Financial Statements

AltaLink, L.P.

July 31, 2004

(Unaudited)

ALTALINK, L.P.

BALANCE SHEETS

(Unaudited, in thousands of dollars)

	July 31, 2004	April 30, 2004 (Restated note 2)
ASSETS ***[note 3]***		
Current		
Cash and cash equivalents	**$ 805**	$ 2,303
Accounts receivable *[note 5]*	**21,910**	17,064
Materials and supplies	**862**	963
Prepaid expenses and deposits	**2,379**	1,353
Regulatory asset *[note 6]*	**-**	928
	25,956	22,611
Capital assets	**874,258**	871,292
Deferred financing fees	**10,524**	10,959
Accrued benefit pension	**2,924**	2,937
Materials and supplies	**7,760**	8,665
Goodwill	**202,066**	202,066
	$ 1,123,488	1,118,530
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 5]*	**$ 22,355**	$ 38,188
Other liabilities	**238**	208
Regulatory liabilities *[notes 4 & 6]*	**1,478**	186
Short term debt *[note 3]*	**166**	212
	24,237	38,794
Accrued employment benefits liabilities *[note 4]*	**990**	940
Other liabilities	**1,582**	1,179
Regulatory liabilities *[notes 2 & 6]*	**127,542**	129,522
Asset retirement obligations *[note 2]*	**53,536**	52,816
Long term debt *[note 3]*	**558,090**	544,150
	765,977	767,401
Commitments & contingencies ***[note 6]***		
Partners' Equity		
Partners' capital	**338,536**	338,536
Retained earnings	**18,975**	12,593
	357,511	351,129
	$ 1,123,488	$ 1,118,530

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

(Unaudited, in thousands of dollars)

	Three months ended July 31, 2004	Three months ended July 31, 2003 (Restated note 2)
REVENUE		
Operating and miscellaneous revenue *[notes 2 & 6]*	**$ 41,381**	**$** 34,385
Allowance for equity funds used during construction	**344**	(154)
	41,725	34,231
EXPENSES		
Operating	**12,991**	15,563
Depreciation and accretion	**12,485**	6,280
Total Expenses	**25,476**	21,843
	16,249	12,388
Interest and amortization of deferred financing fees on short term debt *[note 3 D]*	**(2)**	(2,694)
Interest and amortization of deferred financing fees on long term debt *[note 3 D]*	**(8,009)**	(4,832)
Allowance for debt funds used during construction	**395**	(167)
	8,633	4,695
Gain on the sale of assets	**249**	60
Net income for the period	**8,882**	4,755
Retained earnings (deficit), beginning of period	**12,593**	(1,066)
Distributions *[note 7]*	**(2,500)**	(3,100)
Retained earnings, end of period	**$ 18,975**	$ 589

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

(Unaudited, in thousands)

	Limited Partner Units	Limited Partner	General Partner	Total
Balance at April 30, 2003	342,905	$ 337,436	$ 34	$ 337,470
Net income for the period (restated Note 2)	-	4,755	-	4,755
Distributions *[note 7]*	-	(3,100)	-	(3,100)
Balance at July 31, 2003	342,905	339,091	34	339,125
Net income for the period (restated Note 2)	-	21,750	2	21,752
Distributions *[note 7]*	-	(9,747)	(1)	(9,748)
Balance at April 30, 2004	342,905	351,094	35	351,129
Net income for the period	-	8,881	1	8,882
Distributions *[note 7]*	-	(2,500)	-	(2,500)
Balance at July 31, 2004	342,905	357,475	36	357,511

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CASH FLOWS

(Unaudited, in thousand of dollars)

	Three months ended July 31, 2004	Three months ended July 31, 2003 (Restated note 2)
OPERATING ACTIVITIES		
Net income for the period	**$ 8,882**	$ 4,755
Items not involving cash		
Depreciation, accretion, and amortization of deferred financing fees	**12,923**	5,962
Allowance for funds used during construction	**(739)**	321
Gain on the sale of assets	**(249)**	(60)
Change in other non-cash items *[note 8]*	**(1,439)**	9,988
Funds generated in operations	**19,378**	20,966
Change in non-cash working capital items	**(10,759)**	(8,205)
	8,619	12,761
INVESTING ACTIVITIES		
Additions to capital assets	**(22,088)**	(28,545)
Proceeds from the sale of assets	**673**	62
	(21,415)	(28,483)
FINANCING ACTIVITIES		
Decrease in lease obligation	**(28)**	(27)
Increase in debt	**14,030**	317,268
Repayment of debt	**(109)**	(296,500)
Distributions paid	**(2,500)**	-
Additions to deferred financing fees	**(95)**	(5,019)
	11,298	15,722
Net decrease in cash and cash equivalents	**(1,498)**	-
Cash and cash equivalents, beginning of period	**2,303**	-
Cash and cash equivalents, end of period	**$ 805**	$ -

See accompanying notes

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

Three months ended July 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, 2004, except for asset retirement obligations 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, 2004. Operating results for the three months ended July 31, 2004 are not necessarily indicative of the results that may be expected for the eight months ending December 31, 2004, as discussed further within Note 6.

2. CHANGE IN ACCOUNTING POLICY

Regulation:

The Partnership is not a taxable entity for income tax purposes; however it applies the liability method to account for federal income taxes for regulatory rate setting purposes. Prior to October 1, 2003 the Partnership recognized the amount of future income taxes, which was allowed by the regulator to be collected in rates, and recognized the resulting future tax liability as a regulatory liability. In October 2003 the Partnership early adopted 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 chose 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 future income taxes collected in rates as a regulatory liability within its financial statements. 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 April 30, 2004 fiscal year.

(Unaudited, in thousands of dollars)

The adjustment to the income statement for the three months ended July 31, 2003 to implement this change is as follows:

	As previously reported	Adjustments	As restated
Operating and miscellaneous revenue	31,750	1,849	33,599
Net Income	2,906	1,849	4,755
Retained earnings	(1,260)	1,849	589

Asset retirement obligations:

Prior to April 30, 2004, a provision for estimated costs of future removal, dismantlement, site restoration and abandonment (net of expected recoveries) was made for certain assets. The depreciation expense for these assets included a provision for estimated site restoration costs, which was included in the liability for future removal and site restoration on the balance sheet.

On May 1, 2004, the Partnership adopted the recommendations of Section 3110 of the CICA Handbook, entitled "Asset Retirement Obligations." This section establishes standards for the recognition and measurement of the fair value of liabilities associated with the retirement of tangible long lived assets, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to the capitalized costs of the related assets are amortized to earnings in a systematic manner over their useful lives. The Partnership has recognized obligations arising from statutory, contractual or legal obligations. The discounted present value of the liability is accreted over time for changes in the present value, with the accretion expense included in depreciation.

Retirement obligations may apply to both the retirement of an entire facility, or to the component parts of the larger system. Interim retirement obligations are recognized in the latter circumstances when obligations associated with the retirement of the component part occur prior to retirement of the entire system. An asset retirement obligation is recorded as a liability, with a corresponding increase to capital assets.

In determining whether or not there were legal obligations associated with the electrical power transmission system, the Partnership analyzed the component parts of the system. The electrical power transmission system is composed of transmission lines, substations, and telecom equipment.

Interim asset retirement obligations for the component parts of the transmission lines have been recognized, as the Partnership determined that there are legal obligations associated with the interim retirement of these assets. The calculation of costs to dismantle and remove the component parts, including poles and towers, was estimated by using historical information regarding the replacement and retirement of these assets.

NOTES TO FINANCIAL STATEMENTS

Three months ended July 31, 2004
(Unaudited, in thousands of dollars)

No asset retirement obligation has been recognized for costs to be incurred upon the final retirement and removal of the power transmission system as the date of the retirement, and therefore the fair value of the obligation, cannot be determined.

Amounts previously provided for future removal and site restoration costs were determined on the same basis as amounts included for these activities in transmission tariffs. The future removal and restoration costs recovered to date through tariffs compared to the asset retirement obligations recorded under generally accepted accounting principles is accrued as a regulatory liability. As a result, there is no impact to net income or retained earnings from this change in accounting policy.

As at July 31, 2004, the estimated total undiscounted amount of interim asset retirement obligation was approximately $149.7 million. The obligation will be settled over the useful life of the assets, with the majority of the retirements estimated to occur between 2004 and 2040. A discount rate of 5.67% was used to calculate the carrying value of the asset retirement obligations. The effect of this change in accounting policy was recorded retroactively with restatement of prior periods.

The adjustments required to the April 30, 2004 balance sheet to implement this change are as follows:

	As previously reported	Adjustments	As restated
Capital Assets	832,128	39,164	871,292
Regulatory liabilities	20,555	108,967	129,522
Provision for future removal and site restoration	122,619	(122,619)	-
Asset retirement obligation	-	52,816	52,816
Retained earnings	12,593	-	12,593

NOTES TO FINANCIAL STATEMENTS

Three months ended July 31, 2004
(Unaudited, in thousands of dollars)

The adjustments to the income statement for the three months ended July 31, 2003 to implement this change are as follows:

	As previously reported	Adjustments	As restated
Operating and miscellaneous revenue	31,750	230	31,980
Depreciation	6,050	230	6,280
Net income	2,906	-	2,906

A reconciliation between the opening and closing asset retirement obligations balance is provided below:

Balance, April 30, 2004	$ 52,817
Liabilities incurred in period	-
Liabilities settled in period	(30)
Accretion expense	749
Balance, July 31, 2004	**$ 53,536**

3. DEBT

	Effective Interest rate	Maturing	**July 31, 2004**	April 30, 2004
Series 3	8.01%	2012	**$ 85,000**	$ 85,000
Series 03-1	5.07%	2008	**100,000**	100,000
Series 03-2	5.70%	2013	**326,257**	326,311
Capital Lease Obligations	12.64%	2006	**82**	108
Credit Facility	3.52%	2007	**46,917**	32,943
Total debt			**558,256**	544,362
Less: short term debt			**166**	212
Total long term debt			**$ 558,090**	$ 544,150

NOTES TO FINANCIAL STATEMENTS

Three months ended July 31, 2004
(Unaudited, in thousands of dollars)

A. Credit Facility

On May 10, 2002 the Partnership entered into an $185,000 credit agreement. In May 2004 the maturity date was extended to May 6, 2007 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 6, 2005 and all amounts owing there under must be repaid by May 6, 2007. 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 July 31, 2004 there was $46,917 of Bankers' Acceptances (April 30, 2004 - $32,943) outstanding on the credit facility. Of the amounts outstanding as at July 31, 2004 $46,917 (April 30, 2004 - $32,943) has been classified as long term debt because the Partnership has the ability to continue rolling the Banker's Acceptances maturity dates under the revolving bank credit facility which has a maturity date of May 6, 2007.

B. Letters of Credit

As at July 31, 2004 and April 30, 2004, the Partnership had letters of credit outstanding totaling $69.

C. Debt Facilities

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 $125,000 by re-opening the Series 03-2 Senior Bonds, 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 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 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 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 short term debt for the three months ended July 31, 2004 was $2 (three months ended July 31, 2003 was $3,342). During the three months ended July 31, 2004 $nil (three months ended July 31, 2003 was ($648)) of deferred financing fees had been amortized and included in interest expense on short term debt. Interest expense on long term debt for the three months ended July 31, 2004 was $7,571 (three months ended July 31, 2003 was $4,503). During the three months ended July 31, 2004 $438 (three months ended July 31, 2003 was $329) of deferred financing fees had been amortized and included in interest expense on long term debt. Interest expense for the three months ended July 31, 2004 was adjusted by the allowance for debt funds used during construction which is included in capital assets of $395 (three months ended July 31, 2003 was ($167)). The decision provided by the Alberta Energy and Utilities Board ("EUB") on the general rate application filed by the Partnership in September 2002 resulted in reductions to the three months ended July 31, 2003 amortization of deferred financing fees and the allowance for debt funds used during construction.

Three months ended July 31, 2004
(Unaudited, in thousands of dollars)

D. Principal Repayments

Maturing	
2004	**$ 166**
2005	**147**
2006	**125**
2007	**47,049**
2008 and thereafter	**510,769**
	$ 558,256

4. EMPLOYEE FUTURE BENEFITS

During the three months ended July 31, 2004 the Partnership recorded pension and other post employment benefit expenses of $398 (three months ended July 31, 2003 - $4,813). The July 31, 2004 three months ended pension expense is comprised of a defined contribution expense of $348 (three months ended July 31, 2003 - $1,881), other post employment benefits of $36 (three months ended July 31, 2003 - $24), supplemental pension expense of $14 (three months ended July 31, 2003 - $45), and the reversal of pension income of $nil (three months ended July 31, 2003 - $2,863) due to the August 3, 2003 EUB decision.

5. RELATED PARTY TRANSACTIONS

AltaLink Investment Management Ltd.

Subsequent to the year ended April 30, 2003, the Partnership amended its agreement to provide services to AltaLink Investments, L.P. Rather than providing services directly to AltaLink Investments, L.P, the Partnership now provides these services through AltaLink Investment Management Ltd. which is AltaLink Investments, L.P.'s General Partner. As such the fees for these services are billed to AltaLink Investment Management Ltd. by the Partnership, and AltaLink Investment Management Ltd. then recovers these costs from AltaLink Investments, L.P. During the three months ended July 31, 2004 the Partnership provided consulting services to AltaLink Investment Management Ltd. in the amount of $52 (three months ended July 31, 2003 - $45).

AltaLink Management Ltd.

Pursuant to the terms of the Partnership Agreement, the General Partner provides administrative and operational services to the Partnership on a cost reimbursement basis. The employees that provide the administrative and operational services are employed by the General Partner and the Partnership has indemnified the General Partner for all expenses and liabilities associated therewith. Services are invoiced and settled on a semi-monthly basis. Operating and capital expenses included $7,354 (three months ended July 31, 2003 - $6,302) of salaries and benefits that have been invoiced from the General Partner for the three months ended July 31, 2004 at exchange amounts. The Partnership

NOTES TO FINANCIAL STATEMENTS

Three months ended July 31, 2004
(Unaudited, in thousands of dollars)

agreement granted the General Partner a 0.01% interest in the Partnership in consideration for acting as General Partner.

AltaLink Investments, L.P.

Included in interest expense for the three months ended July 31, 2004 is $1,709 (three months ended July 31, 2003 - $1,733), which relates to the Series 3 Subordinated Bridge Bond payable to AltaLink Investments, L.P *[note 3]*. For the three months ended July 31, 2004 distributions of $2,499 were declared to AltaLink Investments, L.P (three months ended July 31, 2003 - $3,099).

SNC Lavalin ATP Inc.

SNC-Lavalin Group Inc. is the parent of SNC Lavalin Transmission Ltd. which is a 50% owner of AltaLink Investments, L.P. During the three months ended July 31, 2004 SNC-Lavalin ATP Inc., a subsidiary of SNC-Lavalin Group Inc., provided engineering, procurement, construction and management (EPCM) services for the construction of capital assets totaling $8,825 (three months ended July 31, 2003 - $13,095). These amounts have been included in capital assets as at July 31, 2004. These services were recorded at exchange amounts.

Macquarie North America Ltd.

Macquarie Essential Assets Partnership (“MEAP”) is the sole shareholder of Macquarie Transmission Alberta Ltd., which owns, beneficially and of record, 15% of AltaLink Investments, L.P. The general partner of MEAP is Macquarie Canadian Infrastructure Management Limited, a direct subsidiary of Macquarie North America Ltd. Macquarie North America Ltd. provided $25 (three months ended July 31, 2003 - $2,183) in financial advisory services, as well as operating expenses during the three months ended July 31, 2004. During the three months ended July 31, 2004 $nil (three months ended July 31, 2003 - $2,183) was recorded as financing fees, and $25 (April 30, 2003 – $nil) was recorded as operating expenses. These services were recorded at exchange amounts.

Ontario Teachers’ Pension Plan Board

Ontario Teachers’ Pension Plan Board is the parent of OTPPB TEP Inc., a 25% owner of AltaLink Investments, L.P. Included in interest expense is $nil (three months ended July 31, 2003 - $3,306) for the three months ended July 31, 2004 which relates to Series 1 (redeemed June 5, 2003) and Series 2 (redeemed December 5, 2003) Senior Bridge Bonds payable to Ontario Teachers’ Pension Plan Board.

NOTES TO FINANCIAL STATEMENTS

Three months ended July 31, 2004
(Unaudited, in thousands of dollars)

Other

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

	July 31, 2004	April 30, 2004
AltaLink Investment Management Ltd.	**$ 81**	$ 15
AltaLink Management Ltd.	**960**	417
AltaLink Investments, L.P.	**(1,709)**	(1,672)
SNC Lavalin ATP Inc.	**(5,329)**	(7,242)

In addition there is $85,000 (April 30, 2004 - $85,000) owing to AltaLink Investments, L.P. as at July 31, 2004 *[note 3]*.

6. MEASUREMENT UNCERTAINTY

The Partnership filed a general tariff application with the EUB 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 March 23, 2004 the Partnership received a final decision from the EUB on this application, and the effects of the decision have been reflected in the financial statements for the year ended April 30, 2004.

In addition the Partnership has filed a review and variance application with the EUB seeking review and variation of certain elements of the decision. It is not possible to precisely determine the final approved tariff until the results of the review and variance application are known. Further material adjustments may be required once the results of the review and variance application are received.

The Partnership's tariff revenue received from the transmission administrator is currently being calculated on an interim tariff set by the EUB. The Partnership filed a general tariff application with the EUB as of February 27, 2004 and subsequently amended the application on April 21, 2004 to apply for rates for the eight months ending December 31, 2004, and the fiscal years ending December 31, 2005, December 31, 2006 and December 31, 2007. This tariff application is based on traditional cost of service methodology. The Partnership received a decision on June 2, 2004 from the EUB for interim tariff effective May 1, 2004.

7. DISTRIBUTIONS TO PARTNERS

During the three months ended July 31, 2004, the Partnership declared distributions of $2,500. During the three months ended July 31, 2003, the Partnership declared distributions of $3,100.

NOTES TO FINANCIAL STATEMENTS

Three months ended July 31, 2004
(Unaudited, in thousands of dollars)

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended July 31, 2004	Three months ended July 31, 2003
Change in other non-cash items related to operations		
Decrease in accrued benefit pension asset	**$ 13**	$ 698
Increase in accrued employment benefits liabilities	**50**	69
Increase in other liabilities	**403**	26
(Decrease) increase in regulatory liabilities	**(2,625)**	8,487
Increase in asset retirement obligations	**720**	708
	$ (1,439)	$ 9,988

Cash interest paid during the period	**$ 13,040**	$ 1,562

9. COMPARATIVE FIGURES

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