Financial Statements

AltaLink, L.P.

Twelve months ended December 31, 2005
and the eight months ended December 31, 2004

AUDITORS' REPORT

To the **Partners of AltaLink, L.P.:**

We have audited the balance sheets of **AltaLink, L.P.** as at December 31, 2005 and 2004, and the statements of income and retained earnings, changes in partners' equity and cash flows for the year ended December 31, 2005, the eight months ended December 31, 2004 and the year ended April 30, 2004. These financial statements are the responsibility of AltaLink, L.P.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of AltaLink, L.P. as at December 31, 2005 and 2004, and the results of its operations and its cash flows for the year ended December 31, 2005, the eight months ended December 31, 2004 and the year ended April 30, 2004 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 20, 2006

Chartered Accountants

ALTALINK L.P.

BALANCE SHEETS

(in thousands of dollars)

As at	**December 31, 2005**	December 31, 2004
ASSETS		
Current		
Cash and cash equivalents *[note 12a]*	**$ -**	$ -
Restricted cash *[note 12b]*	**29,968**	-
Accounts receivable *[notes 7 & 8]*	**17,714**	16,465
Materials and supplies	**1,012**	900
Prepaid expenses and deposits	**2,203**	1,332
	50,897	18,697
Property, plant and equipment *[notes 6 & 7]*	**1,004,331**	903,061
Deferred financing fees	**5,516**	6,575
Regulatory assets *[note 3]*	**7,582**	4,991
Accrued benefit pension asset *[note 11]*	**2,755**	2,903
Construction materials and supplies	**9,108**	8,099
Goodwill	**202,066**	202,066
	$ 1,282,255	$ 1,146,392
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 8]*	**$ 28,775**	$ 28,298
Other liabilities *[note 14]*	**30,879**	410
Regulatory liabilities *[note 3]*	**113**	3,824
Short-term debt *[note 7]*	**122**	144
	59,889	32,676
Accrued employment benefits liabilities	**1,225**	1,052
Other liabilities	**1,866**	1,940
Regulatory liabilities *[note 3]*	**157,166**	128,949
Asset retirement obligations *[note 4]*	**56,276**	54,162
Long-term debt *[notes 7 & 8]*	**621,711**	564,791
	898,133	783,570
Commitments and contingencies *[notes 5 & 13]*		
Partners' equity		
Partners' capital *[note 10]*	**338,536**	338,536
Retained earnings	**45,586**	24,286
	384,122	362,822
	$ 1,282,255	$ 1,146,392

See accompanying notes

Approved on behalf of the Board of Directors

Signed by David Tuer
Director

Signed by Patricia Nelson
Director

ALTALINK L.P.

STATEMENTS OF INCOME AND RETAINED EARNINGS

(in thousands of dollars)

	Twelve months ended December 31, 2005	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
REVENUE			
Operating and miscellaneous revenue *[note 8]*	**$ 196,053**	$ 113,937	$ 154,886
Allowance for equity funds used during construction	**1,239**	545	222
	197,292	114,482	155,108
EXPENSES			
Operating *[note 8]*	**63,926**	39,164	54,570
Depreciation	**61,341**	31,801	39,304
Accretion *[note 4]*	**2,996**	1,988	2,834
	128,263	72,953	96,708
	69,029	41,529	58,400
Interest and amortization of deferred financing fees on debt *[notes 7 & 8]*	**(33,203)**	(21,499)	(32,286)
Allowance for debt funds used during construction	**1,382**	625	242
	37,208	20,655	26,356
Gain on the sale of assets	**92**	338	153
Net income for the period	**37,300**	20,993	26,509
Retained earnings (deficit), beginning of period	**24,286**	12,593	(1,066)
Distributions	**(16,000)**	(9,300)	(12,850)
Retained earnings, end of period	**$ 45,586**	$ 24,286	$ 12,593

See accompanying notes

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

(in thousands)

	Units	Limited Partner	General Partner	Total
Balance at April 30, 2003	**331,904**	**$ 337,436**	**$ 34**	**$ 337,470**
Net income for the period	-	26,507	2	26,509
Distributions	-	(12,849)	(1)	(12,850)
Balance at April 30, 2004	**331,904**	**$ 351,094**	**$ 35**	**$ 351,129**
Net income for the period	-	20,991	2	20,993
Distributions	-	(9,299)	(1)	(9,300)
Balance at December 31, 2004	**331,904**	**$ 362,786**	**$ 36**	**$ 362,822**
Net income for the period	-	37,296	4	37,300
Distributions	-	(15,998)	(2)	(16,000)
Balance at December 31, 2005	**331,904**	**$ 384,084**	**$ 38**	**$ 384,122**

See accompanying notes

ALTALINK L.P.

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

	Twelve months ended December 31, 2005	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
OPERATING ACTIVITIES			
Net income for the period	**$ 37,300**	$ 20,993	$ 26,509
Items not involving cash			
Depreciation and amortization of deferred financing fees	**62,956**	32,964	40,313
Accretion	**2,996**	1,988	2,834
Allowance for funds used during construction	**(2,621)**	(1,170)	(464)
Gain on the sale of assets	**(92)**	(338)	(153)
Asset retirement obligations settled	**(1,339)**	(642)	(866)
Long-term regulatory accruals	**(3,444)**	(1,103)	10,214
Other non-cash items	**247**	907	588
Funds generated in operations	**96,003**	53,599	78,975
Change in non-cash working capital items *[note 15]*	**(6,623)**	(8,155)	5,122
Cash provided by operating activities	**89,380**	45,444	84,097
INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(139,811)**	(72,571)	(92,898)
Increase in customer contributions	**9,840**	13,063	8,430
Proceeds from the sale of assets	**91**	635	161
Cash used in investing activities	**(129,880)**	(58,873)	(84,307)
FINANCING ACTIVITIES			
Decrease in lease obligations	**(29)**	(78)	(81)
Increase in debt	**57,041**	20,763	463,006
Repayment of debt	**(115)**	(164)	(440,454)
Distributions paid	**(16,000)**	(9,300)	(12,850)
Settlement of deferred financing fees	**(67)**	(95)	(7,108)
Increase in restricted cash	**(29,968)**	-	-
Increase in other liabilities	**29,638**	-	-
Cash provided by financing activities	**40,500**	11,126	2,513
Net (decrease) increase in cash and cash equivalents	**-**	(2,303)	2,303
Cash and cash equivalents, beginning of period	**-**	2,303	-
Cash and cash equivalents, end of period	**$ -**	**$ -**	**$ 2,303**
Cash interest paid during the period	**$ 28,673**	**$ 17,524**	**$ 20,888**

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

1. NATURE OF OPERATIONS

AltaLink, L.P. (the Partnership or ALP) was formed under the laws of the Province of Alberta on July 3, 2001, and is managed by AltaLink Management Ltd. (the General Partner). The Partnership has one limited partner, AltaLink Investments, L.P. (AILP). The Partnership was formed to acquire and operate the electrical transmission assets from TransAlta Energy Corporation (TransAlta). These transmission assets were acquired on April 29, 2002. Although the General Partner may hold legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

The Partnership is an electricity transmission facility owner, whose business is the ownership and operation of regulated electricity transmission facilities solely in the Province of Alberta. The Partnership also owns and operates the interconnection facilities which connect its network with the transmission system in British Columbia, and allow electricity to flow into and out of Alberta.

The Partnership changed its fiscal year end from April 30 to December 31, effective December 31, 2004. The change of its fiscal year end was in response to a direction provided by the Alberta Energy and Utilities Board (EUB) to maintain the regulatory records on a calendar year end basis. The change allows the Partnership to align its fiscal year with its regulatory year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

ALP's management has prepared the financial statements of the Partnership in accordance with Canadian generally accepted accounting principles (GAAP). All amounts reported are in Canadian dollars unless otherwise stated. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment the Partnership operates within often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates.

The financial statements reflect the financial position and results of operations of the Partnership. The financial statements do not include all the assets, liabilities, revenues and expenses of the partners.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Regulation

The Partnership is regulated by the EUB, pursuant to the Electric Utilities Act (Alberta) (EUA), the Public Utilities Board Act (Alberta), and the Hydro and Electric Energy Act (Alberta). These acts and their respective regulations cover matters such as tariffs, rates, construction, operations, financing and accounting. Pursuant to the EUA, the transmission of all electrical energy through the interconnected electric system in the province of Alberta is administered by an independent system operator, the Alberta Electric System Operator (AESO).

The Partnership operates under cost of service regulation as prescribed by the EUB. Earnings are determined on the basis of return on rate base. The Partnership applies for tariff revenue based on estimated costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs of service being different from that which was estimated, other than for certain prescribed costs, as explained further below.

The Partnership accounts for certain transactions in accordance with applicable regulation (regulatory accounting) when three criteria are met: (i) the rates for regulated services or products provided to customers are established by or are subject to approval by an independent, third-party regulator; (ii) the regulated rates are designed to recover the cost of providing the services or products; and (iii) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates are set at levels that will recover the cost that can be charged to and collected from customers.

Under regulatory accounting, the Partnership may account for a transaction or event differently than it would in the absence of rate regulation; namely, the timing of recognition of certain assets, liabilities, revenues and expenses. This results in the creation of regulatory assets and liabilities.

Through the rate-setting process, certain expenses and credits are deferred as assets and liabilities on the balance sheet until the time they are recovered from or refunded to customers. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods that will be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are to be refunded to customers through the rate-setting process. For information regarding the regulatory assets and liabilities recorded by the Partnership, see note 3 "Regulatory Assets and Liabilities".

When the EUB issues a decision affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received. However, if in management's judgment a reasonable estimate can be made regarding the impact an impending future decision will have on the current year's financial statements, an estimate will be recorded in the current year for the expected impact.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c) Cash and cash equivalents

Cash equivalents have been restricted to investments that are readily convertible into a known amount of cash and which have an original maturity of three months or less.

d) Materials and supplies

Materials and supplies represent spare parts held for day to day operations and construction material held for internal construction and maintenance of property, plant and equipment. Those items representing construction material for property, plant and equipment are classified as long-term assets. The assets are valued at the lower of cost and net realizable value. Cost is determined on a moving average cost basis, other than for major equipment which is determined on a specific item basis.

e) Property, plant and equipment

Property, plant and equipment are carried at cost, which includes direct labour, materials and allocated overheads, less depreciation. The Partnership capitalizes some major maintenance to property, plant and equipment if these costs have been included in capital for regulatory purposes and are expected to be recovered within rates. The Partnership capitalizes an allowance for funds used during construction (AFUDC) which represents the cost of debt and equity financing incurred during construction as approved by the EUB. AFUDC is a non-cash item that will be recovered in rates charged to customers over the service life of the assets, commencing with the asset's inclusion in the rate base.

Certain assets may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are recorded as a reduction of the cost of property, plant and equipment.

Depreciation is calculated on a straight-line basis with various rates ranging from 1.80% to 33.33% as approved by the EUB, based on depreciation studies prepared by the Partnership. The depreciation amounts approved by the EUB are based on the estimated useful lives of assets, and as such are also used by the Partnership as the depreciation amounts in the financial statements. Changes to depreciation rates approved by the EUB are accounted for on a prospective basis. The EUB approved rates are applied to the original historical capital costs reflected for regulatory rate setting purposes, which over all are greater than those reflected in these financial statements. The effective depreciation rates under GAAP range from 1.17% to 33.33%. For regulatory purposes the net proceeds from the retirement or disposal of the asset adjusts the accumulated depreciation. When a regulated asset is retired or disposed of there is no gain or loss recorded in income, other than for land. Any difference between the cost of the asset and the accumulated depreciation is charged to the accumulated depreciation account for that asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Deferred financing fees

Costs incurred to arrange debt financing are capitalized as deferred financing costs and are amortized on a straight-line basis over the period in which they are expected to be recovered through rates. Deferred financing costs that are not expected to be recovered through rates are amortized on a straight-line basis over the term of the related debt. The amortization of these charges is included as part of interest on debt.

g) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write-down for impairment. In the last quarter of each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value.

h) Employee future benefit plans

The General Partner employs staff and provides administrative and operational services to the Partnership on a cost reimbursement basis. The Partnership bears all of the related expenses and also bears the risk and reward of any pension plans or other staff related programs which the General Partner establishes. The Partnership has indemnified the General Partner for all costs and liabilities associated with its employment of staff, including any pension liabilities. As such, the employee future benefit plans of the General Partner are reported as if they were provided by the Partnership even though the legal sponsor of the plans and employer of the staff is the General Partner. Current service costs are expensed in the period in which they are incurred.

The cost of the Partnership's defined benefit pension plan, post-retirement and post-employment benefits is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages and expected growth rate of health care costs. The liability discount rate is determined based on a portfolio of Corporate AA bonds with terms to maturity that, on average, matches the terms of the obligation. Market values are used to value benefit plan assets.

Cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets at the beginning of the fiscal year and unamortized past service costs are amortized over the expected average remaining service period of active employees receiving benefits under the plan.

When the recognition of a transfer of employees and employee related benefits gives rise to a curtailment and a settlement of obligations, the curtailment is accounted for prior to settlement.

Under regulatory accounting principles, the employee future benefit expense ultimately recognized in these financial statements is that which is recognized for rate making purposes (note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i) Taxes

As a limited partnership, the Partnership does not pay income taxes. Instead, the tax consequences of its operations are borne by its partners on a pro rata basis based on their interest in the Partnership. Similarly, individual partners are responsible for Federal large corporation tax applicable to their respective interest in the Partnership. Accordingly, no tax expense is recognized in these financial statements.

j) Foreign currency translation

The Partnership's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Revenues and expenses are translated at the exchange rate prevailing on the date of the transaction except for depreciation and amortization, which are translated at the exchange rate prevailing when the related assets were acquired. Gains and losses on translation are reflected in income when incurred.

k) Revenue recognition

Revenues from rate-regulated operations are recognized on the accrual basis in accordance with rates and policies set by the regulator, and include an estimate of services provided but not yet billed. Any revenue that has been received but not yet earned is classified as other liabilities in the financial statements.

l) Deferred lease inducements

Deferred lease inducements represent leasehold improvements paid for by the landlord. Deferred lease inducements are amortized on a straight-line basis over the periods of the leases, and the amortization is recorded as a reduction of rent expense.

m) Asset retirement obligations

The fair value of liabilities for asset retirement obligations is recognized in the period they are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The amount of the liability is subject to re-measurement at each reporting period and is accreted over the estimated time period until settlement of the obligation.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

3. REGULATORY ASSETS AND LIABILITIES

The following are the regulatory assets and liabilities:

	December 31, 2005	Change to regulatory asset/liability balance in 2005**	Remaining recovery settlement period (years)
(in thousands of dollars)			
Regulatory assets			
Self insurance reserve*	**$ 3,393[1]**	**$ 4,334**	**5-12**
Regulated financing fees	**2,738[3]**	**(487)**	**2-7**
Hearing cost reserve*	**743[1]**	**534**	**1**
Canada Revenue Agency deferral	**189[2]**	**189**	**1**
Direct assigned capital deferral account	**519[2]**	**(1,039)**	**1**
	$ 7,582		
Regulatory liabilities			
Pension liability reserve*	**$ 3,711[1]**	**$ (3,471)**	**-**
Pension asset offset	**2,755[4]**	**(148)**	**-**
Future income tax liability*	**8,100[5]**	**-**	**-**
Property tax deferral account	**948[2]**	**948**	**1**
Insurance deferral account	**1,321[2]**	**1,295**	**1**
Non-issued debt deferral account	**997[2]**	**997**	**1**
Canada Revenue Agency reserve*	**404[1]**	**(1,096)**	**-**
Regulatory asset retirement obligations	**139,043[6]**	**30,061**	**1-72**
Total regulatory liabilities	**$ 157,279**		
Less: current regulatory liabilities	**113**		
Long-term regulatory liabilities	**$ 157,166**		

* The Partnership's rate base does not include an allowance for a return on investment for these items.

** For each of the reserve and deferral accounts, the change in the regulatory asset/liability balance in the current year is equal to the difference between actual and approved forecast expenses, which is offset by a corresponding adjustment to revenue. Therefore the net income effect of the change in the reserve and deferral regulatory asset/liability account balances for the twelve months ended December 31, 2005 is nil.

For some of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the EUB in determining the item's treatment for rate-setting purposes.

3. REGULATORY ASSETS AND LIABILITIES (CONT'D)

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

[1]Reserve accounts
The Partnership's reserve accounts represent amounts that are initially funded through EUB approved accruals. Actual costs incurred in relation to the respective reserve are charged against the reserve, thereby decreasing the balance. If the Partnership's actual expenses are lower than forecast then the reserve will grow and may be refunded in the next application. If expenses are higher than forecast, the excess costs are recoverable in the next application, to the extent that they are considered prudent by the EUB.

The Partnership's revenue requirement is not adjusted for these additional costs until such time as they are filed as part of the next application. However, as there is reasonable assurance of cost recovery, to match the revenue adjustment to the correct period, the corresponding additional revenue is recognized in the financial statements as the reserve amounts are exceeded. Conversely, to the extent actual costs are less than the approved forecast, the Partnership will correspondingly reduce the amount of revenue recognized in the current period.

The Partnership has a number of reserve accounts. The hearing costs reserve represents a reserve for intervener costs and costs incurred by the Partnership during hearings. The self insurance reserve provides financial protection from uninsurable or uninsured losses and represents claims costs incurred by the Partnership. The pension liability reserve tracks the difference between pension plan income, annual pension expense based on actuarial reports and EUB approved annual pension plan funding. The Canada Revenue Agency (CRA) reserve captures the provincial tax effect of claims which have not yet received CRA approval. In the absence of rate-regulation, these reserve accounts would not exist on the balance sheet and would be recorded as period expenses or income on the income statement.

[2] Deferral accounts
Deferral accounts are intended to mitigate the impact of variances between forecast and actual costs. To the extent actual costs differ from the approved forecast, the following year's revenue requirement may be adjusted accordingly. The Partnership has a number of deferral accounts. The Partnership's direct assigned capital deferral account captures the difference between rates earned on forecasted capital additions and those earned on actual capital additions for projects direct assigned by the AESO. The property tax, insurance and non-issued debt deferral accounts were recently established by the EUB in Decision 2005-019 received in March 2005. The intent of the insurance deferral account is to manage the impact of non-controllable cost variances with respect to commercial insurance premiums. The property tax deferral account is intended to mitigate the uncertainty associated with forecasting the growth in property tax base and mill rates. The non-issued debt deferral account records the differences between the forecast and actual cost of debt due to changes in interest rates, a change in term or change in the issue costs of a debt issue. The CRA deferral account records the differences between the forecasted provincial tax effect of expense claims and the actual expense claims which have been filed with the CRA.

In the absence of rate-regulation, these deferral accounts would not exist on the balance sheet and would be recorded as period expenses or income on the income statement.

3. REGULATORY ASSETS AND LIABILITIES (CONT'D)

[3] Regulated financing fees

As directed by the EUB, finance fees associated with the Partnership's initial Bridge Bonds were rolled over into the replacement debt and amortized over the respective terms of the new debt issues where the $100.0 million debt issue is amortized over five years and the $200.0 million debt issue is amortized over 10 years. The balance represents the unamortized debt issue costs. The regulatory asset is amortized and included in operating results on the same basis and over the same period as that approved for rate-setting purposes. In the absence of rate regulation, GAAP would require the write-off of unamortized debt issue costs in the year the debt is retired.

For the year ended December 31, 2005 amortization of finance fees totalled $1.6 million, which is $0.487 million higher than would have been recorded in the absence of rate regulation. Unamortized finance fees are included in working capital and the associated amortization is reflected in the debt rate calculation.

[4] Pension asset offset

In order to recognize the pension expense or income in these financial statements on the same basis as it is recovered through the rates charged to customers, a regulatory liability has been established which is equal to the pension asset recognized. This liability will be reduced or increased on the same basis as the pension asset is reduced or increased, thus changing the pension expense or income which would be recorded in the absence of rate regulation to the amount allowed for rate setting purposes.

In the absence of rate regulation, under GAAP, the amount of pension expense that would have been recorded for the year ended December 31, 2005 is $1.85 million versus $1.70 million actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2005 is $0.148 million higher than would have been recorded in the absence of rate regulation.

[5] Future income tax liability

As prescribed by EUB directive, income tax expense is recovered through customer rates based on the taxes payable method for provincial tax and on the liability method for federal tax. Therefore, rates include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

The Partnership is not subject to income tax. The future income tax liability was acquired from TransAlta on the acquisition of the transmission assets and liabilities. It represents the loss of future revenue that would have otherwise been payable to the Partnership as TransAlta collected both current and future taxes in their rate revenues and the Partnership inherited these tax and accounting basis differences. The regulatory liability will be drawn down and included in operating results once the tax and temporary accounting differences reverse. Currently, there is no income effect associated with the future income tax liability as tax and temporary accounting differences have not reversed.

3. REGULATORY ASSETS AND LIABILITIES (CONT'D)

[6] Regulatory asset retirement obligations

GAAP requires the Partnership to record liabilities for all legal obligations associated with the retirement of property, plant and equipment. These liabilities are recorded at their fair values in the period in which the obligation is incurred, with an accompanying addition to the recorded cost of the asset. As a rate regulated entity, the Partnership recorded a provision for future asset retirement costs recovered through tariff rates. The amounts recovered through rates differ from the amount recognized under GAAP. This difference is represented in the regulatory asset retirement obligations. Any future rates are expected to be adjusted for any difference between asset retirement costs actually incurred and amounts currently collected in rates.

For the year ended December 31, 2005, GAAP required $2.996 million to be recorded as accretion expense to the asset retirement obligations and $2.697 million to be recorded as depreciation expense for the asset retirement costs that are added to the carrying amounts of property, plant and equipment. In comparison, the Partnership recovered $6.4 million in tariff rates over the same time period. This difference is recognized as an addition/decrease to the regulatory liability balance. In the absence of rate regulation the regulated asset retirement obligations would not be on the balance sheet and would be recorded as period expense or income on the income statement.

Generic cost of capital

On July 2, 2004, the EUB issued its Decision 2004-052 with respect to the Generic Cost of Capital proceeding. It details a standardized approach to rate of return and capital structure for participating utilities. Decision 2004-052 set a generic rate of return on common equity (Return on Equity or ROE) of 9.60% for 2004. Decision 2004-052 also approved an annual adjustment mechanism or formula for the purpose of establishing the generic ROE for 2005 and later years. This mechanism yielded an ROE of 9.50% for 2005.

The EUB decision concluded that the Partnership may earn an ROE using a deemed equity ratio of 35%.

Other items affected by rate regulation

The EUB permits AFUDC to be included in the rate base, based on the Partnership's weighted average cost of capital. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

For rate setting purposes the property, plant and equipment amount included in the rate base calculation is the cost of property, plant and equipment less the provision for future removal and site restoration and the cost of assets under construction and unamortized software.

4. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2005, the estimated total undiscounted amount of asset retirement obligations was approximately $154.0 million. The obligations will be settled over the useful life of the assets, with the majority of the retirements estimated to occur between 2006 and 2040. Discount rates ranging from 4.81% to 5.67% were used to calculate the carrying value of the asset retirement obligations.

4. ASSET RETIREMENT OBLIGATIONS (CONT'D)

	December 31, 2005	December 31, 2004
(in thousands of dollars)		
Balance, beginning of period	**$ 54,162**	$ 52,816
Liabilities incurred in period	**457**	-
Liabilities settled in period	**(1,339)**	(642)
Accretion expense	**2,996**	1,988
Balance, end of period	**$ 56,276**	$ 54,162

5. CONTINGENCY

The General Partner has been named as a party to an action commenced on December 5, 2005 by George and Karen Gray alleging the improper operation of specific transmission assets owned by AltaLink. The amount of damages claimed by the plaintiffs is estimated at $7.0 million. The claim alleges that the operational concerns began in 1984 and also names TransAlta as a party to the action. AltaLink acquired the transmission business from TransAlta in 2002 and intends to work with TransAlta to defend the claim. At this time management is unable to predict the outcome of the claim, therefore a provision for the liability is not included in the financial statements as at December 31, 2005.

The General Partner has been named as a party to an action commenced on August 14, 2003 by the United Utility Workers Association and others, in respect of the use and control of pension funds acquired from TransAlta in connection with the purchase of the transmission business. The General Partner has not been required to file a statement of defence at this time and does not believe that it will be required to defend. As the claim relates directly to actions taken by TransAlta prior to the acquisition of the transmission business by AltaLink, it is AltaLink's position that the claim constitutes an excluded liability under the Acquisition Agreement and AltaLink has provided notice to TransAlta of its intention to seek indemnification in respect thereof from TransAlta.

6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2005			December 31, 2004		
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
(in thousands of dollars)						
Transmission network	**$ 1,128,602**	**$ (161,521)**	**$ 967,081**	$ 1,010,441	$ (129,526)	$ 880,915
Assets under construction	**37,250**	**-**	**37,250**	22,146	-	22,146
	$ 1,165,852	**$ (161,521)**	**$ 1,004,331**	$ 1,032,587	$ (129,526)	$ 903,061

The total amount of AFUDC capitalized for the twelve months ended December 31, 2005 was $2.621 million, $1.17 million for the eight months ended December 31, 2004 and $0.464 million for the twelve months ended April 30, 2004.

7. DEBT

(in thousands of dollars)	Effective interest rate	Maturing	**December 31, 2005**	December 31, 2004
Series 3 8.00% *(note 8)*	8.01%	2012	**$ 85,000**	$ 85,000
Series 03-1 4.45%	5.07%	2008	**100,000**	100,000
Series 03-2 5.43%	5.71%	2013	**326,086**	326,202
Capital lease obligations		2005	**-**	28
Commercial paper	4.20%	2008	**110,747**	-
Credit facility		2008	**-**	53,705
Total debt			**621,833**	564,935
Less: short-term debt		2006	**122**	144
Total long-term debt			**$ 621,711**	$ 564,791

As per the amended and restated master trust indenture dated April 28, 2003 between the Partnership, the General Partner, and BNY Trust Company of Canada, as trustee, the Partnership has secured the obligations relating to the Series 03-1 Senior Bonds, Series 03-2 Senior Bonds, Series 3 Subordinated Bonds, and its credit facilities. Collateral for the secured debt obligations consists of a first floating charge security interest on the Partnership's assets. The Series 03-1 Senior Bonds, Series 03-2 Senior Bonds and the credit facilities rank equally with each other and all future senior secured indebtedness that is issued by the Partnership.

a) Credit facility

As at December 31, 2005, the Partnership had $285.0 million of credit facilities which mature in 2008.

	Committed	**Drawdowns**	**Maturity Date**
Commercial paper back up facility	**$ 200,000**	**$ -**	December 12, 2008
Credit facility	**85,000**	**-**	May 5, 2008
	$ 285,000	**$ -**	

The commercial paper back-up facility provides support for the borrowing under the unsecured commercial paper program of $200.0 million. As at December 31, 2005, borrowing under this program was $110.7 million. This amount has been classified as long-term debt because the committed commercial paper back-up facility maturity date exceeds one year. The average maturity period for the commercial paper debt is 41 days as at December 31, 2005.

The $200.0 million commercial paper back-up facility can only be used to support the commercial paper program by way of Canadian prime rate loans and bankers' acceptances.

As a result of the establishment of the commercial paper program in 2005, AltaLink has revised its credit facility instruments by amending the $185.0 million credit facility to become an $85.0 million credit facility.

The $85.0 million credit facility may be used for capital expenditures and general corporate purposes. This $85.0 million facility bears interest at either the lenders' rates for Canadian prime rate loans, U.S. base rate loans, bankers' acceptances or LIBOR loans, plus applicable margins.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

7. DEBT (CONT'D)

b) Letters of credit

As at December 31, 2005, the Partnership had letters of credit outstanding totalling $0.070 million (December 31, 2004 - $0.089 million).

c) Debt facilities

Series 3

Interest on the Series 3 Subordinated Bond is payable quarterly on February 1, May 1, August 1 and November 1. The payment of the principal and interest of the Series 3 Subordinated Bond is subordinated to all senior bonds. The Series 3 Subordinated Bond is payable to AILP.

Series 03-1 and Series 03-2

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 upon not less than 30 days and not more than 60 days notice at a redemption price of the principal, any accrued and outstanding interest, and in some circumstances a premium.

d) Interest expense

	Twelve months ended December 31, 2005	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
(in thousands of dollars)			
Deferred financing fees amortized	**$ 1,613**	$ 1,163	$ 1,181
Interest on debt	**31,590**	20,336	31,105
Total interest and amortization of deferred financing fees on debt	**$ 33,203**	$ 21,499	$ 32,286
Less: short-term portion of deferred financing fees amortized	**-**	-	172
Less: short-term portion of interest on debt	**1**	4	5,936
Total interest and amortization of deferred financing fees on long-term debt	**$ 33,202**	**$ 21,495**	**$ 26,178**

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

7. DEBT (CONT'D)

e) Principal repayments

Maturing (in thousands of dollars)	
2006	**$ 122**
2007	**128**
2008	**210,882**
2009	**142**
2010 and thereafter	**410,559**
	$ 621,833

8. RELATED PARTY TRANSACTIONS

In the normal course of business, the Partnership transacts with its partners and other related entities under common control. The following transactions were measured at the exchange amount:

	Twelve months ended December 31, 2005	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
(in thousands of dollars)	**$**	$	$
Included in operating costs are the following amounts charged from related parties:			
Employee compensation and benefit charges	**29,763**	17,475	22,762
Consulting services	**4**	10	-
Operating expenses	**18**	25	178
Interest expense on Series 3 Subordinated Bond	**6,800**	4,552	13,097
Financing fees	**68**	-	2,183
Included in property, plant and equipment are the following amounts charged from related parties:	**96,985**	47,595	55,898
Included in miscellaneous revenue are the following amounts charged to related parties:	**463**	288	935

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

	December 31, 2005	December 31, 2004
(in thousands of dollars)	**$**	$
AltaLink Management Ltd.	**(1,595)**	262
AltaLink Investment Management Ltd.	**305**	88
SNC Lavalin ATP Inc.	**(13,094)**	(13,797)
AltaLink Investments, L.P.	**(1,136)**	(1,133)

9. REGULATORY DECISIONS

On March 12, 2005, the Partnership received Decision 2005-019 from the EUB which relates to the Partnership's general tariff application for the period covering May 1, 2004 through December 31, 2006. On July 28, 2005, in Decision 2005-082, the EUB approved the Partnership's compliance with Decision 2005-019. The effect of the decisions has been reflected in these financial statements for the twelve months ended December 31, 2005. Part of the Decision resulted in a $7.5 million increase in tariff revenue relating to 2004, which has been recorded in the December 31, 2005 net income.

10. PARTNERS' CAPITAL

The Partnership is authorized to issue an unlimited number of units. The units are voting and participate equally in profits, losses and capital distributions of the Partnership. The Partnership is also authorized to issue preferred partnership units which have the same rights, privileges, restrictions and conditions attaching to all other units except that in the event of the liquidation, dissolution or winding-up of the Partnership, holders of each preferred unit are entitled to participate preferentially in any distribution. The Partnership has not issued any preferred units.

The General Partner does not hold any units in the Partnership. It manages the operations of the Partnership, and has a 0.01% interest in the profits, losses and capital distributions of the Partnership.

Any units issued by the Partnership must be first offered to the existing limited partners in proportion to their ownership interests. Any units offered for sale by any of the existing limited partners to non-owners must first be offered to the existing limited partners. Generally, only units not purchased by the existing limited partners can be issued to outside parties.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

11. EMPLOYEE FUTURE BENEFITS PLANS

	December 31, 2005		December 31, 2004	
	Pension plans	**Other benefits**	Pension plans	Other benefits
(in thousands of dollars)				
Fair value of plan assets				
Balance beginning of period	**$ 6,895**	**$ -**	$ 6,523	$ -
Transfers to defined benefit option	**15**	**-**	-	-
Employee contributions	**18**	**-**	12	-
Company contributions	**-**	**2**	-	-
Experience gain adjustment	**-**	**-**	56	-
Benefit payments	**(6)**	**(2)**	-	-
Actual return on plan assets (net)	**744**	**-**	360	-
Balance, end of period	**$ 7,666**	**$ -**	$ 6,951	$ -
Accrued benefit obligation				
Balance, beginning of period	**$ 5,210**	**$ 1,090**	$ 4,701	$ 770
Plan amendments in the period	**-**	**-**	-	205
Transfers to deferred contribution option	**15**	**-**	-	-
Current service cost	**148**	**70**	92	39
Employee contributions	**18**	**-**	12	-
Benefit payments	**(6)**	**(9)**	-	-
Interest cost	**342**	**63**	202	43
Experience loss	**1,324**	**80**	203	33
Balance, end of period	**$ 7,051**	**$ 1,294**	$ 5,210	$ 1,090
Funded status				
Funded status – surplus (deficit)	**$ 615**	**$ (1,294)**	$ 1,685	$ (1,090)
Unamortized past service costs	**-**	**170**	-	191
Unamortized actuarial (gains) losses	**2,140**	**39**	1,218	(38)
Balance, end of period	**$ 2,755**	**$ (1,085)**	$ 2,903	$ (937)
Amortization period in years	**6**	**10**	7	10

	%	**%**	%	%
Discount rate	**5.0**	**5.0**	6.0	6.0
Expected long-term rate of return on plan assets	**7.0**	**-**	7.0	-
Rate of compensation increase	**3.8**	**-**	3.5	-
Health care cost escalation	**-**	**10.0**	-	9.0
Dental care cost escalation	**-**	**4.5**	-	4.0
Provincial Health Care premium escalation	**-**	**2.3**	-	2.5

11. EMPLOYEE FUTURE BENEFITS PLANS (CONT'D)

a) Description

The General Partner employs staff and provides administrative and operational services to the Partnership on a cost reimbursement basis. As part of the purchase of the transmission assets the Partnership assumed pension obligations in respect of the transmission employees that are part of the defined benefit plan. At the valuation date of April 30, 2002, pension assets to be transferred exceeded the related liabilities assumed. The pension obligation was transferred by the Partnership to the General Partner at the value of the pension surplus and the Partnership will be credited with any pension income and charged for any pension expense. The transfer resulted in a long-term pension asset being established in the Partnership which will be reduced through pension expense charges or increased by pension income. Any cash funding of the pension plan by the General Partner will be reimbursed by the Partnership. The Partnership has indemnified the General Partner for all costs and liabilities associated with its employment of staff, including any pension liabilities. As such the pension is reported as if it is held by the Partnership even though the legal plan sponsor and employer of the staff is the General Partner.

Those members who at the date of the acquisition were covered by the defined benefit option under the TransAlta plan will continue in that option, and all other employees and any new employees are covered under a defined contribution option. The defined benefit provisions of the plan provide a final average pay type benefit. The defined contribution component of the registered pension plan established by the General Partner changed from a 10% employer contribution plan on May 1, 2004, to an 8% employer, and 2% employee contribution plan and the defined benefit component was changed to require the employees to contribute 2% of eligible earnings.

The latest actuarial valuation was done as at December 31, 2004. The effective date of the next required valuation for funding purposes is December 31, 2007.

Other accrued employment benefits include the health and dental coverage provided to some employees. In addition, the General Partner has a supplemental pension plan. Effective April 29, 2002, the supplemental pension plan was provided to those employees who exceed the Income Tax limits on maximum pension contributions. The supplemental pension plan is a defined contribution plan with 6% employer contributions, which is not registered. Membership in the supplemental pension plan is automatic once registered pension plan contributions have reached the maximum annual amount.

11. EMPLOYEE FUTURE BENEFITS (CONT'D)

b) Costs recognized

	December 31, 2005		December 31, 2004		April 30, 2004	
	Registered	**Other**	Registered	Other	Registered	Other
(in thousands of dollars)						
Current service cost	**$ 148**	**$ 70**	$ 92	$ 39	$ 133	$ 32
Interest cost on benefit obligation	**342**	**63**	202	43	274	46
Interest on pension fund assets	**(744)**	**-**	(360)	-	(410)	-
Actuarial obligation gains/losses	**(1,002)**	**187**	204	33	-	-
Amortization of experience losses	-	-	-	-	74	-
Plan amendments	**-**	**-**	-	205	-	-
Difference between expected return and actual return on plan assets	**261**	**-**	56	-	-	-
Difference between actuarial gain recognized for the year and actual actuarial gain on accrued benefit obligation for the period	**1,143**	**(192)**	(160)	(34)	-	-
Difference between amortization of past service costs for the year and actual plan amendments for the period	**-**	**20**	-	(191)	-	-
Defined benefit expense	**$ 148**	**$ 148**	$ 34	$ 95	$ 71	$ 78
Regulatory adjustment to offset expense	**(148)**	**-**	(34)	-	(71)	-
Defined benefit expense recognized in financial statements	**$ -**	**$ 148**	$ -	$ 95	$ -	$ 78
Defined contribution expense of registered pension plan	**1,705**	**-**	952	-	2,957	-
Defined benefit pension income due to EUB decision	-	-	-	-	2,863	-
Supplemental pension expense	**-**	**39**	-	38	-	98
Net expense recognized in the financial statements	**$ 1,705**	**$ 187**	$ 952	$ 133	$ 5,820	$ 176

The total defined contribution expense of $1.7 million for the twelve months ended December 31, 2005 (eight months ended December 31, 2004 - $0.952 million) was provided in the following manner: $0.006 million was taken out of the defined benefit surplus (December 31, 2004 - nil) $1.6 million (December 31, 2004 -$0.9 million) was provided by cash contributions and the remaining $0.113 million (December 31, 2004 - $0.077million) will be cash contributions next year.

Sensitivity to changes in assumed health care cost trend rates as at December 31, 2005 are as follows:

	One percentage point increase	One percentage point decrease
(in thousands of dollars)	**$**	$
Effect on total service and interest cost	**15**	(13)
Effect on post-retirement benefit obligation	**130**	(116)

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

12. FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

Cash and cash equivalents consist of amounts held in cash deposit accounts with a Canadian chartered bank. Due to the short-term nature of cash, the carrying values do not differ materially from the fair values. Cash earned an effective interest rate of 3.22% at December 31, 2005 and 1.45% at December 31, 2004.

Accounts receivable, accounts payable and accrued liabilities are short-term in nature and, as such, the carrying amounts are a reasonable estimate of the fair values of these items.

As at December 31, 2005 the fair values of the outstanding debt are as follows:

	December 31, 2005	December 31, 2004
(in thousands of dollars)	**$**	$
Series 03-1 Senior Bonds	**100,751**	103,888
Series 03-2 Senior Bonds	**345,441**	339,198
Series 3 Subordinated Bond	**101,200**	88,630

Borrowings under commercial paper and the bank credit facility are for short-terms and are market rate based, thus the carrying values approximate fair value.

b) Restricted cash

Restricted cash consists of cash provided to the Partnership by customers in advance of construction. As construction expenses are incurred for specified projects the cash moves from restricted cash to cash and cash equivalents.

c) Concentrations of credit risk

The Partnership has a concentration of credit risk as approximately 91% of its accounts receivable balance is due from the AESO (December 31, 2004 – 86%). For the twelve month period ended December 31, 2005, tariff revenues accounted for approximately 94% (December 31, 2004 – 95%; April 30, 2004 – 94%) of operating revenues. The remainder was comprised mainly of revenue from tower and land leases and the provision of services to others.

13. COMMITMENTS

On June 1, 2002 the Partnership entered into a ten year operating lease for premises. On June 1, 2004 the Partnership entered into a five year operating lease for a separate premise, and received a leasehold improvement allowance from the landlord in the amount of $0.396 million. On September 22, 2005 the partnership entered into a 20 year operating lease for a new head office in 2006. The Partnership is committed to additional operating leases for premises in Red Deer, Lethbridge and Calgary that all have lease terms up to five years. Of the total expected minimum lease payments, 95% relates to the Partnership's head office.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Twelve months ended December 31, 2005 and eight months ended December 31, 2004

13. COMMITMENTS (CONT'D)

Expected minimum lease payments in future years are as follows:

(in thousands of dollars)

2006	**$ 1,861**
2007	**2,651**
2008	**2,624**
2009	**2,627**
2010 and thereafter	**32,769**
	$ 42,532

14. OTHER LIABILITIES

Other liabilities consist of the following:

(in thousands of dollars)	**December 31, 2005**	December 31, 2004
Other liabilities	**$ 1,241**	$ 410
Funds received in advance of construction	**29,638**	-
	$ 30,879	$ 410

15. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items related to operations:

(in thousands of dollars)	**Twelve months ended December 31, 2005**	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
(Increase) decrease in accounts receivable	**$ (1,767)**	$ (2,197)	$ 221
(Increase) decrease in materials and supplies	**(112)**	63	(159)
(Increase) decrease in prepaid expenses and deposits	**(871)**	21	(266)
(Decrease) increase in accounts payable and accrued liabilities	**(994)**	(8,911)	11,858
Increase in other liabilities	**831**	202	17
(Decrease) increase in regulatory liabilities	**(3,711)**	2,613	(6,604)
Increase in short-term debt	**1**	54	55
	$ (6,623)	$ (8,155)	$ 5,122

16. COMPARATIVE FIGURES

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