 2011
Interest coverage		
EBIT coverage [2, 3]	**2.48X**	2.17X
EBITDA coverage [2, 4]	**3.98X**	3.59X
FFO coverage [2, 5]	**3.02X**	1.56X
Debt/total capitalization [6]	**57.26%**	56.91%

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. 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, 2012, our working capital deficiency was $460.0 million compared with $223.0 million at June 30, 2011. The working capital deficiency includes commercial paper and bank credit. Our commercial paper program is backstopped by our bank revolving credit facility.

In the future, we expect that we will continue to have a working capital deficiency due to our system expansion plans. 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 equity injections from AILP and borrowings under our commercial paper program or drawing on our committed bank credit facilities.

Cash Flows

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Cash and cash equivalents, beginning of period	**$ —**	$ 0.7	**$ 15.4**	$ 12.8
Cash flow provided by (used in):				
Operating activities	**33.2**	26.4	**105.0**	72.6
Investing activities	**(196.6)**	(113.4)	**(377.2)**	(230.4)
Financing activities	**182.8**	86.3	**276.2**	145.0
Cash and cash equivalents, end of period	**$ 19.4**	$ —	**$ 19.4**	$ —

In our Second Quarter Financial Statements we use the direct method to present our cash flow statement. As certain users of our financial statements prefer the indirect method, we have included the indirect method of presenting cash flow from operating activities below. There are no material differences in presentation of cash flow from investing and financing activities.

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Cash flows from operating activities				
Net income	**$ 25.9**	$ 17.1	**$ 48.7**	$ 34.4
Adjustments for:				
Depreciation and amortization	**24.5**	21.2	**48.6**	40.9
Third party contribution revenue	**(2.5)**	(2.2)	**(5.0)**	(4.4)
Loss/(gain) on disposal of assets	**0.7**	1.0	**(0.6)**	0.9
Finance costs	**16.7**	13.0	**33.3**	26.0
Change in other items	**5.3**	(9.5)	**9.0**	(22.2)
Interest paid	**(24.9)**	(20.0)	**(34.2)**	(29.7)
Funds from operations	**45.7**	20.6	**99.8**	45.9
Change in non-cash working capital items	**(12.5)**	5.8	**5.2**	26.7
Net cash provided by operating activities	**$ 33.2**	$ 26.4	**$ 105.0**	$ 72.6

Operating Activities

Compared to the same periods in 2011, our cash flow from operating activities increased by $6.8 million and $32.4 million for the three and six months ended June 30, 2012 respectively.

Cash interest paid has increased from prior periods due to the ongoing issuance of long-term debt and commercial paper to finance our capital program. Changes in other items, including regulatory balances, relate primarily to the accrual for and settlement of deferral accounts and other regulatory balances with the AESO.

Changes in non-cash working capital for the quarter was $18.3 million lower than the comparative quarter and, on a year-to-date basis, $21.5 million lower than the comparative period. The changes were primarily due to accruals and settlements related to interim transmission tariffs and net recoveries from our joint venture partner related to the Heartland project.

Investing Activities

Compared to the same periods in 2011, our cash flow used in investing activities increased by $83.1 million and $146.7 million for the three and six months ended June 30, 2012, respectively, primarily due to higher investment in new transmission facilities. We incurred most of our 2012 capital expenditures in connection with major capital projects that we discuss in more detail in the Major Projects section.

Financing Activities

For the three months ended June 30, 2012, cash flow provided by financing activities increased by $96.5 million compared to the same period in 2011. We issued $300.0 million of long-term debt and used the proceeds to repay all of our commercial paper. AILP contributed equity of $68.0 million and received distributions of $8.9 million from us. During the same quarter in 2011, we issued $59.1 million of commercial paper, received $35.0 million of equity, and distributed $7.8 million to AILP.

For the six months ended June 30, 2012, cash flow provided by financing activities increased by $131.1 million compared to the same period in 2011. We issued $300.0 million of long-term debt and used the proceeds to repay $85.0 million of subordinated debt and all of our commercial paper. AILP contributed $99.8 million of equity and received $17.7 million distributions from us. During the same period in 2011, we issued $115.5 million of commercial paper, AILP contributed $45.0 million of new equity and we distributed $15.5 million to AILP.

Earnings Coverage

	Twelve months ended	
	June 30, 2012	June 30, 2011
Earnings-to-interest coverage on total debt [1,2]	**2.07X[3]**	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 in conjunction 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 short and long-term debt for the twelve months ended June 30, 2012, was $79.2 million (twelve months ended June 30, 2011 - $53.1 million), including the pro-forma effect of interest payable on the Series 2011-1 notes issued in November 2011. Our earnings before interest and income tax for the twelve months ended June 30, 2012, for the purposes of calculating this ratio, were approximately $164.4 million (twelve months ended June 30, 2011 - $115.1 million).

Credit Ratings

	Six months ended	
	June 30, 2012	June 30, 2011
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 May 22, 2012, DBRS confirmed the above ratings, both with Stable trends.
2. On May 24 and June 15, 2012, Standard & Poor's confirmed the above rating with a Stable trend.

Commitments

Our contractual commitments for the purchase of property, plant and equipment as at June 30, 2012 are $1,603 million. 99% of these commitments are with SNC-Lavalin ATP Inc., a wholly owned subsidiary of SNC.

We are committed to operating leases that have lease terms which expire between 2012 and 2026. Of the total expected minimum lease payments, 93% relates to our head office leases.

Expected minimum lease payments in future years are as follows:

	As at June 30, 2012
(in thousands of dollars)	
Operating lease obligations payable on non-cancellable leases are as follows:	
No later than 1 year	$ 4,185
Later than 1 year and no later than 5 years	16,726
Later than 5 years	26,685
	$ 47,596

Results of Operations

Revenue

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Operations	**$ 91.3**	$ 79.5	**$ 177.6**	$ 151.1
Other	**5.4**	5.2	**11.6**	9.8

Revenue from operations

Revenue from operations includes all revenue earned from providing electricity transmission services. The principal components of our transmission tariff include recovery of forecast operating costs, deemed income taxes, depreciation and amortization expenses, return on rate base and allowance for funds used during construction (AFUDC).

Compared to the same periods in 2011, our revenue from operations increased by $11.8 million and $26.5 million for the three and six months ended June 30, 2012, respectively, primarily due to additional investments in capital assets. Also, in Decision 2011-453, the AUC permitted us to recover (within the current year's transmission tariff) AFUDC related to capital projects directly assigned to us by the AESO. Previously, we capitalized AFUDC as part of the cost of the related capital assets.

Other revenue

Other revenue includes revenue received from third parties, including contributions toward the construction of assets.

Compared to the same periods in 2011, cost recovery revenue from third parties increased by $0.2 million and $1.8 million for the three and six months ended June 30, 2012, respectively. Revenue associated with costs recovered from third parties is received on a cost recovery basis and therefore there is no net income impact. These variances are primarily due to the volume of transmission construction services provided to third parties during these periods.

Comprehensive Income

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Comprehensive Income	**$ 25.9**	$ 17.1	**$ 48.4**	$ 34.4

Our comprehensive income for the three and six months ended June 30, 2012 increased by $8.8 million and $14.0 million, respectively, compared to the same periods in 2011, primarily due to increased investment in electricity transmission infrastructure, and the impact of recent regulatory decisions.

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
EBITDA	**$ 67.2**	$ 53.6	**$ 131.0**	$ 105.6

Our EBITDA for the three and six months ended June 30, 2012 increased compared to the same periods in 2011. The reasons for these increases are similar to those noted above for the changes in our comprehensive 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, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Operating Expenses	**$ 18.6**	$ 18.5	**$ 39.3**	$ 35.8

Our operating expenses include salaries and wages, contracted manpower, and general and administration costs. Our operating expenses for the three and six months ended June 30, 2012 increased by $0.1 million and $3.5 million, respectively, compared to the same periods in 2011, due to growth in our transmission system as well as an increase in cost recovery projects. Expenses incurred for cost recovery projects are recovered through revenue and therefore have no net income impact as discussed under "other revenue" above.

Property Taxes, Salvage and Other

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Property taxes and other	**$ 10.3**	$ 13.9	**$ 20.0**	$ 22.9

Property taxes, salvage and other expenses are recovered dollar for dollar through 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, salvage and other expenses for the three and six months ended June 30, 2012 decreased compared to the same periods in 2011. The decrease is primarily due to a reduction in salvage costs incurred.

Depreciation and Amortization

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Depreciation and amortization	**$ 24.5**	$ 21.2	**$ 48.6**	$ 40.9

We calculate depreciation on a straight-line basis using various rates which are approved by the AUC. Depreciation for the three and six months ended June 30, 2012 increased by $3.3 million and $7.7 million, respectively, compared to the same periods in 2011, primarily due to an increase in capital projects that have since been completed and added to our regulatory rate base.

Finance Costs

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
(in millions of dollars)				
Finance Costs	**$ 16.6**	$ 13.0	**$ 33.3**	$ 26.0

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, 2012 increased by $3.6 million and $7.3 million, respectively, compared to the same periods in 2011 due to additional debt incurred to finance our capital expenditure program. Our total debt at June 30, 2012 was $194.8 million higher than a year earlier.

Selected Financial Information Derived from our Financial Statements

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net income per unit ($/unit)	**0.078**	0.052	**0.147**	0.104
Funds generated from operations ($ millions)	**45.7**	20.6	**99.8**	45.9
Distributions per unit ($/unit)	**0.027**	0.023	**0.053**	0.047
Total assets ($ millions)	**3,546.0**	2,685.7	**3,546.0**	2,685.7
Short and long-term debt ($ millions)	**1,518.0**	1,146.4	**1,518.0**	1,146.4

Summary of Quarterly Financial Information

Quarter ended	Revenue ($millions)	Net income ($millions)	Units outstanding ($millions)	Net income Per unit ($/unit)
June 30, 2012	**96.7**	**25.9**	**331.9**	**0.078**
March 31, 2012	92.5	22.9	331.9	0.069
December 31, 2011	122.5	30.7	331.9	0.092
September 30, 2011	82.1	20.6	331.9	0.062
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

Risk Management

Our transmission business is subject to a variety of risks and uncertainties, including those described below. Our goal is to manage these risks to reasonably protect us from unacceptable outcomes including undesirable financial results. 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.

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, 2011. Risk factors and uncertainties have not materially changed during the three and six months ended June 30, 2012.

- 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, AHLP and AltaLink Ontario, L.P. 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.

We have incurred $171.3 million for construction-related services with SNC-Lavalin ATP Inc. during the quarter ended June 30, 2012 compared to $64.3 million for the quarter ended June 30, 2011. On June 30, 2012, our accounts payable and accrued liabilities included $158.0 million owing to SNC-Lavalin ATP Inc. under this agreement, compared to $143.9 million at December 31, 2011.

On January 3, 2012 we repaid $85.0 million of Series 3 Subordinated Bridge Bonds previously held by AILP.

Please see note 11 – *Related party transactions* in the Second Quarter 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. We expect the appeal to be heard in October 2012.

On March 28, 2012, the Alberta Court of Appeal granted leave to appeal Decision 2011-436, in which the AUC approved the construction and operation of the Heartland Transmission line and substation. The appellants have appealed Decision 2011-436 and limited it to statutory interpretation.

In 2012, an application for judicial review was filed with Alberta Court of Queen's Bench relating to the issuance of a permit in the Transportation Utility Corridor by the Minister of Infrastructure. A hearing on this matter has been scheduled for November 28, 2012.

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 13– *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 more significant estimates that have an impact on our financial condition and the results of our operations are disclosed in note 2(d) – *Use of estimates and judgement*, in the Second Quarter Financial Statements.

Contingencies

In 2012, we obtained AUC approval to construct and operate transmission facilities that interconnect with a substation owned and operated by a third party. Upon receipt of an energization certificate from the AESO, we energized the substation. Subsequently, we were notified that the substation owner had not obtained all necessary permits and approvals from the AUC, including the required connection order. Consequently, we and the substation owner may be subject to regulatory action, including potentially significant penalties. We await further direction from the AESO and AUC while the substation owner works to resolve this matter.

Accounting Changes

Effective for the year ending December 31, 2012

From January 1, 2012 the following new or revised standards became effective and were adopted by us:

- Amendments to IFRS 7 - *Disclosures - Transfers of financial assets*
- Amendments to IAS 1 – *Presentation of financial statements*
- Amendments to IAS 12 - *Income taxes*

The above amendments had no significant impact on our condensed interim financial statements.

Future Accounting Changes That May Impact Our Financial Statements

Effective for the year ending December 31, 2013

From January 1, 2013 the following new or revised standards will become effective:

- Amendments to IAS 1 – *Presentation of financial statements*
- IFRS 10 – *Consolidated financial statements*, IFRS 11 – *Joint arrangements*, IFRS 12 – *Disclosure of interests in other entities* and IFRS 13 – *Fair value measurement*
- Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and liabilities*
- Amendments to IAS 19 – *Employee benefits*
- Annual Improvements Project for 2009 - 2011

Adopting these amendments is not expected to have a significant impact on our financial statements.

Effective after 2013

The following new or revised standards will become effective after 2013:

- IFRS 9 - *Financial instruments - Classification and measurement*
- Amendments to IAS 32 - *Financial instruments - Presentation*

Adopting these amendments is not expected to have a significant impact on our financial statements.

Please see note 3(f) in the Second Quarter Financial Statements for more details regarding our assessment of the impact of these new or revised standards.

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", "could", "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; the achievement of certain operational and performance measures and the resulting effect on compensation of executive officers; 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 that are adverse to us;
- 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 26, 2012. 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.