Financial Statements

AltaLink, L.P.

For the years ended December 31, 2006 and 2005

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AUDITORS' REPORT

To the Partners of AltaLink, L.P.

We have audited the balance sheet of AltaLink, L.P. as at December 31, 2006 and the statements of income and retained earnings, changes in partners' equity and cash flows for the year then ended. 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 audit.

We conducted our audit 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, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those financial statements in their report dated March 20, 2006.

Deloitte & Touche LLP

February 20, 2007
Calgary, Alberta

Chartered Accountants

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AltaLink, L.P.

BALANCE SHEET

(in thousands of dollars)

As at		**December 31, 2006**		December 31, 2005
ASSETS				
Current				
Cash and cash equivalents *[note 12a]*	**$**	**—**	$	—
Restricted cash *[note 12b]*		**47,214**		29,968
Accounts receivable *[note 8]*		**39,716**		17,714
Materials and supplies		**1,226**		1,012
Prepaid expenses and deposits		**2,473**		2,203
Regulatory assets *[note 3]*		**5,320**		—
		95,949		50,897
Property, plant and equipment *[note 6]*		**1,003,567**		865,288
Deferred financing fees		**5,501**		5,516
Regulatory assets *[note 3]*		**2,620**		7,582
Accrued benefit pension asset *[note 11]*		**2,466**		2,755
Construction materials and supplies		**11,039**		9,108
Goodwill		**202,066**		202,066
	$	**1,323,208**	$	1,143,212
LIABILITIES AND PARTNERS' EQUITY				
Current				
Accounts payable and accrued liabilities *[note 8]*	**$**	**68,173**	$	28,775
Other liabilities *[note 14]*		**49,368**		30,879
Regulatory liabilities *[note 3]*		**6,421**		113
Current portion of long-term debt *[note 7]*		**128**		122
		124,090		59,889
Accrued employment benefits liabilities *[note 11]*		**1,446**		1,225
Other liabilities		**1,332**		1,866
Regulatory liabilities *[note 3]*		**14,982**		18,123
Asset retirement obligations *[note 4]*		**56,380**		56,276
Long-term debt *[notes 7 & 8]*		**700,218**		621,711
		898,448		759,090
Commitments and contingencies *[notes 5 and 13]*				
Partners' equity				
Partners' capital *[note 10]*		**363,536**		338,536
Retained earnings		**61,224**		45,586
		424,760		384,122
	$	**1,323,208**	$	1,143,212

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors

Director **Director**

AltaLink, L.P.

STATEMENT OF INCOME AND RETAINED EARNINGS

(in thousands of dollars)

	Year ended December 31, 2006	Year ended December 31, 2005
REVENUE		
Operating and miscellaneous revenue	**$ 199,272**	$ 196,053
Allowance for equity funds used during construction	**2,084**	1,239
	201,356	197,292
EXPENSES		
Operating *[note 8]*	**66,769**	63,926
Depreciation and accretion	**64,826**	64,337
	131,595	128,263
	69,761	69,029
Interest and amortization of deferred financing fees *[notes 7 & 8]*	**(37,020)**	(33,203)
Allowance for debt funds used during construction	**2,569**	1,382
	35,310	37,208
Gain on the sale of assets	**328**	92
Net income for the year	**35,638**	37,300
Retained earnings, beginning of year	**45,586**	24,286
Distributions	**(20,000)**	(16,000)
Retained earnings, end of year	**$ 61,224**	$ 45,586

See accompanying notes to the financial statements

AltaLink, L.P.

STATEMENT OF CHANGES IN PARTNERS' EQUITY

(in thousands)

	Units	Limited Partner	General Partner	Total
Balance at December 31, 2004	**331,904**	**$ 362,786**	**$ 36**	**$ 362,822**
Net income for the year	—	37,296	4	37,300
Distributions	—	(15,998)	(2)	(16,000)
Balance at December 31, 2005	**331,904**	**384,084**	**38**	**384,122**
Net income for the year	—	35,634	4	35,638
Equity injection	—	25,000	—	25,000
Distributions	—	(19,998)	(2)	(20,000)
Balance at December 31, 2006	**331,904**	**$ 424,720**	**$ 40**	**$ 424,760**

See accompanying notes to the financial statements

AltaLink, L.P.

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

	Year ended December 31, 2006	Year ended December 31, 2005
OPERATING ACTIVITIES		
Net income for the year	**$ 35,638**	$ 37,300
Items not involving cash		
Depreciation	**61,853**	61,342
Amortization of deferred financing fees	**1,591**	1,614
Accretion expense	**2,973**	2,996
Allowance for funds used during construction	**(4,653)**	(2,621)
Gain on the sale of assets	**(328)**	(92)
Asset retirement obligations settled	**(323)**	(1,339)
Change in long-term regulatory accruals	**1,335**	(3,444)
Change in other non-cash items	**(26)**	247
Funds generated from operations	**98,060**	96,003
Change in non-cash working capital items *[note 15]*	**(16,862)**	(6,623)
Cash provided by operating activities	**81,198**	89,380
INVESTING ACTIVITIES		
Capital expenditures	**(199,381)**	(139,811)
Increase in customer contributions	**35,298**	9,840
Proceeds from the sale of assets	**332**	91
Cash used in investing activities	**(163,751)**	(129,880)
FINANCING ACTIVITIES		
Increase in debt	**189,382**	57,041
Debt repayment	**(110,869)**	(115)
Decrease in lease obligations	**3**	(29)
Distributions paid	**(20,000)**	(16,000)
Settlement of deferred financing fees	**(1,089)**	(67)
Increase in restricted cash	**(17,246)**	(29,968)
Increase in other liabilities	**17,372**	29,638
Equity injection	**25,000**	—
Cash provided by financing activities	**82,553**	40,500
Net increase in cash and cash equivalents	**—**	—
Cash and cash equivalents, beginning of year	**—**	—
Cash and cash equivalents, end of year	**$ —**	$ —
Cash interest paid during the year	**$ 33,294**	$ 28,673

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005

1. NATURE OF OPERATIONS

AltaLink, L.P. (the Partnership or AltaLink) 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 own and operate regulated transmission assets in Alberta, and acquired electrical transmission assets from TransAlta Energy Corporation (TransAlta) on April 29, 2002. Although the General Partner holds legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

Prior to June 23, 2006, the Partnership indirectly had four limited partners, SNC Lavalin Transmission Ltd. (SNC) (49.995%), OTPPB TEP Inc. (24.998%), Macquarie Transmission Alberta Ltd. (Macquarie) (14.999%) and 3057246 Nova Scotia Company (9.999%). On June 13, 2006, the Alberta Energy and Utilities Board approved the Partnership's application to change its ownership structure and the transaction was completed on June 23, 2006. Under the new ownership structure, SNC-Lavalin Transmission Ltd. indirectly owns 76.915% of AltaLink, L.P. through subsidiaries, with Macquarie Transmission Alberta Ltd. owning the remaining 23.075% limited partnership interest. Financial adjustments between the limited partners for this change in ownership were effective as of May 31, 2006.

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 Alberta's portion of the interconnection facilities which connect its network with the transmission system in British Columbia, and allow electricity to flow into and out of Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The Partnership's management has prepared the financial statements of the Partnership in accordance with Canadian generally accepted accounting principles (GAAP) and with the accounting policies described in Note 2(b) for the recognition and measurement of assets and liabilities arising from rate regulation. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

a) Basis of accounting (cont'd)

Examples of significant estimates include: key economic assumptions used to determine the fair value of residual cash flows; the allowance for doubtful accounts, the allowance for obsolescence of materials and supplies; the estimated useful lives of assets; the recoverability of tangible assets including estimates of future costs to retire physical assets; the recoverability of intangible assets with indefinite lives, such as goodwill; the composition of future income tax liability; the accruals for payroll and other employee-related liabilities; certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets; and, the remaining recovery and settlement period of the regulated assets and liabilities.

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.

b) Regulation

The Partnership is regulated by the Alberta Energy and Utilities Board (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 not-for-profit system operator, the Alberta Electric System Operator (AESO).

The Partnership operates under cost of service regulation as prescribed by the EUB. Forecast 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 accounts for some transactions or events differently than it would in the absence of rate regulation; namely, the timing of recognition of certain assets, liabilities, revenues or expenses. This results in the creation of regulatory assets or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

b) Regulation (cont'd)

Through the rate-setting process, certain expenses and credits are deferred as assets or liabilities on the balance sheet until the time they are recovered from or refunded to customers. Regulatory assets represent 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 amounts collected from customers which are either held as reserves for future use or are to be refunded to customers in future periods 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 of a prior period, 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.

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 or 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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 major replacements and upgrades to property, plant and equipment if these costs have been included in capital assets 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 contributions from customers. These contributions are recorded as an offset to 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 rates approved by the EUB are based on the estimated useful lives of assets, and as such are also used by the Partnership 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. The capital costs for regulatory purposes are greater than those reflected in these financial statements. The effective depreciation rates under GAAP range from 1.13% to 33.33%. For regulatory purposes the net proceeds from the retirement or disposal of an asset in the normal course of business is reflected in accumulated depreciation. When a regulated asset is retired or disposed of in the normal course of business, 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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.

Management performed a goodwill impairment test in December 2006 by examining the business and regulatory environment, the ownership structure, the financing activities, credit ratings, and interest rates. It also performed a discounted cash flow and net fair value analysis, which compared favourably to the carrying amount of goodwill. Management concluded that there have been no significant changes in circumstances since the fair value determination in December 2005 and that the carrying value of the goodwill has not been impaired.

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 benefit cost of the partnership's defined benefit pension and post-retirement benefits plans is actuarily determined, by plan, using the projected benefit method pro-rated on service and management's best estimate assumptions, including assumptions of expected long-term rate of return on plan assets, discount rates, salary escalation and expected growth rate of health care costs. The liability discount rate is determined based on a portfolio of high-quality corporate bonds with cash flows that match the expected benefit payments under the plan. 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 accrued 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 lifetime 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.

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3. REGULATORY ASSETS AND LIABILITIES

The following are the regulatory assets and liabilities:

(in thousands of dollars)	**December 31, 2006**	**Change to regulatory asset/liability balance in 2006**	**Remaining recovery settlement period (years)**	December 31, 2005
Regulatory assets				
Self insurance reserve [A, B]	**$ 3,085**	**$ (308)**	**1**	$ 3,393
Regulated financing fees [B]	**2,251**	**(487)**	**2-30**	2,738
Hearing costs reserve [A, B]	**1,755**	**1,012**	**1**	743
Canada Revenue Agency deferral	**369**	**180**	**2**	189
Direct assigned capital deferral account	**480**	**(39)**	**1**	519
Total regulatory assets	**7,940**			7,582
Less: Current regulatory assets	**5,320**			—
Long-term regulatory assets	**$ 2,620**			$ 7,582
Regulatory liabilities				
Self-insurance reserve [A, B]	**$ 413**	**$ 413**	**—**	$ —
Pension liability account [B]	**3,805**	**94**	**—**	3,711
Pension asset offset	**2,466**	**(289)**	**—**	2,755
Future income tax liability [B]	**8,100**	**—**	**—**	8,100
Property tax deferral account [A]	**1,679**	**731**	**1**	948
Insurance deferral account [A]	**2,040**	**719**	**1**	1,321
Non-issued debt deferral account [A]	**2,496**	**1,499**	**1**	997
Canada Revenue Agency reserve [A, B]	**404**	**—**	**—**	404
Total regulatory liabilities	**21,403**			18,236
Less: Current regulatory liabilities	**6,421**			113
Long-term regulatory liabilities	**$ 14,982**			$ 18,123

A. For the identified 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, 2006 is nil (December 31, 2005 – nil).

B These identified regulatory assets and liability accounts are included in the rate base and subject to return on investment.

3. REGULATORY ASSETS AND LIABILITIES [CONT'D]

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.

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

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 the approved forecast, then the reserve will grow and may be refunded in the next regulatory period. If expenses are higher than forecast, the excess costs are recoverable in the next regulatory period, 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 correspondingly reduces the amount of revenue recognized in the current period.

The Partnership has a number of reserve accounts. The hearing costs reserve account represents a reserve for costs incurred during hearings in which the Partnership is an Applicant. The self insurance reserves provide financial protection from uninsurable or uninsured losses and represents claims costs incurred by the Partnership. 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 revenue on the income statement.

The pension liability represents amounts for pension expense which AltaLink collected in revenue but for which no contribution has been made into the plan. It is expected that this liability on the regulatory books will be extinguished through either the future required funding of the plan, while not recognizing any pension expense and resulting revenue, or through a refund to the customers.

3. REGULATORY ASSETS AND LIABILITIES [CONT'D]

Deferral accounts

Deferral accounts are intended to mitigate the impact to customers as a result 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 the tariff earned on forecasted capital additions and those earned on actual capital additions for projects directly assigned by the AESO. The property tax, insurance and non-issued debt deferral accounts were established by the EUB 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 a debt issue due to changes in interest rates, a change in term or change in issue costs. 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 revenue on the income statement.

Regulated financing fees

As directed by the EUB, finance fees associated with the Partnership's initial Bridge Bonds were rolled over into replacement debt and they are being amortized over the respective terms of the new debt issues: five years (2003-2008) for the $100 million debt issue and 10 years (2003-2013) for the $200 million debt issue. 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, 2006 amortization of finance fees totaled $1.59 million (December 31, 2005 - $1.6 million), which is $0.487 million (December 31, 2005 - $0.487 million) higher than would have been recorded in the absence of rate regulation.

3. REGULATORY ASSETS AND LIABILITIES [CONT'D]

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.

In the absence of rate regulation, under GAAP, the amount of pension expense that would have been recorded for the year ended December 31, 2006 is $2.45 million (December 31, 2005 - $1.85 million) versus $2.16 million (December 31, 2005 - $1.70 million) actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2006 is $0.289 million (December 31, 2005 - $0.148 million) higher than would have been recorded in the absence of rate regulation.

Future income tax liability

As prescribed by EUB directive, the Partners' income tax expense is recovered through AltaLink's tariff revenues based on the taxes payable method for provincial tax and on the liability method for federal tax. Therefore, rates include the recovery of future federal 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 an adjustment to 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 revenue 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.

Generic cost of capital

The EUB conducted a generic cost of capital hearing for the purpose of considering a standardized approach to determining the rate of return on equity (ROE) and capital structure for all of the gas and electric utilities under its jurisdiction, including the Partnership. The EUB issued Decision 2004-052 on July 2, 2004, in which it approved a 35% deemed common equity ratio for the Partnership and a 9.6% ROE for the period ended December 31, 2004. The rate of return on common equity is adjusted annually for the years 2005 through 2008. The adjustment is calculated as 75% of the change in yield of long-term Government of Canada bonds. It was further provided that if the adjustment exceeds +/- 2%, the EUB will consider undertaking a review of the formula. On November 30, 2004, the EUB issued an order setting the 2005 ROE at 9.5%, consistent with the adjustment formula. On November 22, 2005, the EUB approved an ROE of 8.93% for 2006. On November 30, 2006, the EUB issued an amended order setting the 2007 ROE at 8.51%.

3. REGULATORY ASSETS AND LIABILITIES [CONT'D]

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.

The regulatory rate base consists of property, plant and equipment less the cost of assets under construction and includes a provision for working capital, site restoration costs, and the regulatory asset and liability accounts identified in the table above.

4. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2006, the estimated total undiscounted amount of asset retirement obligations was approximately $145.7 million (December 31, 2005 - $154.0 million) . The obligations will be settled over the useful lives of the assets, with the majority of the retirements estimated to occur between 2007 and 2047. Discount rates ranging from 4.40% to 5.14% were used to calculate the carrying value of the asset retirement obligations.

	Year ended December 31, 2006	Year ended December 31, 2005
(in thousands of dollars)		
Balance, beginning of year	**$ 56,276**	$ 54,162
Net change in liabilities for the year	**(2,546)**	457
Liabilities settled in year	**(323)**	(1,339)
Accretion expense	**2,973**	2,996
Balance, end of year	**$ 56,380**	$ 56,276

For the year ended December 31, 2006, GAAP required $2.973 million (December 31, 2005 - $2.996 million) to be recorded as accretion expense to the asset retirement obligations and $2.622 million (December 31, 2005 - $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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2006 and 2005

4. ASSET RETIREMENT OBLIGATIONS [CONT'D]

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

The Partnership analyzed the component parts of the system to determine whether it has legal obligations associated with the transmission system. The transmission system includes transmission lines, substations and telecom equipment.

Since the Partnership determined that there were no legal obligations associated with the interim retirement of electric substations and telecom sites, interim asset retirement obligations for these sites were not recognized. While there will be future retirement obligations associated with the final retirement of these assets, because the date of final removal cannot be reasonably determined no obligation has been recognized at this time.

The Partnership has determined that there are legal obligations associated with the interim retirement of the component parts of the transmission lines. 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 types of assets.

No asset retirement obligation has been recognized for the final retirement and removal of the transmission lines as the date of the retirement, and therefore the fair value of the obligation cannot be determined.

5. CONTINGENCIES

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 the Partnership. 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. The Partnership 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, 2006.

5. CONTINGENCIES [CONT'D]

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 the Partnership, it is the Partnership's position that the claim constitutes an excluded liability under the acquisition agreement and the Partnership has provided notice to TransAlta of its intention to seek indemnification in respect thereof from TransAlta.

The Partnership has received a notice from Imperial Oil Limited (IOL) claiming indemnification by the Partnership in the approximate amount of $23.0 million pursuant to the terms of an interconnection agreement between the Partnership and IOL dated May 18, 2006. The indemnity claim arises from a disruption to power service on December 13, 2006, which caused a portion of IOL's refinery to shut down. The claim includes approximately $21.0 million relating to alleged production losses incurred during the shut down. It is the Partnership's position that both the interconnection agreement with IOL and the Liability Protection Regulation (Alberta) shield the Partnership from liability for indirect damages, including loss of production. Currently, the Partnership and IOL are in discussions to resolve the issue, and therefore the potential outcome and amount of any settlement are presently unknown. As a result, no amounts have been accrued in relation to this issue at December 31, 2006.

In addition, from time to time, AltaLink is subject to other legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, none of these matters is reasonably expected to result in a material adverse effect on AltaLink's financial position.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2006 and 2005

6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2006			December 31, 2005		
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
(In thousands of dollars)						
Transmission network	**$ 1,102,376**	**(211,832)**	**$ 890,544**	$ 955,155	$ (161,257)	$ 793,898
Assets under construction	**84,049**	**—**	**84,049**	37,250	—	37,250
Long-lived asset [1]	**44,101**	**(15,127)**	**28,974**	46,805	(12,665)	34,140
	$ 1,230,526	**(226,959)**	**$ 1,003,567**	$ 1,039,210	$ (173,922)	$ 865,288

1. Long-lived asset is the offset to the Asset Retirement Obligation, which is disclosed in long-term liabilities.

The total amount of AFUDC capitalized for the year ended December 31, 2006 was $4.653 million, and $2.621 million for the year ended December 31, 2005.

At December 31, 2006, the Partnership reclassified $140.5 million (December 31, 2005 - $139.0 million) from regulatory liabilities to plant, property and equipment. This liability was originally recorded to reflect costs associated with future site restoration, which were recovered through rates allowed by the regulator, based on the original acquisition cost of the transmission assets. The liability was reclassified as the capital assets balance included in the rate base calculation is net of the provision for future site restoration costs. This reclassification only affects the balance sheet and has no impact on the income statement.

7. DEBT

	Effective interest rate	Maturing	**December 31, 2006**	December 31, 2005
(in thousands of dollars)				
Series 3, 8.00% *[note 8]*	**8.010%**	2012	**$ 85,000**	$ 85,000
Series 03-1, 4.45%	**5.070%**	2008	**100,000**	100,000
Series 03-2, 5.43%	**5.700%**	2013	**325,964**	326,086
Series 06-1, 5.249%	**5.270%**	2036	**150,000**	—
Commercial paper	**4.340%**	2009	**39,382**	110,747
Total debt			**700,346**	621,833
Less: short-term debt			**128**	122
Total long-term debt			**$ 700,218**	$ 621,711

7. DEBT [CONT'D]

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, Series 06-1 Senior 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, Series 06-1 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, 2006, the Partnership had $285.0 million of credit facilities which mature in 2009.

	Committed	**Drawdowns**	**Maturity Date**
(in thousands of dollars)			
Commercial paper back up facility	**$ 200,000**	$ —	December 13, 2009
Credit facility	**85,000**	—	May 4, 2009
	$ 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, 2006, borrowing under this program was $39.4 million (December 31, 2005 - $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 12 days as at December 31, 2006 (December 31, 2005 – 41 days).

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.

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.

b) Letters of credit

As at December 31, 2006, the Partnership had letters of credit outstanding totaling $0.860 million (December 31, 2005 - $0.070 million).

7. DEBT [CONT'D]

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 have no right to early redemption and mature on 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 unpaid interest, and in some circumstances a premium.

Series 06-1

The Notes 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 amount, any accrued and unpaid interest, and in some circumstances a premium.

d) Interest expense

	Year ended December 31, 2006	Year ended December 31, 2005
(in thousands of dollars)		
Deferred financing fees amortized	**$ 1,591**	$ 1,613
Interest on debt	**35,429**	31,590
Total interest and amortization of deferred financing fees on debt	**37,020**	33,203
Less: short-term portion of interest on debt	**7**	1
Total long-term portion of interest and amortization of deferred financing fees	**$ 37,013**	$ 33,202

7. DEBT [CONT'D]

e) Principal repayments

(in thousands of dollars)

Maturing	
2007	**$ 128**
2008	**100,000**
2009	**39,381**
2010	**—**
2011	**—**
2012 and thereafter	**560,837**
	$ 700,346

8. RELATED PARTY TRANSACTIONS

In 2002, AltaLink executed a ten-year contract with SNC-Lavalin ATP Inc., a subsidiary of SNC-Lavalin Inc., for the provision of engineering, procurement and construction management services for directly assigned capital projects undertaken by AltaLink. The terms and conditions of this contract were reviewed by the EUB and approved in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the EUB Audit and Compliance Group.

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:

(in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005
Included in operating costs are the following amounts charged from related parties:		
Employee compensation and benefit charges	**$ 36,434**	$ 29,763
Consulting services	**83**	79
Operating expenses	**12**	18
Interest expense on Series 3 Subordinated Bond	**6,800**	6,800
Financing fees	**—**	68
Included in property, plant and equipment additions are the following amounts charged from related parties:	**157,378**	92,105
Included in miscellaneous revenue are the following amounts charged to related parties:	**159**	463

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2006 and 2005

8. RELATED PARTY TRANSACTIONS [CONT'D]

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

	December 31, 2006	December 31, 2005
(in thousands of dollars)		
AltaLink Management Ltd.	**$ (2,842)**	$ (1,595)
AltaLink Investment Management Ltd.	**(193)**	305
SNC Lavalin ATP Inc.	**(44,267)**	(13,094)
AltaLink Investments, L.P.	**(1,136)**	(1,136)

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 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 pertaining to the fiscal period ended December 31, 2004, has been reflected in the financial statements for the twelve months ended December 31, 2005.

On February 16, 2007, the EUB issued Decision 2007-012 outlining the disposition of AltaLink's application for approval of its revenue requirement and deferral and reserve accounts for the period from January 1, 2007 to December 31, 2008. The Decision also outlined the settlement of the self-insurance reserve account for the period from May 1, 2004 to December 31, 2005.

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.

During the year, the Partners contributed $25.0 million of additional equity, although no partnership units were distributed.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2006 and 2005

11. EMPLOYEE FUTURE BENEFITS PLANS

	Year ended December 31, 2006		Year ended December 31, 2005	
	Pension Plans	**Other benefits**	Pension plans	Other benefits
(in thousands of dollars)				
Fair value of plan assets				
Balance, beginning of year	**$ 7,666**	**$ —**	$ 6,895	$ —
Transfers to defined benefit option	**—**	**—**	15	—
Employee contributions	**18**	**—**	18	—
Company contributions	**—**	**5**	—	2
Benefit payments	**(35)**	**(5)**	(6)	(2)
Actual return on plan assets (net)	**854**	**—**	744	—
Balance, end of year	**8,503**	**—**	7,666	—
Accrued benefits obligation				
Balance, beginning of year	**7,051**	**1,294**	5,210	1,090
Plan amendments in year	**—**	**327**	—	—
Transfers to deferred contribution option	**—**	**—**	15	—
Current service cost	**188**	**89**	148	70
Employee contributions	**18**	**—**	18	—
Benefit payments	**(35)**	**(5)**	(6)	(9)
Interest cost	**362**	**69**	342	63
Experience loss (gain)	**53**	**(18)**	1,324	80
Balance, end of year	**7,637**	**1,756**	7,051	1,294
Funded status				
Funded status – surplus (deficit)	**866**	**(1,756)**	615	(1,294)
Supplemental pension plan	**—**	**(188)**	—	(140)
Unamortized past service costs	**—**	**477**	—	170
Unamortized actuarial losses	**1,600**	**21**	2,140	39
Accrued asset (liability), end of year	**$ 2,466**	**$ (1,446)**	$ 2,755	$ (1,225)
Amortization period in years	**5**	**12**	6	12
	%	**%**	%	%
Discount rate	**5.0**	**5.0**	5.0	5.0
Expected long-term rate of return on plan assets	**7.0**	**—**	7.0	—
Rate of compensation increase	**4.0**	**—**	3.8	—
Health care cost escalation	**—**	**9.50**	—	10.0
Dental care cost escalation	**—**	**4.50**	—	4.5
Provincial Health Care premium escalation	**—**	**2.25**	—	2.3

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 component under the TransAlta plan will continue in that component, and all other employees and any new employees are covered under a defined contribution component. 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, which includes base salary plus short-term incentive pay.

The latest actuarial valuation was done as at December 31, 2004 and was extrapolated to December 31, 2006. 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 PLANS [CONT'D]

b) Costs recognized

	Year ended December 31, 2006		Year ended December 31, 2005	
	Registered	**Other**	Registered	Other
(in thousands of dollars)				
Current service cost	**$ 188**	**$ 89**	$ 148	$ 70
Interest cost on benefits obligation	**362**	**69**	342	63
Actual return on plan assets	**(854)**	**—**	(744)	—
Actuarial obligation gain/losses	**53**	**(18)**	(1,002)	187
Plan amendments	**—**	**327**	—	—
Difference between expected return and actual return on plan assets	**318**	**—**	261	—
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefits obligation for the year	**222**	**18**	1,143	(192)
Difference between amortization of past service costs for the year and actual plan amendments for the year	**—**	**(307)**	—	20
Defined benefit expense	**289**	**178**	148	148
Regulatory adjustment to offset expense	**(289)**	**—**	(148)	—
Defined benefit expense recognized in financial statements	**—**	**178**	—	148
Defined contribution expense of registered pension plan	**2,157**	**—**	$ 1,705	—
Supplemental pension expense	**—**	**47**	—	39
Net expense recognized in the financial statements	**$ 2,157**	**$ 225**	1,705	$187

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2006 and 2005

11. EMPLOYEE FUTURE BENEFITS PLANS [CONT'D]

b) Costs recognized (cont'd)

The total defined contribution expense was $2.2 million for the twelve months ended December 31, 2006 (December 31, 2005 - $1.7 million).

Effective May 1, 2004, the defined contribution plan requires members and AltaLink, the plan sponsor, to make contributions of 2% and 8% respectively, of pension eligible earnings, which include base salary plus short-term incentive pay.

Sensitivity to changes in assumed health care cost trend rates as at December 31, 2006 are as follows:

	One percentage point increase	One percentage point decrease
(in thousands of dollars)		
Effect on total service and interest cost	$ 18	$ (16)
Effect on post-retirement benefits obligation	176	(158)

The asset mix as of December 31, 2006 comprises of 65% equity, 33% bonds, and 2% cash.

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.

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, 2006 the fair values of the outstanding long-term debt are as follows:

(in thousands of dollars)	**December 31, 2006**	December 31, 2005
Series 3 Subordinated Bond	**$ 85,000**	$ 101,200
Series 03-1 Senior Bonds	**100,212**	100,751
Series 03-2 Senior Bonds	**341,206**	345,441
Series 06-1 Senior Bonds	**153,129**	—

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. It also includes costs related to future maintenance and operation of certain assets. As construction expenditures are incurred for specified projects the cash is drawn down to fund the construction. Restricted cash is held in short-term investments, the carrying values of which do not differ materially from the fair values. Cash earned an effective interest rate of 4.24% at December 31, 2006 and 3.22% at December 31, 2005.

c) Concentrations of credit risk

The Partnership has a concentration of credit risk as approximately 88% of its accounts receivable balance is due from the AESO (December 31, 2005 – 91%). For the year ended December 31, 2006, tariff revenues accounted for approximately 94% (December 31, 2005 – 94%) of operating revenues. The remainder was comprised mainly of revenue from tower and land leases and the provision of services to others.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2006 and 2005

13. COMMITMENTS

On September 22, 2005 the Partnership entered into a 20 year operating lease for a new head office in 2006. The Partnership's previous ten year operating lease entered into on June 1, 2002 was partially surrendered on November 30, 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.

Expected minimum lease payments in future years are as follows:

(in thousands of dollars)

2007	**$ 1,970**
2008	**1,938**
2009	**2,057**
2010	**2,047**
2011	**2,047**
2012 and thereafter	**28,235**
	$ 38,295

14. OTHER LIABILITIES

Other liabilities consist of the following:

(in thousands of dollars)	**December 31, 2006**	December 31, 2005
Other liabilities	**$ 2,312**	$ 3,107
Funds received in advance of construction	**48,388**	29,638
Total other liabilities	**50,700**	32,745
Less: short-term portion of other liabilities	**980**	1,241
Less: short-term portion of funds received in advance of construction	**48,388**	29,638
Total other liabilities long-term	**$ 1,332**	$ 1,866

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NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2006 and 2005

15. SUPPLEMENTARY CASH FLOW INFORMATION

Change in non-cash working capital items related to operations

	December 31, 2006	December 31, 2005
(in thousands of dollars)		
(Increase) decrease in accounts receivable	**$ (22,189)**	$ (1,767)
(Increase) decrease in materials and supplies	**(214)**	(112)
(Increase) decrease in prepaid expenses and deposits	**(269)**	(871)
(Decrease) increase in accounts payable and accrued liabilities	**5,083**	(994)
(Decrease) increase in other liabilities	**(261)**	831
Increase in short-term debt	**—**	1
(Decrease) increase in short-term regulatory liabilities	**988**	(3,711)
	$ (16,862)	$ (6,623)

16. COMPARATIVE FIGURES

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