

Financial Statements

AltaLink, L.P.

January 31, 2004

(Unaudited)

ALTALINK, L.P.**BALANCE SHEETS
(Unaudited)**

(in thousands of dollars)

	January 31, 2004	April 30, 2003
ASSETS [note 4]		
Current		
Cash and cash equivalents	\$ 958	\$ -
Accounts receivable [note 6]	22,110	16,779
Materials and supplies	775	803
Prepaid expenses and deposits	1,349	1,087
Regulatory asset	249	-
	25,441	18,669
Capital assets	827,608	804,552
Deferred financing fees	11,081	4,907
Accrued benefit pension asset	2,726	3,247
Materials and supplies	6,980	7,232
Goodwill [note 3]	201,833	201,833
	\$ 1,075,669	\$ 1,040,440
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities [note 6]	\$ 15,416	\$ 31,419
Other liabilities	269	191
Regulatory liabilities	-	6,790
Short term debt [note 4]	14,427	421,752
	30,112	460,152
Accrued employment benefits liabilities	909	765
Other liabilities [note 5]	1,153	1,076
Regulatory liabilities [note 2]	20,258	10,013
Provision for future removal and site restoration	122,163	130,729
Long term debt [note 4]	554,116	100,234
	728,711	702,969
Contingencies [notes 3& 7]		
Partners' Equity		
Partners' capital	338,537	338,537
Retained earnings (deficit)	8,421	(1,066)
	346,958	337,471
	\$ 1,075,669	\$ 1,040,440

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
(Unaudited)

(in thousands of dollars)

	Three months ended January 31, 2004	Three months ended January 31, 2003	Nine months ended January 31, 2004	Nine months ended January 31, 2003
REVENUE				
Operating and miscellaneous revenue	\$ 39,185	\$ 35,624	\$ 112,411	\$ 110,834
Interest	-	38	-	128
Allowance for equity funds used during construction	-	258	(116)	621
	39,185	35,920	112,295	111,583
EXPENSES				
Operating	11,725	10,701	39,545	30,408
Depreciation	11,719	12,471	29,339	36,516
	23,444	23,172	68,884	66,924
	15,741	12,748	43,411	44,659
Interest and amortization of deferred financing fees on short term debt	(1,081)	(6,007)	(6,163)	(21,721)
Interest and amortization of deferred financing fees on long term debt	(7,306)	(1,724)	(18,219)	(1,724)
Allowance for debt funds used during construction	-	350	(126)	841
	7,354	5,367	18,903	22,055
Gain on the sale of assets	11	-	134	-
Net income for the period	7,365	5,367	19,037	22,055
Retained earnings (deficit), beginning of period	4,306	5,187	(1,066)	(2,101)
Distributions <i>[note 8]</i>	(3,250)	(6,500)	(9,550)	(15,900)
Retained earnings, end of period	\$ 8,421	\$ 4,054	\$ 8,421	\$ 4,054

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CHANGES IN PARTNERS' EQUITY
(Unaudited)

(in thousands)

	Limited Partner		General Partner		Total
	Units				
Balance at April 30, 2002	342,905	\$ 336,402	\$	34	\$ 336,436
Net income for the period	-	22,053		2	22,055
Distributions <i>[note 8]</i>	-	(15,898)		(2)	(15,900)
Balance at January 31, 2003	342,905	342,557		34	342,591
Net income for the period	-	8,324		1	8,325
Distributions <i>[note 8]</i>	-	(13,444)		(1)	(13,445)
Balance at April 30, 2003	342,905	337,437		34	337,471
Net income for the period	-	19,035		2	19,037
Distributions <i>[note 8]</i>	-	(9,549)		(1)	(9,550)
Balance at January 31, 2004	342,905	\$ 346,923	\$	35	\$ 346,958

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousand of dollars)

	Three months ended January 31, 2004	Three months ended January 31, 2003	Nine months ended January 31, 2004	Nine months ended January 31, 2003
OPERATING ACTIVITIES				
Net income for the period	\$ 7,365	\$ 5,367	\$ 19,037	\$ 22,055
Items not involving cash				
Depreciation and amortization of deferred financing fees	12,197	12,959	29,894	37,951
Allowance for funds used during construction	-	(608)	242	(1,462)
Gain on the sale of assets	(11)	-	(134)	-
Change in other non-cash items <i>[note 9]</i>	(193)	(1,586)	10,987	(2,078)
Funds generated in operations	19,358	16,132	60,026	56,466
Change in non-cash working capital items	(2,581)	9,506	(8,210)	12,604
	16,777	25,638	51,816	69,070
INVESTING ACTIVITIES				
Acquisition of transmission assets	583	(14)	571	(674)
Additions to capital assets	(26,753)	(19,084)	(76,617)	(51,629)
Proceeds from the sale of assets	11	-	136	-
	(26,159)	(19,098)	(75,910)	(52,303)
FINANCING ACTIVITIES				
Decrease in lease obligation	(28)	(33)	(81)	(71)
Increase in debt	142,762	-	463,052	-
Repayment of debt	(125,000)	-	(421,500)	-
Distributions paid	(6,450)	(6,150)	(9,550)	(14,400)
Additions to deferred financing fees	(1,060)	(368)	(6,869)	(1,368)
	10,224	(6,551)	25,052	(15,839)
Net increase (decrease) in cash and cash equivalents	842	(11)	958	928
Cash and cash equivalents, beginning of period	116	13,183	-	12,244
Cash and cash equivalents, end of period	\$ 958	\$ 13,172	\$ 958	\$ 13,172
Cash interest paid during the period	\$ 12,921	\$ 7,591	\$ 18,669	\$ 15,001

See accompanying notes

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

Nine months ended January 31, 2004
Unaudited
(in thousands of dollars)

1. BASIS OF ACCOUNTING

The interim financial statements of AltaLink, L.P. (the "Partnership") have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended April 30, 2003, except for regulatory future income taxes as discussed in Note 2. These interim financial statements do not include all of the disclosures required in annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Partnership's financial statements for the year ended April 30, 2003. Operating results for the nine months ended January 31, 2004 are not necessarily indicative of the results that may be expected for the full year ending April 30, 2004, as discussed further within Note 7. The information for the year ended April 30, 2003 has been derived from the Partnership's audited financial statements for the year then ended.

2. CHANGE IN ACCOUNTING POLICY

Regulation:

The Partnership applies the liability method to account for federal income taxes for regulatory rate making purposes, and prior to October 1, 2003 recognized the amount of future income taxes which was allowed by the regulator to be collected in rates, as a regulatory liability. The Partnership has early adopted in the period ended October 31, 2003, the new accounting standard "Generally Accepted Accounting Principles" issued by the Accounting Standards Board. The standard defines the sources of Canadian generally accepted accounting principles and the priority of each source. The Partnership has chosen to apply this standard to the recognition of regulatory assets and liabilities and in doing so is now following the pronouncement issued by the Financial Accounting Standards Board in the United States, FAS 71 "Accounting for the Effects of Certain Types of Regulation" as there is no overall Canadian primary source of generally accepted accounting principles dealing with the recognition and measurement of the Partnership's assets and liabilities arising from rate regulation. In applying this standard the Partnership no longer recognizes the future income taxes as a regulatory liability within its financial statements, for future income taxes collected in rates. In accordance with the new standard this change in accounting policy was applied prospectively to transactions and to outstanding balances, effective from the beginning of its current fiscal year. The effect of the new standard was to decrease regulatory liabilities by \$1,633, and increase the previously reported first quarter and year to date revenue and net income by \$1,633.

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

Nine months ended January 31, 2004
Unaudited
(in thousands of dollars)

3. BUSINESS ACQUISITION

On April 29, 2002 the Partnership acquired substantially all of the electrical transmission assets and operations of TransAlta Energy Corporation located in Alberta for total cash consideration of \$828,822 including acquisition costs of \$9,684. This transaction was accounted for using the purchase method of accounting whereby assets acquired and liabilities assumed are recorded at fair values. The operating results were included in the financial statements from the closing date of purchase. The fair values of the net assets acquired are as follows:

	January 31, 2004
Assets acquired:	
Current assets	\$ 14,607
Capital assets	757,584
Accrued benefit pension asset	5,676
Goodwill	201,833
Current liabilities	(9,164)
Accrued employment benefits liabilities	(700)
Long term regulatory liabilities	(14,373)
Provision for future removal and site restoration	(126,641)
Fair value of net assets acquired	\$ 828,822

Acquisition costs and the resulting goodwill were increased by \$1,492 as at January 31, 2004 to reflect a regulatory decision which increased the amount owing to TransAlta Energy Corporation relating to the tariff revenue in the period from January 1, 2002 to April 29, 2002 as agreed upon in the purchase and sale agreement. Acquisition costs and the resulting long term regulatory liabilities were increased by \$600 as at January 31, 2004 to reflect a regulatory decision which decreased the closing balance of a regulating liability to be transferred to Altalink at April 29, 2002. There are other contingent items which could affect the amount and allocation of the purchase price, but their effect cannot be reasonably estimated or determined at this time. Any contingent consideration will be recognized as an additional business acquisition cost when resolved or when consideration becomes payable.

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NOTES TO FINANCIAL STATEMENTS

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4. DEBT

	Effective Interest rate	Maturing Fiscal	January 31, 2004	April 30, 2003
Series 1 Bridge	—	2004	\$ —	\$ 296,568
Series 2 Bridge	6.78%	2004	—	125,046
Series 3	8.04%	2013	86,712	85,037
Series 03-1	5.07%	2009	100,706	—
Series 03-2	5.76%	2014	329,094	—
Capital Lease Obligations	8.20%	2004	134	207
Credit Facility	4.68%	2006	51,897	15,128
Total debt			568,543	521,986
Less: short term debt			14,427	421,752
Total long term debt			\$ 554,116	\$ 100,234

A. Credit Facility

On May 10, 2002 the Partnership entered into a \$185,000 unsecured credit agreement. In May 2003 the maturity date was extended to May 7, 2006 and may be extended for successive 364 day periods with the consent of the facility provider. The maturity date extends as the revolving period of the bank facility is renewed each year, subject to the consent of the facility provider. If the facility provider does not agree to an extension, no additional borrowings may be made under the credit agreement after May 7, 2004 and all amounts owing there under must be repaid by May 7, 2006. The facility may be used only for capital expenditures and general corporate purposes and cannot be drawn down for the purpose of refinancing existing indebtedness. The facility provides funding by way of prime rate loans, U.S. base rate loans, bankers' acceptances, LIBOR loans and letters of credit and prohibits the Partnership from granting security on its assets to other parties unless the same security is granted to the facility provider. As at January 31, 2004 there was \$51,897 of Bankers' Acceptances (April 30, 2003 - \$12,716 Bankers' Acceptances and \$2,412 bank overdraft) outstanding on the credit facility. Of the amounts outstanding as at January 31, 2004 \$42,886 (April 30, 2003 - \$15,128) has been classified as long term debt because the Partnership has both the ability to continue rolling the Banker's Acceptances maturity dates under the revolving bank credit facility which does not mature until May 7, 2006, and the intention to extend the amounts outstanding for a period greater than one year.

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NOTES TO FINANCIAL STATEMENTS

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(in thousands of dollars)

B. Letters of Credit

As at January 31, 2004 and April 30, 2003, the Partnership had letters of credit outstanding totaling \$69 and \$15,179 respectively.

C. Debt Facilities

In April 2002, the Partnership issued an aggregate of \$506,500 of unsecured bonds. The \$296,500 Series 1 Floating Rate Senior Bridge Bond, \$125,000 Series 2 Senior Bridge Bond and \$85,000 Series 3 Subordinated Bond were issued pursuant to the master trust indenture, which establishes common security and covenants. As of April 28, 2003, the \$296,500 Series 1 Floating Rate Senior Bridge Bond and the \$125,000 Series 2 Bridge Bond were extended to mature on December 31, 2003. As of November 1, 2002 the \$85,000 Series 3 Subordinated Bond was extended to mature on October 1, 2012 and the interest rate was adjusted from 9.80% to 8.0%. On June 5, 2003 the Partnership issued Series 03-1 Senior Bonds of \$100,000 with a coupon rate of 4.45% which will mature on June 5, 2008 and Series 03-2 Senior Bonds of \$200,000 with a coupon rate of 5.43% which will mature on June 5, 2013. The bonds proceeds were used to repay the \$296,500 Series 1 Floating Rate Senior Bridge Bond. On December 5, 2003 the Partnership issued Series 03-2 Senior Bonds of \$125,000 with a coupon rate of 5.43% which will mature on June 5, 2013. The bonds proceeds were used to repay the \$125,000 Series 2 Senior Bridge Bond.

Series 1

\$296,500 Series 1 Floating Rate Senior Bridge Bond was redeemed June 5, 2003. The interest rate was a floating rate set as the 90-day Banker's Acceptance Rate ("BA") (set at the beginning of each interest payment period) plus 0.85%. The Series 1 Floating Rate Senior Bridge Bond was payable to Ontario Teachers' Pension Plan Board, the parent of OTPPB TEP Inc., a 25% owner of AltaLink Investments, L.P. which is the limited partner of the Partnership.

Series 2

\$125,000 Series 2 Senior Bridge Bond was redeemed December 5, 2003. The interest rate was a fixed rate of 6.7%. The Series 2 Senior Bridge Bond was payable to Ontario Teachers' Pension Plan Board, the parent of OTPPB TEP Inc., a 25% owner of AltaLink Investments, L.P. which is the limited partner of the Partnership.

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Series 3

\$85,000 Series 3 Subordinated Bond, due October 1, 2012. The interest rate is a fixed rate of 8%. Interest on the Series 3 Subordinated Bond is payable quarterly on August 1, November 1, February 1, and May 1. The Series 3 Subordinated Bond may not be redeemed while any of the Series 2 Senior Bridge Bonds are still outstanding unless the Series 3 Subordinated Bond is redeemed for the purpose of refinancing with other subordinated debt. The Series 3 Subordinated Bond is unsecured. The payment of the principal and interest of the Series 3 Subordinated Bond are subordinated to all senior bonds. The Series 3 Subordinated Bond is payable to AltaLink Investments, L.P. which is the limited partner of the Partnership.

Series 03-1 and Series 03-2

\$100,000 Series 03-1 Senior Bonds, due June 5, 2008. The coupon is fixed at a rate of 4.45%. \$325,000 Series 03-2 Senior Bonds, due June 5, 2013. The coupon is fixed at a rate of 5.43%. Interest on the Series 03-1 and Series 03-2 Senior Bonds is payable in arrears semi-annually on June 5 and December 5. The Series 03-1 and Series 03-2 Senior Bonds rank equally with all present and future senior, secured indebtedness that are issued by the Partnership. The Series 03-1 Senior Bonds cannot be redeemed prior to June 5, 2008. The Series 03-2 Senior Bonds may be redeemed in whole or in part at the option of the Partnership at any time at a redemption price of the principal, any accrued and outstanding interest, and in some circumstances a premium.

Upon the signing of the amended and restated master trust indenture on June 5, 2003 between the Partnership, AltaLink Management Ltd., the Partnership's General Partner, and The Trust Company of Bank of Montreal, as trustee, the Partnership secured the obligations of the Series 2 Senior Bridge Bonds, the Series 03-1 and Series 03-2 Senior Bonds, and the credit facility with a first floating charge security interest on its current and future assets.

D. Net Interest Expense

Interest expense on debt for the three and nine months ended January 31, 2004 was \$7,909 and \$23,827 respectively (three and nine months ended January 31, 2003 was \$7,243 and \$22,010 respectively). During the three months and nine months ended January 31, 2004 \$478 and \$555 respectively (three and nine months ended January 31, 2003 was \$488 and \$1,435 respectively) of deferred financing fees had been amortized and included in interest expense. Interest expense for the three and nine months ended January 31, 2004 was adjusted by the allowance for debt funds used during construction which is included in capital assets of \$nil and (\$126) respectively (three and nine months ended January 31, 2003 was \$350 and \$841). The decision provided by the Alberta Energy and Utilities Board ("AEUB") on the general rate application filed by the Partnership in September 2002 resulted in negative adjustments to the nine months ended January

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NOTES TO FINANCIAL STATEMENTS

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31, 2004 amortization of deferred financing fees and the allowance for debt funds used during construction.

E. Principal Repayments

Maturing	
2004	\$ 9,134
2005	218
2006	43,014
2007	128
2008 and thereafter	510,836
	\$ 563,330

5. OTHER LIABILITIES

Other long term liabilities consist of the following:

	January 31, 2004	April 30, 2003
Deferred lease inducement	\$ 876	\$ 965
Long term incentive liability	277	111
	\$ 1,153	\$ 1,076

6. RELATED PARTY TRANSACTIONS

Amounts due from (to) related parties included in accounts receivable and accounts payable are:

	January 31, 2004	April 30, 2003
AltaLink Investment Management Ltd.	\$ 707	\$ —
AltaLink Management Ltd.	618	—
AltaLink Investments, L.P.	—	24
SNC Lavalin Inc.	(1,444)	(13,858)

In addition there is \$86,712 (April 30, 2003 - \$85,037) owing to AltaLink Investments, L.P. as at January 31, 2004 and there is \$nil (April 30, 2002 - \$421,614) owing to Ontario Teachers' Pension Plan Board for debt outstanding as at January 31, 2004 [note 4].

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

Nine months ended January 31, 2004
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7. MEASUREMENT UNCERTAINTY

The Partnership's tariff revenue received from the Alberta Electric System Operator is currently being calculated on an interim tariff set by the AEUB. The Partnership filed a general tariff application with the AEUB as of September 30, 2002 to finalize rates for the fiscal years ending April 30, 2003 and April 30, 2004. This tariff application is based on traditional cost of service methodology. On August 3, 2003 the Partnership received a decision from the AEUB on the general tariff application filed on September 30, 2002. In this decision the Partnership was directed to refile its tariff application reflecting the effects of the August 3, 2003 decision. The refiling was completed February 6, 2004, but the AEUB has yet to finalize the tariff for the two fiscal years ended April 30, 2003 and April 30, 2004. In its August 3, 2003 decision the AEUB conditionally approved certain components of the revenue requirement and requested further information from the Partnership. The Partnership has filed an application with the Alberta Court of Appeal seeking leave to appeal certain elements of the AEUB decision. In addition the Partnership has filed a review and variance application with the AEUB seeking review and variation of certain elements of the August 3, 2003 decision. It is not possible to precisely determine the final approved tariff until the results of the appeal, the review and variance application, and AEUB review of the tariff refiling is known. The estimated effects of the August 3, 2003 AEUB decision and February 6, 2004 refiling, as interpreted by management, have been reflected in the financial statements for the nine months ended January 31, 2004. This estimate differs in comparison to the interim refundable tariff that is currently being received. Further material adjustments may be required once the AEUB finalizes the tariff. The difference between the interim tariff received and the amount estimated is recorded as a regulatory liability or asset.

The AEUB's final tariff decision will also be reflected in the Partnership's continuing assessment of the carrying value of goodwill. The impact of this is not currently determinable.

8. DISTRIBUTIONS TO PARTNERS

During the three months and nine months ended January 31, 2004, the Partnership declared distributions of \$3,250 and \$9,550 respectively. During the three and nine months ended January 31, 2003, the Partnership declared distributions of \$6,500 and \$15,900 respectively. During the year ended April 30, 2003, the Partnership made distributions of \$29,345.

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

Nine months ended January 31, 2004
Unaudited
(in thousands of dollars)

9. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months ended January 31, 2004	Three Months ended January 31, 2003	Nine Months ended January 31, 2004	Nine Months ended January 31, 2003
Change in other non-cash items related to operations				
Decrease in accrued benefit pension asset	\$ 209	\$ 257	\$ 521	\$ 772
Increase in accrued employment benefits liabilities	27	17	143	49
Increase in other liabilities	26	1,086	78	1,086
Increase (decrease) in regulatory liabilities	(455)	(2,946)	10,245	(3,985)
	\$ (193)	\$ (1,586)	\$ 10,987	\$ (2,078)

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.