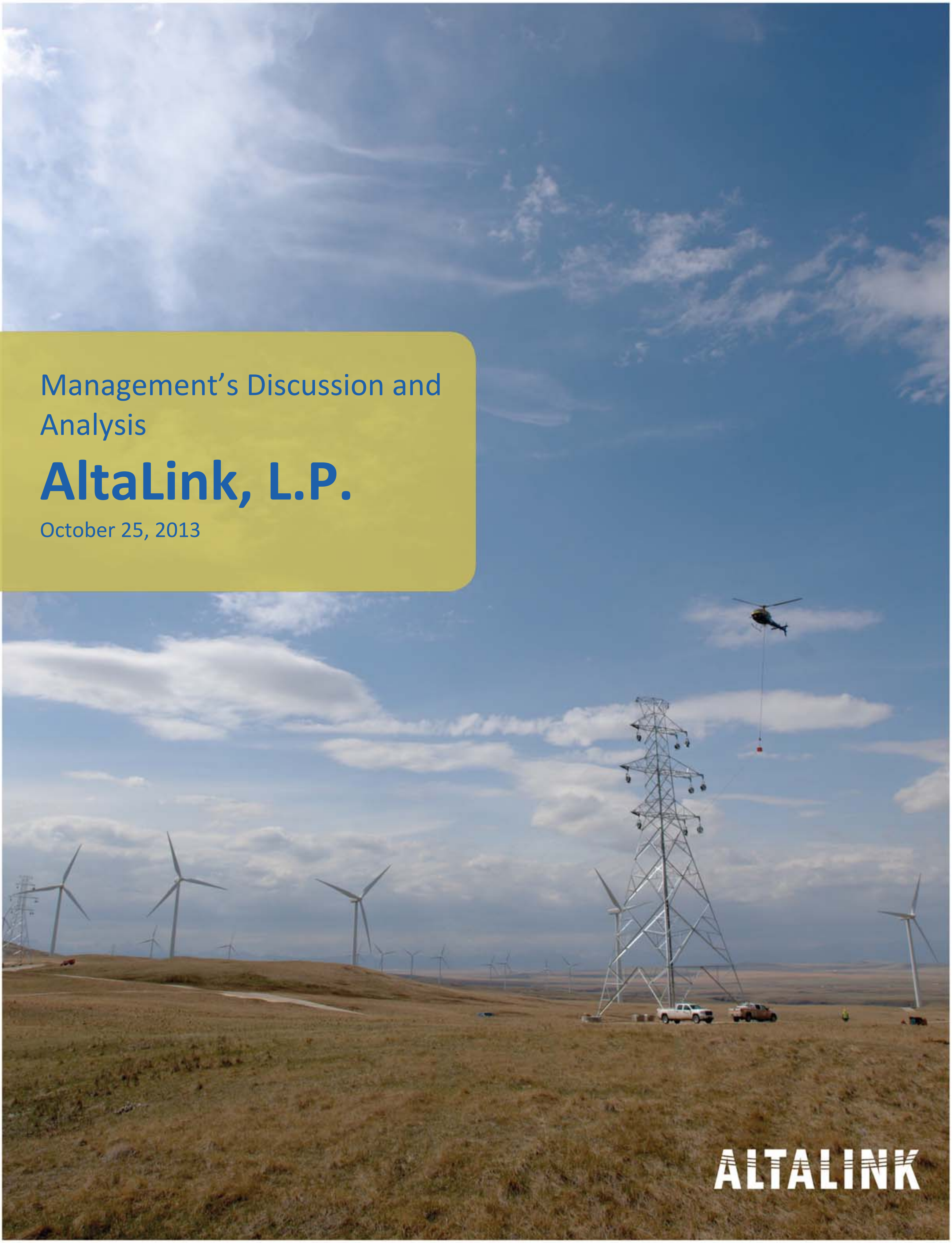
Management's Discussion and Analysis

AltaLink, L.P.

October 25, 2013



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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) reflects events known to us as of October 25, 2013. 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 October 25, 2013, 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 nine months ended September 30, 2013 and 2012 (Third Quarter Financial Statements), and our audited financial statements for the years ended December 31, 2012 and 2011 (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 September 30, 2013 and the twelve-month period ended December 31, 2012, respectively. References to "AESO" mean Alberta Electric System Operator; "AUC" mean Alberta Utilities Commission; "CEA" mean Canadian Electrical Association; "CWIP" mean Construction Work-In-Progress; "GTA" mean General Tariff Application"; "GCOC" mean Generic Cost of Capital; "IFRS" mean International Financial Reporting Standards; "SNC" mean SNC-Lavalin Group Inc.; and "ATP" mean SNC-Lavalin ATP Inc.

Additional information relating to our business including our Annual Information Form for the year ended December 31, 2012 is available on SEDAR at www.sedar.com.

Executive Summary

Highlights

During the quarter ended September 30, 2013:

- We invested $418.6 million (quarter ended September 30, 2012 - $181.6 million) in capital projects to reinforce and expand the transmission system;
- We issued $725.0 million of long-term senior debt to finance our capital construction program;
- We earned comprehensive income of $38.4 million (quarter ended September 30, 2012 - $27.3 million); and,
- Subsequently, on October 7, 2013, we obtained approval to proceed with construction of transmission facilities for the Southern Alberta Transmission Reinforcement development ($0.8 billion), connecting wind generation in the southwest part of Alberta into the Calgary region.

Our Business and Strategies

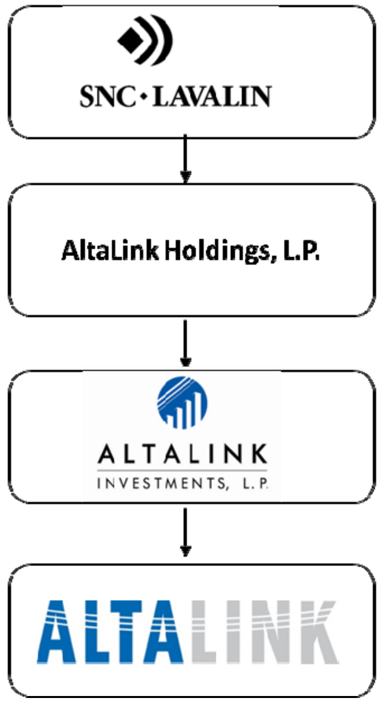
We own and operate regulated electricity transmission facilities in the Province of Alberta. Through our transmission facilities, we deliver electricity safely, reliably and efficiently to approximately 85% of Alberta's population to meet continuously changing customer needs under all operating conditions. 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, including interconnections with British Columbia's transmission system that link Alberta with the North American western interconnected system.

Our vision is to be the leading owner and operator of regulated electricity transmission in Alberta.

For more details regarding our business and strategies, please refer to the "Our Business and Strategies" section of our MD&A for the year ended December 31, 2012.

Our Partnership Structure

We are a limited partnership, formed under the laws of Alberta on July 3, 2001 pursuant to the Limited Partnership Agreement between AltaLink Management Ltd. (AML), as general partner, and AltaLink Investments, L.P. (AILP), as the sole limited partner. The general partner 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 Investment Management Ltd. (AIML).



On September 30, 2013, SNC announced it has initiated a process to sell an equity stake in AltaLink, as part of its strategic plan to reconfigure and rebalance its ownership in principal assets within its Infrastructure Concession Investments portfolio.

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, AILP. SNC is the indirect owner of AILP, and we expect SNC to continue to provide solid financial sponsorship and to contribute the additional equity needed to finance the capital investments we expect to make in the future.

Operations

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, meters, 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 2012, we completed a competitive bidding process and entered into five-year contracts with ATP and Burns and McDonnell Canada Ltd., to provide EPCM services for future capital projects. All projects that had reached the proposal to provide service stage, as submitted to the AESO, prior to April 2012 are continuing to be executed by ATP under the previous contract.

Organizational Leadership and People

Effective January 21, 2013, Scott Thon, our Chief Executive Officer was seconded to SNC. While Scott is working with SNC, he is not involved in the management of AltaLink, and he has accepted an appointment as a member of our Board of Directors during this period. Our Board of Directors has appointed our Chief Operating Officer, Dennis Frehlich, as interim President and Chief Executive Officer.

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

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.

We formally applied to the CEA to obtain its Sustainable Electric Company designation. We must meet certain requirements to obtain the designation and are using the application as an excellent opportunity to continually improve corporate sustainability across our company.

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 September 30, 2013, the duration of service disruptions increased, as noted in the table below. In the same period, we decreased the frequency of service disruptions compared to the preceding twelve-month period.

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.

	Twelve months ended	
	September 30, 2013	September 30, 2012
Duration of outages (SAIDI)[1]		
AltaLink	**0.81**	0.62
Frequency of outages (SAIFI)[2]		
AltaLink	**0.72**	0.74

1. System Availability Interruption Duration Index is the average number of interruption hours per delivery point during a twelve-month period.
2. System Availability Interruption Frequency Index is the average number of interruptions per delivery point during a twelve-month period.

Safety

Our safety management initiatives encompass all aspects of our safety systems, and our safety statistics are consistently stronger than our peers. Our safety statistics include all man-hours worked by contractors and sub-contractors. During the twelve months ended September 30, 2013, our workplace Injury Frequency Rate improved, compared to the preceding twelve month period. We strive to continuously improve our safety performance through focused training and our ongoing commitment to our safety culture and safety management processes.

	Twelve months ended	
	September 30, 2013	September 30, 2012
All Injury Frequency Rate[1]		
AltaLink	**0.83**	0.90

1. Number of lost time accidents and medical aid incidents per 200,000 man hours worked by employees and contractors.

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 project execution programs, 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. In Decision 2013-024, dated January 31, 2013, the AUC approved an interim tariff of $38.0 million per month, effective January 1, 2013.

The AUC held an oral hearing on our 2013-14 GTA in June 2013. We expect the AUC to issue a decision in the fourth quarter of 2013. In our application, we requested increases in our revenue requirements to $491.7 million and $636.2 million for 2013 and 2014 respectively, primarily due to our continued investment in capital projects as directed by the AESO.

In 2012, the AUC issued several decisions, to approve our transmission tariff revenue for 2011 and 2012, subject to certain adjustments. On January 30, 2013, the AUC issued Decision 2013-023 approving our compliance filing, which finalized our 2011 and 2012 tariffs.

In Decision 2011-474, the Commission approved an increase of 1% in our common equity ratio and reduced the generic rate of return on common equity to 8.75% from 9%. There is no formula associated with the return on common equity, and the Commission recently announced that it intends to review the GCOC again for 2013. Accordingly, the Commission has approved a placeholder of 8.75% for 2013 return on common equity, pending a final decision as part of the 2013 GCOC proceeding.

Growth in Regulated Capital Assets

Continued investment 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.

For the nine months ended September 30, 2013, our capital program included $71 million of capital replacement and upgrade projects and approximately $1.2 billion of expansion projects directly assigned to us by the AESO. In our 2013 – 2014 GTA, we have forecast our 2013 and 2014 gross direct assigned capital expenditures to be $1.5 billion and $1.7 billion, respectively. During the first nine months of 2013, we exceeded forecast capital expenditures by approximately $200 million. Our actual capital program may vary from our regulatory filings, depending on the timing of regulatory approvals, directions from the AESO, and other factors beyond our control. In particular, certain developments that we discuss in the Major Capital Projects section of this MD&A may materially impact our capital expenditure outlook. In addition, the AESO is currently working on a scheduled review and update of its long range capital plan, which we expect to be released later in 2013. The updated plan may affect the timing and size of future need and facility applications.

Regulated Tariff Revenue

We are an electric utility regulated by the AUC, pursuant to the Electric Utilities Act (Alberta), 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 Electric Utilities Act 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, require the development of new transmission infrastructure. For more than 30 years there had been limited expansion of the main backbone of the transmission grid in Alberta (transmission lines operating at 240 kV 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 transmission system. Please refer to the "Major Capital Projects" section in the MD&A for the year ended December 31, 2012 for more details.

Overview

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

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. **Stage I**	AUC approved in 2009	• All applications approved.	• Cassils-Bowmanton-Whitla construction scheduled for 2014 completion. • South Foothills scheduled for 2015 completion.
Stage II	AUC approved in 2009	• Medicine Hat 138kV Transmission Project approved in Q4, 2013. • Multiple applications planned in 2014.	• Construction scheduled for 2015 completion. • Preparing facility applications
Western Alberta Transmission Line Reinforce system backbone between Edmonton and Calgary with a HVDC transmission line and converter substations.	CTI designation in 2009	• Approved in 2012.	• Construction scheduled for 2015 completion.
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	• Approved in 2011.	• Construction scheduled for 2013 completion.
Edmonton Region Transmission System Upgrade Debottleneck 240kV system for load growth and decommissioning of coal-fired generation.	AUC approved in 2009	• All applications approved.	• Construction scheduled for 2014 completion.
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	• All applications approved in October, 2013.	• Starting construction in Q4, 2013.
Hanna Reinforcements and enhancements of the transmission system in southeastern Alberta.	AUC approved in 2011	• All applications approved.	• Construction scheduled for 2013 completion.
Christina Lake Area Development Construction of 240kV transmission line and substations in the Christina Lake area to meet forecasted load growth.	AUC approved in 2012	• Two applications approved. • Approval is pending for application filed in Q1, 2013.	• One project completed in 2013 and remaining projects scheduled for completion in 2014 and 2015.
Red Deer Region Transmission Development Reinforcement and enhancements of the transmission system in the central Alberta region.	AUC approved in 2012	• One application approved. • Two applications filed in Q2, 2013. • Two additional applications planned in Q4, 2013.	• Approved project construction scheduled for 2013 completion. • Awaiting AUC hearing for applications under review.

CTI – Critical Transmission Infrastructure

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, 2012.

Financial Position

In the following table, we discuss significant changes (over $60.0 million) in our statement of financial position during the nine months ended September 30, 2013. Our Third 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)	1,183.5	We added $1,263.4 million to capital assets and construction work-in-progress, partially offset by $79.8 million in depreciation.
Third party deposits (Note 8)	82.6	We received $203.4 million from our customers to fund projects that we build on their behalf and applied $120.7 million to such projects.
Trade and other payables and other non-current liabilities (Note 9)	400.6	Trade payables increased due to timing of receipt of invoices from contractors.
Commercial paper and bank credit facilities (Note 10(a))	64.0	We issued additional commercial paper to finance our capital expenditure program.
Long-term debt maturing in less than one year (Note 10(b))	(325.0)	We repaid $325M of senior secured medium-term notes, as they matured on June 5, 2013.
Long-term debt (Note 10(b))	721.4	We issued $725M of senior secured medium-term notes to finance our capital expenditure program.
Deferred revenue (Note 11)	111.5	We transferred $120.7 million of third party deposits and $12.0 million of funding for salvage costs into deferred revenue. We also recognized $10.5 million of revenue to fund salvage costs, and amortized $10.5 million of third party contributions.
Partner's equity	181.7	We received $112.5 million in equity injections from AILP and generated comprehensive income of $98.6 million. We distributed $29.4 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 and anticipated long-term debt issuance, provides us with sufficient liquidity to finance our planned operations and capital projects.

The aggregate of our bank credit facilities is $1.5 billion. The $1.425 billion commercial paper backstop facility provides support to our commercial paper program. As at September 30, 2013, $61.9 million of commercial paper was outstanding under our commercial paper program. All bank credit facilities may be used for general corporate purposes. As at September 30, 2013, we had $1.433 billion of liquidity remaining under those facilities. Our liquidity requirements are considered adequate to accommodate higher capital expenditures and working capital requirements over the next few years.

As at September 30, 2013, we have issued $1.0 billion of medium-term notes under our $2.5 billion Short Form Base Shelf Prospectus, which expires on December 9, 2014. On September 17, 2013, we issued $125.0 million of 3.621% Series 2013-2 Medium-Term Notes, due September 17, 2020 and $350.0 million of 4.922% Series 2013-3 Medium-Term Notes, due September 17, 2043.

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 as directed 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]

	Nine months ended	
	September 30, 2013	September 30, 2012
Interest coverage		
EBIT coverage 2, 3	**2.57X**	2.45X
EBITDA coverage 2, 4	**4.02X**	3.77X
Debt/total capitalization 5	**59.70%**	57.16%

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. 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 September 30, 2013, our working capital deficiency was $646.8 million, compared with $581.5 million at September 30, 2012. The working capital deficiency includes drawn bank credit, commercial paper and trade payables.

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 drawings on our committed bank credit facilities.

Cash Flows

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Cash and cash equivalents, beginning of period	**$ —**	$ 19.4	**$ 9.2**	$ 15.4
Cash flow provided by (used in):				
Operating activities	**88.2**	0.3	**334.7**	105.3
Investing activities	**(374.5)**	(144.2)	**(886.5)**	(521.4)
Financing activities	**286.3**	124.5	**542.6**	400.7
Cash and cash equivalents, end of period	**$ —**	$ —	**$ —**	$ —

Operating Activities

Compared to the same periods in 2012, our cash flow from operating activities increased by $87.9 million and $229.4 million for the three and nine months ended September 30, 2013, respectively. The change is primarily due to the collection of amounts due from the AESO related to settling our 2011 and 2012 interim transmission tariffs.

Cash interest paid has increased compared to the same periods in 2012 due to the ongoing issuance of long-term debt and commercial paper to finance our capital program. Changes in other items, including regulatory balances, related primarily to the accrual for and settlement of deferral accounts and other regulatory balances with the AESO.

Investing Activities

Compared to the same periods in 2012, our cash flow used in investing activities increased by $230.3 million and $365.1 million for the three and nine months ended September 30, 2013, respectively, primarily due to higher investment in new transmission facilities. We incurred most of our 2013 capital expenditures in connection with major capital projects that we discuss in more detail in the Major Capital Projects section.

Financing Activities

For the three months ended September 30, 2013, cash flow provided by financing activities increased by $161.8 million compared to the same period in 2012. We issued $725.0 million of long-term debt, used the proceeds to repay commercial paper and to finance our capital program. We also received $12.0 million of equity and distributed $9.8 million to AILP. During the same period in 2012 we issued $83.7 million of short-term debt, received $50.0 million of equity, and distributed $8.9 million to AILP.

For the nine months ended September 30, 2013, cash flow provided by financing activities increased by $141.9 million compared to the same period in 2012. We issued $725.0 million of long-term debt to repay commercial paper and to finance our capital program. AILP contributed equity of $112.5 million and received distributions of $29.4 million from us. During the same period in 2012, we issued $300.0 million of long-term debt, used the proceeds to repay $85.0 million of subordinated debt and all of our commercial paper, received $149.8 million of equity, and distributed $26.6 million to AILP.

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

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Cash flows from operating activities				
Net income	**$ 38.4**	$ 27.3	**$ 98.9**	$ 76.0
Adjustments for:				
Depreciation and amortization	**31.0**	19.3	**90.1**	67.9
Third party contribution revenue	**(3.3)**	(2.9)	**(10.5)**	(7.9)
(Gain)/loss on disposal of assets	**(0.3)**	0.7	**(0.4)**	0.1
Finance costs	**21.1**	19.1	**62.8**	52.3
Change in other items	**(2.7)**	(1.7)	**5.1**	7.4
Interest paid	**(15.0)**	(7.8)	**(51.9)**	(42.0)
Funds generated from operations	**69.2**	54.0	**194.1**	153.8
Change in non-cash working capital items	**19.0**	(53.7)	**140.6**	(48.5)
Net cash provided by operating activities	**$ 88.2**	$ 0.3	**$ 334.7**	$ 105.3

Non-cash operating working capital for the quarter was $72.7 million higher than the comparative quarter. Non-cash operating working capital for the nine months ended September 30, 2013 was $189.1 million higher than the corresponding period in 2012. The changes for the quarter and the year-to-date are primarily due to a decrease in receivables compared to 2012, as well as a significant increase in accounts payable.

Earnings coverage

	Twelve months ended	
	September 30, 2013	September 30, 2012
Earnings-to-interest coverage on total debt [1,2]	**1.89X**[3]	2.23X[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 (including 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 September 30, 2013 was $113.0 million (September 30, 2012 - $78.9 million), including the pro-forma effect of interest payable on the Series 2012-2, 2013-1, 2013-2, and 2013-3 notes. Our earnings before interest and income tax for the twelve months ended September 30, 2013, for the purposes of calculating this ratio, were approximately $213.9 million (September 30, 2012 - $176.3 million).

Credit Ratings

	Nine months ended	
	September 30, 2013	September 30, 2012
DBRS - Commercial paper[1]	**R-1 (low)**	R-1 (low)
DBRS - Senior secured bonds and medium-term notes (secured)[1]	**A**	A
Standard & Poor's - Senior secured bonds and medium-term notes (secured)[2]	**A-**	A-

1. On March 19, 2013, DBRS confirmed the above ratings, both with stable trends.
2. On June 19, 2013, Standard & Poor's confirmed the above rating with a negative outlook.

Commitments

We have contractual commitments for the repayment of long-term debt in the amount of $2,200.0 million, as disclosed in note 10(c) – *Scheduled principal repayments*, in our Third Quarter Financial Statements.

Our contractual commitments for the purchase of property, plant and equipment as at September 30, 2013 are $1,610.5 million. Of these commitments, 89.6% are with ATP, a wholly-owned subsidiary of SNC.

We are committed to operating leases that have lease terms, which expire between 2013 and 2026. Of the total expected minimum lease payments, 91.7% relates to our head office leases. See note 15 – *Commitments*, in our Third Quarter Financial Statements.

Results of Operations

Revenue

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Operations	**$ 118.4**	$ 91.6	**$ 332.1**	$ 269.1
Other	**7.1**	6.0	**20.1**	17.7

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, and return on rate base.

Compared to the same periods in 2012, our revenue from operations increased by $26.8 million and $63.0 million for the three and nine months ended September 30, 2013, respectively, primarily due to additional investments in capital assets.

Other Revenue

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

Compared to the same periods in 2012, cost recovery revenue from third parties increased by $1.1 million and $2.4 million for the three and nine months ended September 30, 2013, respectively. Revenue associated with costs recovered from third parties has no net income impact. The variances are primarily due to the volume of transmission construction services provided to third parties during these periods, which fluctuates in response to the need for such services and is not predictable.

Comprehensive income

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Comprehensive Income	**$ 38.4**	$ 27.3	**$ 98.6**	$ 75.7

Our comprehensive income for the three and nine months ended September 30, 2013 increased by $11.1 million and $22.9 million, respectively, compared to the same periods in 2012, primarily due to increased investment in electricity transmission infrastructure.

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

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
EBITDA	**$ 90.7**	$ 66.1	**$ 252.2**	$ 196.8

Our EBITDA for the three and nine months ended September 30, 2013 increased by $24.6 million and $55.4 million, respectively, compared to the same periods in 2012. The reasons for these increases are similar to those noted above for the changes in our comprehensive income for the same period. Please refer to "Non-GAAP Financial Measures" for more information about how we calculate EBITDA.

Operating Expenses

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Operating expenses	**$ 22.6**	$ 20.3	**$ 64.5**	$ 59.6

Our operating expenses include salaries and wages, contracted manpower and, general and administration costs. Our operating expenses for the three and nine months ended September 30, 2013 increased by $2.3 million and $4.9 million, respectively, compared to the same periods in 2012, due to growth in our transmission system.

Property Taxes, Salvage, and Other

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Property taxes, salvage and other	**$ 12.8**	$ 10.8	**$ 36.4**	$ 30.8

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 increased by $2.0 million and $5.6 million, respectively, for the three and nine months ended September 30, 2013 compared to the same periods in 2012. The increase is due to the timing of salvage costs incurred and to increases in property tax expense as a result of assets put into service.

Depreciation and Amortization

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Depreciation and amortization	**$ 30.9**	$ 19.4	**$ 90.1**	$ 67.9

We calculate depreciation and amortization on a straight-line basis using various rates which are approved by the AUC. Depreciation for the three and nine months ended September 30, 2013 increased by $11.5 million and $22.2 million, respectively, compared to the same periods in 2012, primarily as a result of an increase in capital projects that have been completed and added to our regulatory rate base.

Finance Costs

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
(in millions of dollars)				
Finance costs	**$ 21.1**	$ 19.1	**$ 62.8**	$ 52.3

Finance costs include interest costs and amortization of deferred financing fees less capitalized borrowing costs. Our interest expense for the three and nine months ended September 30, 2013 increased by $2.0 million and $10.5 million, respectively, compared to the same periods in 2012, primarily due to interest costs associated with having nine full months of interest on the $575.0 million of long-term debt that was issued in the second half of 2012.

Selected Financial Information Derived from our Financial Statements

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Net income per unit ($/unit)	**0.116**	0.082	**0.298**	0.229
Funds generated from operations ($ millions)	**69.2**	54.0	**194.1**	153.8
Distributions per unit ($/unit)	**0.030**	0.027	**0.089**	0.080
Total assets ($ millions)	**5,327.0**	3,773.2	**5,327.0**	3,773.2
Short and long-term debt ($ millions) 1	**2,267.2**	1,610.5	**2,267.2**	1,610.5

1. The balance is shown before deducting the deferred financing fees, which have been offset against this amount in the Financial Statements, in accordance with IFRS.

Summary of Quarterly Financial Information

Quarter ended	Revenue ($ millions)	Net income ($ millions)	Units outstanding (millions)	Net income per unit ($/unit)
September 30, 2013	**125.5**	**38.4**	**331.9**	**0.116**
June 30, 2013	117.5	33.4	331.9	0.100
March 31, 2013	109.2	27.2	331.9	0.082
December 31, 2012	119.8	32.2	331.9	0.097
September 30, 2012	97.6	27.3	331.9	0.082
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

Risk Management

Our transmission business is subject to 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 MD&A for the year ended December 31, 2012, 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, 2012. Risk factors and uncertainties have not materially changed during three and nine months ended September 30, 2013.

- Regulated operations
- Project execution
- Regulatory financial
- Reliability
- 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 construction related services costs of $412.7 million and $1,156.5 million with ATP during the three and nine months ended September 30, 2013, compared to $191.9 million and $509.6 million, respectively, for the same periods in 2012. On September 30, 2013, our accounts payable and accrued liabilities included $555.6 million owing to ATP, compared to $167.4 million at December 31, 2012.

Please see note 12 – *Related party transactions* in the Third Quarter Financial Statements for more details.

Legal Proceedings

We have not commenced and are not currently contemplating any legal proceedings that would have a material impact on our financial results. We are not aware of any material legal proceedings that have been commenced or are being contemplated against us.

The Alberta Court of Appeal has dismissed an application for leave to appeal the AUC Decision on the WATL Project, which was filed on January 4, 2013.

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 15 – *Commitments* in the Third Quarter 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 reporting 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 Third Quarter Financial Statements.

Contingencies

From time to time we are subject to legal proceedings, assessments and claims in the ordinary course of business. On June 5, 2009, we were served with an action alleging that we and the Plaintiff had concluded a binding agreement for the sale to the Plaintiff of certain lands. At this time, this matter is not reasonably expected to result in a material adverse effect on our financial position or financial performance.

Accounting Changes

Please see note 3(d) in the Third Quarter Financial Statements for more details regarding our assessment of the impact on our financial statements of adopting the following new or revised standards.

Standards effective beginning on or after January 1, 2013

We adopted the following standards:

- IFRS 10 – *Consolidated financial statements*
- IFRS 11 – *Joint arrangements*
- IFRS 12 – *Disclosure of interests in other entities*
- IFRS 13 – *Fair value measurement*

Adoption of the above standards had no material impact on our financial statements or our disclosures.

Amendments effective beginning on or after January 1, 2013

We implemented the following amendments:

- Amendments to IAS 1 – *Presentation of financial statements*
- Amendments to IAS 19 – *Employee Benefits*
- Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and liabilities*
- Annual Improvements Project for 2009-2011

Implementation of the above amendments had no material impact on our financial statements or our disclosures.

Future Accounting Changes That May Impact Our Financial Statements

Effective after 2013:

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

- IFRS 9 - *Financial instruments: Classification and measurement*. We are evaluating the potential impact on our financial statements. Currently, we do not expect that adopting this standard will have a material impact on our financial statements.
- Amendments to IAS 32 - *Financial instruments: Presentation*. We do not expect that adopting these amendments will have a material impact on our financial statements.

Update on the International Accounting Standards Board (IASB) work plan and rate-regulated project

The IASB issued an Exposure Draft regarding Regulatory Deferral Accounts on April 25, 2013, which proposes to provide temporary guidance on accounting for rate-regulated activities for first-time adopters of IFRS. The objective of the proposed interim standard is to enhance the comparability of financial reporting by entities with rate-regulated activities until guidance is developed through research on accounting for assets and liabilities arising from rate regulated activities. The Exposure Draft was open for comment until September 4, 2013, and the IASB received about 100 replies, with positive responses, i.e. those supporting recognition of rate-regulated assets and liabilities, outnumbering negative responses. We expect the IASB to issue the interim standard during the first quarter of 2014.

On March 28, 2013, the IASB issued a Request for Information to identify a range of rate-regulatory schemes to help determine the scope of the IASB's research project for rate-regulated activities. The IASB received a significant number of responses to this request. The Request for Information asked specific questions about the objectives of rate-regulation and how those objectives are reflected in the rate-setting mechanisms employed by rate regulators. The fact patterns identified through this Request for Information and other research will be used to develop a Discussion Paper that will analyse the common features of rate regulation. The aim of the Discussion Paper is to identify what information about the consequences of rate-regulation would be most useful for users of IFRS financial statements and whether the IASB should develop specific guidance for accounting for those consequences.

The IASB established a consultative group for this research project. The group held its first meeting in July to discuss issues, alternative approaches and priorities. The group has scheduled a follow up meeting in November to provide additional input into the issues that have been identified. Once the IASB has issued a Discussion Paper and an Exposure Draft, the group will help the IASB to understand and analyze the comments received.

Forward Looking Information

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 income taxes, 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 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 that are consistent with past regulatory practices and decisions and are obtained in a timely manner;
- approved rates-of-return and deemed capital structures for our transmission business that 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 us 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) upon 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 us from third-party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the risks associated with being subject to extensive regulation including risks associated with AUC action or inaction;
- the risk that the AUC does not provide specific relief to support us in sustaining our credit metrics over a growth period characterized by large, multi-year transmission facilities 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 the limitations on our 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 and administrative costs above those included in our approved revenue requirement.

We caution prospective investors that the above list of risk factors is not exhaustive. 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 disclosed under “Risk Factors and Uncertainties” in our MD&As and under “Risk Factors” 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 conditions and 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 risks, and the impact of accounting standards issued by standard setters.

All forward-looking information is given as of October 25, 2013. 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.