Financial Statements

# AltaLink, L.P.

October 31, 2004
(Unaudited)

## ALTALINK, L.P.

# BALANCE SHEETS

(Unaudited, in thousands of dollars)

| | October 31, 2004 | April 30, 2004 (Restated note 2) |
|---|---|---|
| **ASSETS** ***[note 3]*** | | |
| **Current** | | |
| Cash and cash equivalents | **$ -** | $ 2,303 |
| Accounts receivable *[note 5]* | **19,245** | 17,064 |
| Materials and supplies | **836** | 963 |
| Prepaid expenses and deposits | **2,248** | 1,353 |
| Regulatory asset *[note 6]* | **200** | 928 |
| | **22,529** | 22,611 |
| Capital assets | **891,654** | 871,292 |
| Deferred financing fees | **6,783** | 7,408 |
| Regulatory asset | **3,306** | 3,551 |
| Accrued benefit pension | **2,911** | 2,937 |
| Materials and supplies | **7,524** | 8,665 |
| Goodwill | **202,066** | 202,066 |
| | **$ 1,136,773** | $ 1,118,530 |
| **LIABILITIES AND PARTNERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities *[note 5]* | **$ 29,153** | $ 38,188 |
| Other liabilities | **346** | 208 |
| Regulatory liabilities *[note 6]* | **1,885** | 186 |
| Short term debt *[note 3]* | **140** | 212 |
| | **31,524** | 38,794 |
| Accrued employment benefits liabilities *[note 4]* | **1,019** | 940 |
| Other liabilities | **1,900** | 1,179 |
| Regulatory liabilities *[notes 2 & 6]* | **128,068** | 129,522 |
| Asset retirement obligations *[note 2]* | **53,769** | 52,816 |
| Long term debt *[note 3]* | **559,316** | 544,150 |
| | **775,596** | 767,401 |
| **Commitments & contingencies** ***[note 6]*** | | |
| **Partners' Equity** | | |
| Partners' capital | **338,536** | 338,536 |
| Retained earnings | **22,641** | 12,593 |
| | **361,177** | 351,129 |
| | **$ 1,136,773** | $ 1,118,530 |

*See accompanying notes*

**ALTALINK, L.P.**

# STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

(Unaudited, in thousands of dollars)

| | **Three months ended October 31, 2004** | Three months ended October 31, 2003 | **Six months ended October 31, 2004** | Six months ended October 31, 2003 |
|---|---|---|---|---|
| | | (Restated note 2) | | (Restated note 2) |
| **REVENUE** | | | | |
| Operating and miscellaneous revenue *[notes 2 & 6]* | **$ 43,622** | $ 39,947 | **$ 85,003** | $ 74,332 |
| Allowance for equity funds used during construction | **-** | 38 | **344** | (116) |
| | **43,622** | 39,985 | **85,347** | 74,216 |
| **EXPENSES** | | | | |
| Operating | **15,771** | 12,912 | **28,762** | 28,475 |
| Depreciation and accretion | **12,646** | 11,791 | **25,131** | 18,071 |
| **Total Expenses** | **28,417** | 24,703 | **53,893** | 46,546 |
| | **15,205** | 15,282 | **31,454** | 27,670 |
| Interest and amortization of deferred financing fees on short term debt | **(1)** | (2,079) | **(3)** | (4,773) |
| Interest and amortization of deferred financing fees on long term debt | **(8,059)** | (6,390) | **(16,068)** | (11,222) |
| Allowance for debt funds used during construction | **-** | 41 | **395** | (126) |
| | **7,145** | 6,854 | **15,778** | 11,549 |
| Gain on the sale of assets | **21** | 63 | **270** | 123 |
| **Net income for the period** | **7,166** | 6,917 | **16,048** | 11,672 |
| Retained earnings (deficit), beginning of period | **18,975** | 589 | **12,593** | (1,066) |
| Distributions | **(3,500)** | (3,200) | **(6,000)** | (6,300) |
| **Retained earnings, end of period** | **$ 22,641** | $ 4,306 | **$ 22,641** | $ 4,306 |

*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, 2003** | **342,905** | **$ 337,436** | **$ 34** | **$ 337,470** |
| Net income for the period (restated Note 2) | - | 11,671 | 1 | 11,672 |
| Distributions | - | (6,299) | (1) | (6,300) |
| **Balance at October 31, 2003** | **342,905** | **342,808** | **34** | **342,842** |
| Net income for the period (restated Note 2) | - | 14,835 | 2 | 14,837 |
| Distributions | - | (6,549) | (1) | (6,550) |
| **Balance at April 30, 2004** | **342,905** | **351,094** | **35** | **351,129** |
| Net income for the period | - | 16,047 | 1 | 16,048 |
| Distributions | - | (6,000) | - | (6,000) |
| **Balance at October 31, 2004** | **342,905** | **$ 361,141** | **$ 36** | **$ 361,177** |

*See accompanying notes*

**ALTALINK, L.P.**

# STATEMENTS OF CASH FLOWS

(Unaudited, in thousand of dollars)

| | **Three months ended October 31, 2004** | Three months ended October 31, 2003 (Restated note 2) | **Six months ended October 31, 2004** | Six months ended October 31, 2003 (Restated note 2) |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net income for the period | **$ 7,166** | $ 6,917 | **$ 16,048** | $ 11,672 |
| Items not involving cash | | | | |
| Depreciation, accretion, and amortization of deferred financing fees | **13,082** | 12,186 | **26,005** | 18,148 |
| Allowance for funds used during construction | - | (79) | **(739)** | 242 |
| Gain on the sale of assets | **(21)** | (63) | **(270)** | (123) |
| Change in other non-cash items *[note 7]* | **240** | 741 | **(1,198)** | 10,729 |
| Funds generated in operations | **20,467** | 19,702 | **39,846** | 40,668 |
| Change in non-cash working capital items | **8,336** | 2,576 | **(2,424)** | (5,629) |
| | **28,803** | 22,278 | **37,422** | 35,039 |
| **INVESTING ACTIVITIES** | | | | |
| Additions to capital assets | **(27,272)** | (21,331) | **(49,360)** | (49,876) |
| Proceeds from the sale of assets | **21** | 63 | **694** | 125 |
| | **(27,251)** | (21,268) | **(48,666)** | (49,751) |
| **FINANCING ACTIVITIES** | | | | |
| Decrease in lease obligation | **(28)** | (26) | **(56)** | (53) |
| Increase in debt | **1,171** | 3,022 | **15,201** | 320,290 |
| Repayment of debt | **-** | - | **(109)** | (296,500) |
| Distributions paid | **(3,500)** | (3,100) | **(6,000)** | (3,100) |
| Additions to deferred financing fees | - | (790) | **(95)** | (5,809) |
| | **(2,357)** | (894) | **8,941** | 14,828 |
| **Net (decrease) increase in cash and cash equivalents** | **(805)** | 116 | **(2,303)** | 116 |
| Cash and cash equivalents, beginning of period | **805** | - | **2,303** | - |
| **Cash and cash equivalents, end of period** | **$ -** | $ 116 | **$ -** | $ 116 |

*See accompanying notes*

**ALTALINK, L.P.**

# NOTES TO FINANCIAL STATEMENTS

Six months ended October 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 six months ended October 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

**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 is 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 obligations 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 electric substations and telecontrol sites were not recognized, since the Partnership determined that there were no legal obligations associated with the interim retirement of these assets. While there will be future

# NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2004
(Unaudited, in thousands of dollars)

retirement obligations associated with the final retirement of these assets, no obligation has been recognized at this time, as the date of final removal cannot be reasonably determined at this time.

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 using historical information regarding the replacement and retirement of these assets.

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 are 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 October 31, 2004, the estimated total undiscounted amount of interim asset retirement obligations were approximately $149.7 million. The obligations 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 obligations | - | 52,816 | 52,816 |
| Retained earnings | 12,593 | - | 12,593 |

# NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2004
(Unaudited, in thousands of dollars)

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

| **Three months ended October 31, 2003** | **As previously reported** | **Adjustments** | **As restated** |
|---|---|---|---|
| Operating and miscellaneous revenue | 39,842 | 221 | 40,063 |
| Depreciation and accretion | 11,570 | 221 | 11,791 |
| Net income | 6,917 | - | 6,917 |
| | | | |
| **Six months ended October 31, 2003** | **As previously reported** | **Adjustments** | **As restated** |
| Operating and miscellaneous revenue | 73,226 | 451 | 73,677 |
| Depreciation and accretion | 17,620 | 451 | 18,071 |
| Net income | 11,672 | **-** | 11,672 |

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

| | |
|---|---|
| Balance, April 30, 2004 | $ 52,816 |
| Liabilities incurred in period | - |
| Liabilities settled in period | (554) |
| Accretion expense | 1,507 |
| **Balance, October 31, 2004** | **$ 53,769** |

## 3. DEBT

| | Effective Interest rate | Maturing | **October 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 | 5.73% | 2013 | **326,258** | 326,311 |
| Capital lease obligations | 11.24% | 2006 | **55** | 108 |
| Credit facility | 3.43% | 2007 | **48,143** | 32,943 |
| Total debt | | | **559,456** | 544,362 |
| Less: short term debt | | | **140** | 212 |
| Total long term debt | | | **$ 559,316** | $ 544,150 |

# NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2004
(Unaudited, in thousands of dollars)

## 4. EMPLOYEE FUTURE BENEFITS

During the three and six months ended October 31, 2004 the Partnership recorded pension and other post employment benefit expenses of $395 and $792 respectively (three months and six months ended October 31, 2003 were $400 and $5,214 respectively). Pension expense is comprised of a defined contribution expense, other post employment benefits, supplemental pension, and the reversal of pension income due to the August 3, 2003 EUB decision. Defined contribution expense was $345 and $692 respectively for the three months and six months ending October 31, 2004 (three and six months ended October 31, 2003 was $353 and $2,235 respectively). Other post employment benefits were $36 and $71 respectively for the three and six months ended October 31, 2004 (three and six months ended October 31, 2003 were $18 and $42 respectively). Supplemental pension expense was $14 and $29 respectively for the three and six months ended October 31, 2004 (three and six months ended October 31, 2003 was $29 and $74 respectively). Reversal of pension income of $nil was recorded in the three and six months ended October 31, 2004 (three and six months ended October 31, 2003 was $nil and $2,863 respectively, due to the August 3, 2003 EUB decision).

## 5. RELATED PARTY TRANSACTIONS

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

| | **October 31, 2004** | April 30, 2004 |
|---|---|---|
| AltaLink Investment Management Ltd. | **$ 95** | $ 15 |
| AltaLink Management Ltd. | **579** | 417 |
| AltaLink Investments, L.P. | **(1,709)** | (1,672) |
| SNC Lavalin ATP Inc. | **(9,517)** | (7,242) |

In addition there is $85,000 (April 30, 2004 - $85,000) owing to AltaLink Investments, L.P. as at October 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.

# NOTES TO FINANCIAL STATEMENTS

Six months ended October 31, 2004
(Unaudited, in thousands of dollars)

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 to tariff revenue 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 received a decision on June 2, 2004 from the EUB for interim tariff effective May 1, 2004. 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 oral phase of the hearing pertaining to this tariff application concluded on October 25, 2004, and an EUB decision is expected in the first quarter of 2005.

## 7. SUPPLEMENTAL CASH FLOW INFORMATION

| | **Three months ended October 31, 2004** | Three months ended October 31, 2003 | **Six months ended October 31, 2004** | Six months ended October 31, 2003 |
|---|---|---|---|---|
| **Change in other non-cash items related to operations** | | | | |
| Decrease (increase) in accrued benefit pension asset | **$ 13** | $ (384) | **$ 26** | $ 313 |
| Increase in accrued employment benefits liabilities | **29** | 47 | **79** | 117 |
| Increase in other liabilities | **318** | 26 | **721** | 51 |
| (Decrease) increase in regulatory liabilities | **(353)** | 3,177 | **(2,977)** | 11,665 |
| Increase (decrease) in asset retirement obligations | **233** | (2,125) | **953** | (1,417) |
| | **$ 240** | $ 741 | **$ (1,198)** | $ 10,729 |
| Cash interest paid during the period | **$ 2,029** | $ 4,186 | **$ 15,069** | $ 5,748 |

## 8. COMPARATIVE FIGURES

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