Financial Statements

AltaLink, L.P.

Three months ended March 31, 2007 and 2006
(Unaudited)

AltaLink, L.P.

BALANCE SHEET
(Unaudited)

(in thousands of dollars)

As at	March 31, 2007	December 31, 2006
ASSETS		
Current		
Restricted cash	**$ 46,673**	$ 47,214
Accounts receivable *[note 6]*	**24,044**	39,716
Materials and supplies	**1,364**	1,226
Prepaid expenses and deposits	**13,452**	2,473
Regulatory assets	**5,320**	5,320
	90,853	95,949
Property, plant and equipment *[note 7]*	**1,017,733**	1,003,567
Deferred financing fees *[note 9]*	**—**	5,501
Regulatory assets	**2,500**	2,620
Accrued benefit pension asset	**2,432**	2,466
Construction materials and supplies	**12,277**	11,039
Goodwill	**202,066**	202,066
	$ 1,327,861	$ 1,323,208
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 6]*	**$ 60,985**	$ 68,173
Other liabilities *[note 5]*	**47,678**	49,368
Regulatory liabilities	**6,698**	6,421
Current portion of long-term debt *[note 3]*	**128**	128
	115,489	124,090
Accrued employment benefits liabilities	**1,530**	1,446
Other liabilities *[note 5]*	**808**	1,332
Regulatory liabilities	**15,093**	14,982
Asset retirement obligations *[note 2]*	**56,165**	56,380
Long-term debt *[notes 3 & 9]*	**680,335**	700,218
	869,420	898,448
Contingencies *[note 8]*		
Partners' equity		
Partners' capital	**388,536**	363,536
Retained earnings	**69,905**	61,224
	458,441	424,760
	$ 1,327,861	$ 1,323,208

See accompanying notes to the financial statements

AltaLink, L.P.

STATEMENTS OF INCOME AND RETAINED EARNINGS
(Unaudited)

(in thousands of dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
REVENUE		
Operating and miscellaneous revenue	**$ 53,114**	$ 49,452
Allowance for equity funds used during construction	**758**	728
	53,872	50,180
EXPENSES		
Operating	**17,155**	15,754
Depreciation and accretion	**16,605**	15,806
	33,760	31,560
	20,112	18,620
Interest and amortization of deferred financing fees *[note 4]*	**(9,912)**	(8,559)
Allowance for debt funds used during construction	**1,028**	844
	11,228	10,905
Gain on the sale of assets	**—**	55
Net and comprehensive income for the period	**$ 11,228**	$ 10,960
Retained earnings, beginning of period	**$ 61,224**	$ 45,586
Transition adjustment on adoption of financial instruments standards *[note 2]*	**2,853**	—
Distributions	**(5,400)**	(5,000)
Net and comprehensive income for the period	**11,228**	10,960
Retained earnings, end of period	**$ 69,905**	$ 51,546

See accompanying notes to the financial statements

AltaLink, L.P.

STATEMENT OF CHANGES IN PARTNERS' EQUITY
(Unaudited)

(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**
Transition adjustment on adoption of financial instruments standards *[note 2]*	—	2,853	—	2,853
	331,904	**427,573**	**40**	**427,613**
Net income for the period	—	11,227	1	11,228
Equity injection	—	25,000	—	25,000
Distributions	—	(5,399)	(1)	(5,400)
Balance at March 31, 2007	**331,904**	**$ 458,401**	**$ 40**	**$ 458,441**

See accompanying notes to the financial statements

AltaLink, L.P.

STATEMENT OF CASH FLOWS
(Unaudited)

(in thousands of dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
OPERATING ACTIVITIES		
Net income for the period	**$ 11,228**	$ 10,960
Items not involving cash		
Depreciation	**15,838**	15,029
Amortization of deferred financing fees	**345**	376
Accretion expense	**767**	777
Allowance for funds used during construction	**(1,786)**	(1,572)
Gain on the sale of assets	**—**	(55)
Asset retirement obligations settled	**(982)**	5
Change in long-term regulatory accruals	**111**	(50)
Change in other non-cash items	**(405)**	66
Funds generated in operations	**25,116**	25,536
Change in non-cash working capital items	**11,518**	6,045
Cash provided by operating activities	**36,634**	31,581
INVESTING ACTIVITIES		
Capital expenditures	**(47,855)**	(37,694)
Increase (decrease) in customer contributions	**3,184**	(4,744)
Proceeds from the sale of assets	**—**	56
Cash used in investing activities	**(44,671)**	(42,382)
FINANCING ACTIVITIES		
Decrease in lease obligations	**—**	(1)
(Decrease) increase in debt	**(11,723)**	15,700
Deferred financing fees incurred	**(30)**	—
Distributions paid	**(5,400)**	(5,000)
Increase in partners' equity	**25,000**	—
(Decrease) increase in restricted cash	**541**	(25,737)
(Decrease) increase in other liabilities	**(351)**	25,839
Cash provided by financing activities	**8,037**	10,801
Net increase in cash and cash equivalents	**—**	**—**
Cash and cash equivalents, beginning of period	**—**	—
Cash and cash equivalents, end of period	**$ —**	$ —
Cash interest paid during the period	**$ 6,155**	$ 2,492

See accompanying notes to the financial statements

AltaLink, L.P.

NOTES TO FINANCIAL STATEMENTS

Three months ended March 31, 2007 and 2006
(Unaudited)

1. BASIS OF ACCOUNTING

The interim financial statements of AltaLink, L.P. (the Partnership or "ALP") have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP), following the same accounting policies and methods of computation as the financial statements for the twelve months ended December 31, 2006, except for the change in accounting policies cited in Note 9, upon the initial adoption of new accounting standards. These interim financial statements do not include all of the disclosures required in annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Partnership's financial statements for the twelve months ended December 31, 2006. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2007.

2. ASSET RETIREMENT OBLIGATIONS

As of March 31, 2007, the estimated total undiscounted amount of asset retirement obligations was approximately $145.2 million (December 31, 2006 - $145.7 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.

	As at March 31, 2007	As at December 31, 2006
(in thousands of dollars)		
Balance, beginning of period	**$ 56,380**	$ 56,276
Liabilities incurred in period	**—**	(2,546)
Liabilities settled in period	**(982)**	(323)
Accretion expense	**767**	2,973
Balance, end of period	**$ 56,165**	$ 56,380

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three months ended March 31, 2007 and 2006
(Unaudited)

3. DEBT

(in thousands of dollars)	Effective interest rate	Maturing	**As at March 31, 2007**	As at December 31, 2006
Series 3 8.00%	**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**	325,964
Series 06-1 5.249%	**5.270%**	2036	**150,000**	150,000
Commercial paper	**4.340%**	2009	**27,659**	39,382
Deferred financing fees			**(8,160)**	—
Total debt, net of deferred financing fees			**680,463**	700,346
Less: Current portion of long-term debt			**128**	128
Total long-term debt			**$ 680,335**	$ 700,218

Long-term debt is held to maturity.

Deferred financing fees

(in thousands of dollars)	**As at March 31, 2007**	As at March 31, 2006
Series 3 8.00%	**$ 82**	$ —
Series 03-1 4.45%	**872**	—
Series 03-2 5.43%	**6,132**	—
Series 06-1 5.249%	**1,074**	—
Total deferred financing fees	**$ 8,160**	$ —

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three months ended March 31, 2007 and 2006
(Unaudited)

3. DEBT

Interest expense

	Three months ended March 31, 2007	Three months ended March 31, 2006
(in thousands of dollars)		
Deferred financing fees amortized	**$ 345**	$ 376
Interest on debt	**9,567**	8,183
Total interest and amortization of deferred financing fees on debt	**9,912**	8,559
Less: short-term portion of interest on debt	**—**	1
Total interest and amortization of deferred financing fees on long-term debt	**$ 9,912**	$ 8,558

4. EMPLOYEE FUTURE BENEFITS

	Three months ended March 31, 2007	Three months ended March 31, 2006
(in thousands of dollars)		
Pension and other post-employment benefit expense consists of:		
Other post-employment benefits	**$ 71**	$ 45
Supplemental pension expense	**14**	12
	$ 85	$ 57

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three months ended March 31, 2007 and 2006
(Unaudited)

5. OTHER LIABILITIES

Other liabilities consist of the following:	**As at March 31, 2007**	As at December 31, 2006
(in thousands of dollars)		
Funds received in advance of construction	**$ 46,659**	$ 48,388
Other liabilities	**1,827**	2,312
Total other liabilities	**48,486**	50,700
Less: short-term portion of other liabilities	**1,019**	980
Less: short-term portion of funds received in advance of construction	**46,659**	48,388
Total other liabilities long-term	**$ 808**	$ 1,332

6. 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:

	3 months ended March 31, 2007	Year ended December 31, 2006
(in thousands of dollars)		
Included in operating costs are the following amounts charged from related parties:		
Employee compensation and benefit charges	**$ 12,018**	**$ 36,434**
Consulting services	**11**	**83**
Operating expenses	**7**	**12**
Interest expense on Series 3 Subordinated Bond	**1,677**	**6,800**
Included in property, plant and equipment additions are the following amounts charged from related parties:	**23,144**	**149,722**
Included in miscellaneous revenue are the following amounts charged to related parties:	**50**	**159**

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three months ended March 31, 2007 and 2006
(Unaudited)

6. RELATED PARTY TRANSACTIONS [CONT'D]

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

(in thousands of dollars)	**As at March 31, 2007**	As at December 31, 2006
AltaLink Management Ltd.	**$ (975)**	$ (2,842)
AltaLink Investment Management Ltd.	**(88)**	(193)
SNC Lavalin ATP Inc.	**(35,961)**	(44,267)
AltaLink Investments, L.P.	**(1,099)**	(1,136)

7. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2007			December 31, 2006		
(In thousands of dollars)	**Cost**	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Transmission network	**$ 1,108,989**	**$ (227,849)**	**$ 881,140**	$1,102,376	$ (211,832)	$ 890,544
Assets under construction	**108,273**	**—**	**108,273**	84,049	—	84,049
Long-lived asset [1]	**44,101**	**(15,781)**	**28,320**	44,101	(15,127)	28,974
	$1,261,363	**$ (243,630)**	**$1,017,733**	$1,230,526	$(226,959)	$1,003,567

[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 three months ended March 31, 2007 was $1.786 million, $1.572 million for the three months ended March 31, 2006 and $4.653 million for the twelve months ended December 31, 2006.

8. CONTINGENCIES

AltaLink Management Limited (AML), the General Partner of ALP, 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 ALP. 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. ALP 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 a liability is not included in these financial statements.

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 allegedly 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 the incident giving rise to the power outage was not caused by the negligence of AltaLink or its contractors and therefore AltaLink is not liable for any losses or damages incurred by IOL. It is also 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 March 31, 2007.

In Decision 2007-012, the EUB directed ALP to use the flow-through (i.e. taxes payable) method for determining deemed federal and provincial income tax expenses to be included in its revenue requirement for 2009 and subsequent years. The EUB also indicated that a determination with respect to the accumulated but unpaid future income tax amounts as at December 31, 2008 will have to be made. Accordingly, the EUB directed ALP in its next general tariff application to propose options to address the disposition of these amounts. As this disposition will be the subject of a future regulatory proceeding, management is unable at this time to predict the outcome. As a result, no amounts have been accrued in relation to this issue at March 31, 2007..

In addition, from time to time, ALP 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 ALP's financial position.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three months ended March 31, 2007 and 2006
(Unaudited)

9. FINANCIAL INSTRUMENTS

Change in significant accounting policies

With effect from January 1, 2007, the Partnership adopted the following new accounting standards: Canadian Institute of Chartered Accountants Handbook Section 1530, *Comprehensive Income;* Section 3251, *Equity;* Section 3855, *Financial Instruments – Recognition and Measurement;* Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges.* The adoption of these new standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings, as described below. The comparative interim financial statements have not been restated.

Prior to the adoption of the new standards, the Partnership classified its deferred financing fees as an asset on the balance sheet and amortized such fees using the straight-line method. With the adoption of the new standards, deferred financing fees have been reclassified as an offset to long-term debt on the balance sheet. In addition, the effective interest rate method has been used to calculate the amortization of deferred financing fees. The change in the method of amortization has resulted in an adjustment to opening retained earnings, which has been captioned as Transition adjustment on adoption of financial instruments standards.