Financial Statements

AltaLink, L.P.

October 31, 2003

(Unaudited)

ALTALINK, L.P.

BALANCE SHEETS

(in thousands of dollars)
As at

	October 31, 2003 (Unaudited)	April 30, 2003 (Audited)
ASSETS ***[note 4]***		
Current		
Cash and cash equivalents	**$ 116**	$ —
Accounts receivable	**22,564**	16,779
Materials and supplies	**775**	803
Prepaid expenses and deposits	**3,361**	1,087
Regulatory asset	**387**	—
	27,203	18,669
Capital assets	**818,701**	804,552
Deferred financing fees	**10,500**	4,907
Accrued benefit pension asset	**2,934**	3,247
Materials and supplies	**6,975**	7,232
Goodwill ***[note 3]***	**200,341**	201,833
	$ 1,066,654	$ 1,040,440
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 20,709**	$ 31,419
Distributions payable	**3,200**	—
Other liabilities	**278**	191
Regulatory liabilities *[note 6]*	**608**	6,790
Short term debt *[note 4]*	**135,187**	421,752
	159,982	460,152
Accrued employment benefits liabilities	**882**	765
Other liabilities ***[note 5]***	**1,128**	1,076
Regulatory liabilities ***[notes 2 & 6]***	**20,711**	10,013
Provision for future removal and site restoration	**120,642**	130,729
Long term debt ***[note 4]***	**420,466**	100,234
	723,811	702,969
Contingencies ***[note 3]***		
Partners' Equity		
Partners' capital	**338,537**	338,537
Retained earnings (deficit)	**4,306**	(1,066)
	342,843	337,471
	$ 1,066,654	$ 1,040,440

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

(in thousands of dollars)
For the,

	Three months ended October 31, 2003 (Unaudited)	Three months ended October 31, 2002 (Unaudited)	**Six months ended October 31, 2003 (Unaudited)**	Six months ended October 31, 2002 (Unaudited)
REVENUE				
Operating and miscellaneous revenue	**$ 39,842**	$ 37,347	**$ 73,226**	$ 75,210
Interest	—	47	—	90
Allowance for equity funds used during construction	**38**	189	**(116)**	363
	39,880	37,583	**73,110**	75,663
EXPENSES				
Operating	**12,813**	9,529	**27,820**	19,707
Depreciation	**11,570**	11,964	**17,620**	24,045
	24,383	21,493	**45,440**	43,752
	15,497	16,090	**27,670**	31,911
Interest and amortization of deferred financing fees	**(8,469)**	(8,004)	**(15,995)**	(15,714)
Allowance for debt funds used during construction	**41**	256	**(126)**	491
	7,069	8,342	**11,549**	16,688
Gain on the sale of assets	**63**	—	**123**	—
Net income for the period	**7,132**	8,342	**11,672**	16,688
Retained earnings (deficit), beginning of period	**374**	2,995	**(1,066)**	(2,101)
Distributions *[note 7]*	**(3,200)**	(6,150)	**(6,300)**	(9,400)
Retained earnings (deficit), end of period	**$ 4,306**	$ 5,187	**$ 4,306**	$ 5,187

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

(in thousands)

	Limited Partner		General Partner	Total
	Units	**$**	**$**	**$**
Balance at April 30, 2002 (Audited)	**342,905**	**$ 336,402**	**$ 34**	**$ 336,436**
Net income for the period	—	16,687	1	16,688
Distributions *[note 7]*	—	(9,399)	(1)	(9,400)
Balance at October 31, 2002 (Unaudited)	**342,905**	**343,690**	**34**	**343,724**
Net income for the period	—	13,690	2	13,692
Distributions *[note 7]*	—	(19,943)	(2)	(19,945)
Balance at April 30, 2003 (Audited)	**342,905**	**337,437**	**34**	**337,471**
Net income for the period	—	**11,671**	**1**	**11,672**
Distributions *[note 7]*	—	**(6,299)**	**(1)**	**(6,300)**
Balance at October 31, 2003 (Unaudited)	**342,905**	**$ 342,809**	**$ 34**	**$ 342,843**

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CASH FLOWS

(in thousand of dollars)
For the,

	Three months ended October 31, 2003 (Unaudited)	Three months ended October 31, 2002 (Unaudited)	Six months ended October 31, 2003 (Unaudited)	Six months ended October 31, 2002 (Unaudited)
OPERATING ACTIVITIES				
Net income for the period	**$ 7,132**	$ 8,342	**$ 11,672**	$ 16,688
Items not involving cash				
Depreciation and amortization of deferred financing fees	**11,966**	12,449	**17,697**	24,992
Allowance for funds used during construction	**(79)**	(445)	**242**	(854)
Gain on the sale of assets	**(63)**	—	**(123)**	—
Change in other non-cash items *[note 8]*	**747**	(106)	**11,180**	(492)
Funds generated in operations	**19,703**	20,240	**40,668**	40,334
Change in non-cash working capital items	**2,575**	7,572	**(5,629)**	3,098
	22,278	27,812	**35,039**	43,432
INVESTING ACTIVITIES				
Acquisition of transmission assets	**(2)**	(660)	**(12)**	(660)
Additions to capital assets	**(21,329)**	(18,249)	**(49,864)**	(32,545)
Proceeds from the sale of assets	**63**	—	**125**	—
	(21,268)	(18,909)	**(49,751)**	(33,205)
FINANCING ACTIVITIES				
Decrease in lease obligation	**(26)**	(19)	**(53)**	(38)
Increase in debt	**3,022**	—	**320,290**	—
Repayment of debt	—	—	**(296,500)**	—
Distributions paid	**(3,100)**	(8,250)	**(3,100)**	(8,250)
Additions to deferred financing fees	**(790)**	(375)	**(5,809)**	(1,000)
	(894)	(8,644)	**14,828**	(9,288)
Net increase in cash and cash equivalents	**116**	259	**116**	939
Cash and cash equivalents, beginning of period	—	12,924	—	12,244
Cash and cash equivalents, end of period	**$ 116**	$ 13,183	**$ 116**	$ 13,183
Cash interest paid during the period	**$ 4,186**	$ 7,408	**$ 5,748**	$ 7,410

See accompanying notes

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2003
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 below. 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 six months ended October 31, 2003 are not necessarily indicative of the results that may be expected for the full year ending April 30, 2004.

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 chosen to early adopt 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 standard indicates that an entity may choose to not apply the standard when recognizing and measuring assets or liabilities arising from rate regulation. However 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 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 will no longer recognize 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 is being 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 report first quarter and year to date revenue and net income by $1,633.

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 $826,730 including acquisition costs of $8,193. 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:

(in thousands of dollars)

	October 31, 2003
Assets acquired:	
Current assets	**$ 14,607**
Capital assets	**757,584**
Accrued benefit pension asset	**5,676**
Goodwill	**200,341**
Current liabilities	**(9,164)**
Accrued employment benefits liabilities	**(700)**
Long term regulatory liabilities	**(14,973)**
Provision for future removal and site restoration	**(126,641)**
Fair value of net assets acquired	**$ 826,730**

Acquisition costs and the resulting goodwill were decreased by $1,492 as at July 31, 2003 to reflect a regulatory decision which reduced 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. Additional contingent items of approximately $2,369 have not been included in the purchase price as the outcome cannot be reasonably determined. These items will be recognized as part of the purchase price at the time any consideration becomes payable 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.

NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2003
Unaudited
(in thousands of dollars)

4. DEBT

	Effective Interest rate	Maturing Fiscal	October 31, 2003	April 30, 2003
Series 1 Bridge	—	2004	**$ —**	$ 296,568
Series 2 Bridge	6.8%	2004	**127,111**	125,046
Series 3	8.1%	2013	**86,714**	85,037
Series 03-1	4.51%	2009	**101,817**	—
Series 03-2	5.50%	2014	**204,433**	—
Capital Lease Obligations	8.2%	2005	**160**	207
Bankers' Acceptances	3.4%	2004	**35,418**	12,716
Bank Overdraft	—	2004	**—**	2,412
Total debt			**555,653**	521,986
Less: current portion			**135,187**	421,752
Total long term debt			**$ 420,466**	$ 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 October 31, 2003 there was $35,418 (April 30, 2003 - $15,128) outstanding on the credit facility. Of the amounts outstanding as at October 31, 2003 $35,410 (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.

NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2003
Unaudited
(in thousands of dollars)

B. Letters of Credit

As at October 31, 2003 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 Series 1 Floating Rate Senior Bridge Bond, Series 2 Senior Bridge Bond and Series 3 Subordinated Bond were issued pursuant to the master trust indenture, which establishes common security and covenants. As of April 28, 2003, the Series 1 Floating Rate Senior Bridge Bond and the Series 2 Bridge Bond were extended to mature on December 31, 2003. As of November 1, 2002 the 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.

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, due December 31, 2003. The interest rate is a fixed rate of 6.7%, and is payable in arrears on August 1, 2003, November 1, 2003, and December 31, 2003. The Series 2 Senior Bridge Bonds can be redeemed in whole or in part at any time at a redemption price of principal plus accrued and outstanding interest. The Series 2 Senior Bridge Bond is 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 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%. $200,000 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 six months ended October 31, 2003 was $8,073 and $15,918 respectively (three and six months ended October 31, 2002 was $7,519 and $14,767 respectively). During the three months and six months ended October 31, 2003 $396 and $77 respectively (three and six months ended October 31, 2002 was $485 and $947 respectively) of deferred financing fees had been amortized and included in interest expense. Interest expense for the three and six months ended October 31, 2003 was adjusted by the allowance for debt funds used during construction which is included in capital assets of $41 and ($126) respectively (three and six months ended October 31, 2002 was $256 and $491). The decision provided by the Alberta Energy and Utilities Board ("AEUB") on the general rate application filed by the

(in thousands of dollars)

Partnership in September 2002 resulted in negative adjustments to the six months ended October 31, 2003 amortization of deferred financing fees and the allowance for debt funds used during construction.

E. Principal Repayments

Maturing	
2004	**$ 125,051**
2005	**102**
2006	**35,416**
2007	**—**
2008 and thereafter	**385,000**
	$ 545,569

5. OTHER LIABILITIES

Other long term liabilities consist of the following:

	October 31, 2003	April 30, 2003
Deferred lease inducement	**$ 906**	$ 965
Long term incentive liability	**222**	111
	$ 1,128	$ 1,076

6. MEASUREMENT UNCERTAINTY

The Partnership's tariff revenue received from the transmission administrator 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. Once this refiling is complete the AEUB will 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

NOTES TO FINANCIAL STATEMENTS

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Unaudited
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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 are known. The estimated effects of the August 3, 2003 AEUB decision, as interpreted by management, have been reflected in the financial statements for the six months ended October 31, 2003. 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.

7. DISTRIBUTIONS TO PARTNERS

On October 9, 2003 a $3,200 distribution was declared and was paid to partners on November 3, 2003. On July 28, 2003 a $3,100 distribution was declared and was paid to partners on August 1, 2003. During the six months ended October 31, 2002, the Partnership made cash distributions of $8,250. On October 23, 2002 a $1,150 distribution was declared payable at October 31, 2002. During the year ended April 30, 2003, the Partnership made distributions of $29,345.

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months ended October 31, 2003	Three Months ended October 31, 2002	**Six Months ended October 31, 2003**	Six Months ended October 31, 2002
Change in other non-cash items related to operations				
Decrease in accrued benefit pension asset	**$ (384)**	$ 257	**$ 313**	$ 514
Increase in accrued employment benefits liabilities	**47**	8	**117**	33
Increase in other liabilities	**26**	—	**51**	—
Increase (decrease) in regulatory liabilities	**1,058**	(371)	**10,699**	(1,039)
	$ 747	$ (106)	**$ 11,180**	$ (492)

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2003
Unaudited
(in thousands of dollars)

9. SUBSEQUENT EVENT NOTES

On December 8, 2003 the Partnership issued Series 03-2 Senior Bonds of $125,000. The coupon is fixed at a rate of 5.43%, and the effective interest rate is 5.288%. Interest on the Series 03-2 Senior Bonds is payable in arrears semi-annually on June 5 and December 5 of each year until maturity, commencing June 5, 2004. The Series 03-2 Senior Bonds rank equally with all present and future senior, secured indebtedness that are issued by the Partnership.

10. COMPARATIVE FIGURES

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