Financial Statements

AltaLink, L.P.

For the years ended December 31, 2007 and 2006

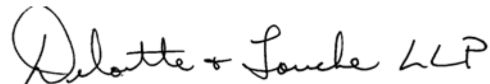
AUDITORS' REPORT

To the Partners of AltaLink, L.P.

We have audited the balance sheets of AltaLink, L.P. as at December 31, 2007 and 2006 and the statements of income, comprehensive income and retained earnings, changes in partners' equity and cash flows for the years 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 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



February 1, 2008
Calgary, Alberta

Chartered Accountants

AltaLink, L.P.

BALANCE SHEET

(in thousands of dollars)

As at		**December 31, 2007**		December 31, 2006
ASSETS				
Current				
Cash and cash equivalents *[note 13a]*	**$**	**—**	$	—
Accounts receivable *[note 9]*		**42,925**		39,716
Materials and supplies		**1,345**		1,226
Prepaid expenses and deposits		**8,147**		2,473
Regulatory assets *[note 4]*		**13**		5,320
		52,430		48,735
Property, plant and equipment *[note 7]*		**1,138,170**		1,003,567
Contributions in advance of construction *[note 13b]*		**40,894**		47,214
Deferred financing fees *[note 8]*		**—**		5,501
Regulatory assets, long-term *[note 4]*		**2,306**		2,620
Accrued benefit pension asset *[note 12]*		**2,329**		2,466
Construction materials and supplies		**12,103**		11,039
Goodwill		**202,066**		202,066
	$	**1,450,298**	$	1,323,208
LIABILITIES AND PARTNERS' EQUITY				
Current				
Accounts payable and accrued liabilities *[note 9]*	**$**	**42,919**	$	68,173
Other liabilities		**1,368**		980
Regulatory liabilities *[note 4]*		**5,327**		6,421
Current portion of long-term debt *[note 8]*		**135**		128
		49,749		75,702
Accrued employment benefits liabilities *[note 12]*		**1,815**		1,446
Other liabilities		**2,767**		1,332
Contributions in advance of construction liability *[note 13b]*		**40,119**		48,388
Regulatory liabilities, long-term *[note 4]*		**15,464**		14,982
Asset retirement obligations *[note 5]*		**57,954**		56,380
Long-term debt *[notes 8 & 13]*		**793,839**		700,218
		961,707		898,448
Commitments and contingencies *[notes 6 and 14]*				
Partners' equity				
Partners' capital *[note 11]*		**408,536**		363,536
Retained earnings		**80,055**		61,224
		488,591		424,760
	$	**1,450,298**	$	1,323,208

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors

Director **Director**

AltaLink, L.P.

STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

(in thousands of dollars)

	Year ended December 31, 2007	Year ended December 31, 2006
REVENUE		
Operating and miscellaneous revenue	**$ 210,384**	$ 199,272
Allowance for equity funds used during construction	**3,055**	2,084
	213,439	201,356
EXPENSES		
Operating *[note 9]*	**70,042**	66,769
Depreciation and accretion	**67,944**	64,826
	137,986	131,595
	75,453	69,761
Interest and amortization of deferred financing fees *[notes 8 & 9]*	**(42,098)**	(37,020)
Allowance for debt funds used during construction	**4,146**	2,569
	37,501	35,310
Gain on the sale of assets	**77**	328
Net and comprehensive income for the year	**$ 37,578**	$ 35,638
Retained earnings, beginning of year	**$ 61,224**	$ 45,586
Transition adjustment on adoption of financial instruments standards *[note 3a]*	**2,853**	—
Distributions	**(21,600)**	(20,000)
Net income for the year	**37,578**	35,638
Retained earnings, end of year	**$ 80,055**	$ 61,224

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, 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 3a]*	—	2,853	—	2,853
	331,904	427,573	40	427,613
Net income for the year	—	37,574	4	37,578
Equity injection	—	45,000	—	45,000
Distributions	—	(21,598)	(2)	(21,600)
Balance at December 31, 2007	**331,904**	**$ 488,549**	**$ 42**	**$ 488,591**

See accompanying notes to the financial statements

AltaLink, L.P.

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Year ended December 31, 2007	Year ended December 31, 2006
OPERATING ACTIVITIES		
Net income for the year	**$ 37,578**	$ 35,638
Items not involving cash		
Depreciation	**64,875**	61,853
Amortization of deferred financing fees	**1,321**	1,591
Accretion expense	**3,069**	2,973
Allowance for funds used during construction	**(7,201)**	(4,653)
Gain on the sale of assets	**(77)**	(328)
Asset retirement obligations settled	**(1,560)**	(323)
Change in long-term regulatory accruals	**795**	1,335
Change in other non-cash items	**1,942**	(26)
Funds generated from operations	**100,742**	98,060
Change in non-cash working capital items *[note 15]*	**(4,436)**	(16,862)
Cash provided by operating activities	**96,306**	81,198
INVESTING ACTIVITIES		
Capital expenditures	**(230,368)**	(199,381)
Use of customer contributions	**12,682**	35,298
Proceeds from the sale of assets	**272**	332
Cash used in investing activities	**(217,414)**	(163,751)
FINANCING ACTIVITIES		
Increase in debt	**100,840**	189,382
Debt repayment	**(128)**	(110,869)
Decrease in lease obligations	**—**	3
Distributions paid	**(21,600)**	(20,000)
Settlement of deferred financing fees	**(50)**	(1,089)
Decrease (increase) in contributions in advance of construction	**6,320**	(17,246)
(Decrease) increase in contributions in advance of construction liability	**(8,269)**	18,750
Decrease in other liabilities	**(1,005)**	(1,378)
Equity injection	**45,000**	25,000
Cash provided by financing activities	**121,108**	82,553
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	**$ 41,036**	$ 33,294

See accompanying notes to the financial statements

AltaLink, L.P.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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.

The Partnership is a regulated electric utility under the jurisdiction of the Alberta Utilities Commission (AUC). Effective January 1, 2008, the AUC assumed responsibility from the Alberta Energy and Utilities Board (EUB) for regulating all investor-owned natural gas, electric and water utilities, certain gas pipelines and certain municipally-owned electric utilities.

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 EUB 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.

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

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

b) Regulation

The Partnership is regulated by the Alberta Utilities Commission, 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 AUC. Forecast earnings are determined on the basis of return on rate base. The Partnership applies for tariff revenue based on forecast 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 forecast, 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.

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 are expected to 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 4 "Regulatory Assets and Liabilities".

When the AUC 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.

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

c) Measurement uncertainty

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.

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 recovery of intangible assets including estimates of future costs to retire physical assets or the recovery of costs associated with direct assigned projects; the recovery 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 of the regulated assets and liabilities.

d) 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.

e) 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.

f) 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 AUC. 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.

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

f) Property, plant and equipment [cont'd]

Depreciation is calculated on a straight-line basis with various rates ranging from 2.01% to 33.33% as approved by the AUC, based on depreciation studies prepared by the Partnership. The depreciation rates approved by the AUC 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 AUC are accounted for on a prospective basis. The AUC approved rates are applied to the original historical capital costs, which are used for regulatory rate setting purposes and may be greater than those reflected in these financial statements. The effective depreciation rates under GAAP range from 1.26% 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.

g) Contributions in advance of construction

For certain projects, customers are required to provide cash contributions to the Partnership in advance of construction. In addition, certain customers are required to provide advance funding related to future operation and maintenance of certain assets.

As construction expenditures are incurred for specified projects, the cash contributions are drawn down to fund the construction. These contributions are recorded as an offset to the cost of property, plant and equipment and are amortized over the useful life of the assets, using the average depreciation rate for the assets included in rate base.

When the projects for which advance funding of operation and maintenance expenditures have been provided are put into service, the advance funding will be drawn down over the life of the related assets.

h) Deferred financing fees

As outlined in Note 3(a), costs incurred to arrange debt financing are capitalized as deferred financing fees and are disclosed as an offset to long-term debt. Deferred financing costs that are not expected to be recovered through rates are amortized using the effective interest rate method over the term of the related debt. Deferred financing fees that are expected to be recovered through transmission tariff rates are amortized using the effective interest rate method over the period in which they are expected to be recovered through rates. The amortization of these charges is included as part of interest on debt.

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

i) 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 2007 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 2006 and that the carrying value of the goodwill has not been impaired.

j) 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 actuarially 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 4).

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

k) 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. Accordingly, no tax expense is recognized in these financial statements.

On October 31, 2006, the Minister of Finance (Canada) announced the Specified Investment Flow-Through ("SIFT") Rules, which proposed changes to the manner in which certain partnerships are taxed. The SIFT Rules, which received Royal Assent on June 22, 2007, are generally effective as of January 1, 2011, and impose a tax on earnings made by a partnership that meets the test of being a SIFT partnership. The tax is paid at a rate that approximates the combined Federal and Provincial corporate tax rates applicable at the relevant time. It is the opinion of management that the Partnership is not subject to the SIFT Rules, and no provision for such taxes has been made in the financial statements. On December 20, 2007, the Federal Minister of Finance announced proposed technical amendments, that align with the opinion of management, to ensure that only those structures targeted by the SIFT Rules will be subject to the SIFT regime.

l) 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.

m) 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.

n) 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. The unamortized balance in deferred lease inducements is included as part of "Other liabilities".

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

o) 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.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

a) Financial Instruments

With effect from January 1, 2007, AltaLink 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.

Prior to the adoption of the new standards, AltaLink 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".

In addition, upon adoption of these standards, AltaLink has made the following classifications:

i) Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

ii) Accounts payable and accrued liabilities, other liabilities and long-term debt (including the current portion) are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

iii) Contributions in advance of construction and Contributions in advance of construction liability are classified as held for trading and the carrying values are equal to the fair value.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

The recognition, de-recognition and measurement policies followed in the financial statements for periods prior to the adoption of this standard are not reversed and, therefore, those financial statements are not restated.

AltaLink currently does not utilize hedges or other derivative financial instruments in its operations, and as a result the adoption of Section 3865 currently has no material impact on the financial statements of AltaLink.

b) Future Accounting Changes

i) Capital Disclosures

Effective January 1, 2008, the Partnership has adopted the new CICA Handbook Section 1535, *Capital Disclosures*. This section requires the Partnership to disclose AltaLink's capital structure, description of and compliance with externally imposed capital requirements and the Partnership's objectives, policies and processes for managing its capital. The adoption of *Capital Disclosures* will require additional disclosure but is not expected to have any effect on AltaLink's financial statements.

ii) Accounting for Rate-Regulated Operations

Beginning on January 1, 2009, section 1100 of the CICA Handbook – *Generally Accepted Accounting Principles* - will be amended to remove a temporary exemption pertaining to the recognition of assets and liabilities arising from rate regulation. In addition, effective the same date, section 3465 of the CICA Handbook – *Income Taxes* - will also be amended. These amendments are expected to have the following affect on AltaLink's financial statements.

Regulatory Asset Retirement Obligations - New depreciation rates will be established due to the removal of the provision for regulatory asset retirement obligations.

Reserve and Deferral Accounts - Existing reserve and deferral amounts will be reclassified to accounts receivable or accounts payable when the regulator has committed to pay these amounts to AltaLink or the Partnership has an obligation to repay certain amounts to the regulator. If the regulator has not made a clear commitment to pay amounts to AltaLink or the Partnership does not have a clear commitment to repay amounts to the regulator, these items will be recorded as period revenues or expenses, except where it is probable that such benefits will be received.

The recognition criteria for the treatment of regulated costs or revenues and associated assets and liabilities that are different from the approved General Tariff Application (GTA) amount is as follows:

a) the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and
b) for items involving obtaining or giving up of future economic benefits, it is probable that such benefits will be obtained or given up.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

ii) Accounting for Rate-Regulated Operations [cont'd]

Pension Asset Offset - The balances in the pension asset and the pension asset offset will be transferred to retained earnings as these are regulatory offset accounts. The pension liability account will remain on the balance sheet.

Future Income Tax Liability – Regulatory income tax liabilities will be presented separately from other liabilities on the balance sheet.

Allowance for Funds Used During Construction (AFUDC) - There will be no impact on the financial statements for AFUDC debt. Under regulatory accounting AFUDC equity income is capitalized to property, plant and equipment and subsequently received through transmission tariff revenue. Commencing January 1, 2008, AltaLink is tracking the timing differences between the recognition of AFUDC equity and the subsequent receipt and will reflect the timing difference as an asset on the balance sheet.

iii) Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Partnership will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Partnership is currently evaluating the impact of the adoption of this new Section on its financial statements. The Partnership does not expect that the adoption of this new Section will have a material impact on its financial statements.

iv) Inventories - materials and supplies

Effective January 1, 2008, the Partnership has adopted the new CICA Handbook Section 3031, *Inventories.* This section requires the Partnership to expand its disclosure on the measurement and recognition of materials and supplies. The adoption of *Inventories* will require additional disclosure but is not expected to have any effect on the Partnership's financial statements.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

v) Accounting changes

CICA Handbook Section 1506 - *Accounting Changes* is effective for fiscal years beginning on or after January 1, 2007. The changes covered by this section include changes in accounting policy, changes in accounting estimates and correction of errors. Under section 1506, voluntary changes in accounting policy are only permitted if they result in financial statements that provide more reliable and relevant information. When a change in accounting policy is made, this change is applied retrospectively unless impractical. Changes in accounting estimates are generally applied prospectively and material prior period errors are corrected prospectively. The only impact in the current year is to provide disclosure of when the Partnership has not applied a new source of Generally Accepted Accounting Principles that has been issued but is not yet effective. This is the case with CICA Handbook section 3862 - *Financial Instruments Presentations*, which are required to be adopted for fiscal years ending on or after October 1, 2007. The Partnership will adopt these standards on January 1, 2008 and it is expected that the only effect on the Partnership will be incremental disclosures regarding the significance of financial instruments for the Partnership's financial position and performance including the nature, extent and management of risks arising from financial instruments to which the Partnership is exposed. This is also the case with section 1535 – *Capital Disclosures* and section 3064 – *Goodwill and Intangible Assets* discussed in notes 3(b)(i) and 3(b)(ii) respectively.

4. REGULATORY ASSETS AND LIABILITIES

The following are the regulatory assets and liabilities:

(in thousands of dollars)	**December 31, 2007**	**Change to regulatory asset/liability balance in 2007**	**Remaining recovery settlement period (years)**	December 31, 2006
Regulatory assets				
Self insurance reserve [A, B]	**$ —**	**$ (3,085)**	**—**	$ 3,085
Regulated financing fees [A, B]	**1,764**	**(487)**	**2-22**	2,251
Hearing costs reserve [A, B]	**13**	**(1,742)**	**1-2**	1,755
Canada Revenue Agency deferral	**542**	**173**	**2**	369
Direct assigned capital deferral account [A]	**—**	**(480)**	**—**	480
Total regulatory assets	**2,319**			7,940
Less: Current regulatory assets	**13**			5,320
Long-term regulatory assets	**$ 2,306**			$ 2,620
Regulatory liabilities				
Self-insurance reserve [A, B]	**$ 813**	**$ 400**	**2**	$ 413
Pension liability account [B]	**3,818**	**13**	**—**	3,805
Pension asset offset *[note 12]*	**2,329**	**(137)**	**—**	2,466
Future income tax liability [B]	**8,100**	**—**	**—**	8,100
Property tax deferral account [A]	**3,187**	**1,508**	**1-2**	1,679
Insurance premium deferral account [A, B]	**211**	**(1,829)**	**1-2**	2,040
Debt cost deferral account [A]	**123**	**(2,373)**	**1-2**	2,496
Canada Revenue Agency reserve [B]	**404**	**—**	**—**	404
Annual tower payments account [A]	**570**	**570**	**1-2**	—
Direct Assigned Capital Projects deferral account [A]	**1,236**	**1,236**	**1-2**	—
Total regulatory liabilities	**20,791**			21,403
Less: Current regulatory liabilities	**5,327**			6,421
Long-term regulatory liabilities	**$ 15,464**			$ 14,982

A. For the identified reserve and deferral accounts, the change in the regulatory asset/liability balance in the current year reflects the regulatory disposition of the opening balance or is equal to the difference between actual and approved forecast expenses, both of which are 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, 2007 is nil (December 31, 2006 – nil).

B These identified regulatory asset and liability accounts are included in the rate base and affect the amount of return on investment.

4. 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 AUC in determining the item's treatment for rate-setting purposes.

The following describes each of the Partnership's 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 established through AUC approval. 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 released 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 AUC.

The Partnership's revenue requirement is not adjusted for these differences until 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, including those of intervenors, during hearings in which the Partnership is an Applicant. The self insurance reserve provides coverage for 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 account 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.

4. 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 debt cost deferral accounts were established by the AUC in March 2005. The intent of the insurance premium deferral account is to capture the non-controllable cost variances with respect to commercial insurance premiums. The property tax deferral account is intended to capture the difference between forecast taxes other than income taxes and the actual taxes incurred. The debt cost 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 the 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.

The Annual Tower Payments (ATP) account records the difference between the forecasted and actual ATP payments.

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 AUC, finance fees associated with ALP's initial Bridge Bonds were rolled over into replacement debt and they are being recovered in transmission revenue 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 unrecovered debt issue costs. In the absence of rate regulation, GAAP would require the write-off of unamortized debt issue costs in the year the debt is retired.

As indicated in Notes 2(g) and 3(a), deferred financing fees are being amortized using the effective interest rate method. For the year ended December 31, 2007, amortization of finance fees totaled $1.32 million (December 31, 2006 - $1.59 million), which is $0.280 million (December 31, 2006 - $0.487 million) higher than would have been recorded in the absence of rate regulation.

4. 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, 2007 is $2.44 million (December 31, 2006 - $2.45 million) versus $2.3 million (December 31, 2006 - $2.16 million) actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2007 is $0.138 million (December 31, 2006 - $0.289 million) higher than would have been recorded in the absence of rate regulation.

Future income tax liability

As prescribed by AUC 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 AUC 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 AUC 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. Decision 2007-012 approved a reduction in the deemed common equity ratio from 35% to 33% and an increase in the allowance of deemed income tax in the revenue requirement from 75% to 100%.

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 AUC will consider undertaking a review of the formula. On November 22, 2005, the AUC issued an order setting the 2006 ROE at 8.93%. On November 30, 2006, the AUC issued an amended order setting the 2007 ROE at 8.51%.

4. REGULATORY ASSETS AND LIABILITIES [CONT'D]

Other items affected by rate regulation

The AUC 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.

5. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2007, the estimated total undiscounted amount of asset retirement obligations was approximately $132.9 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 2008 and 2047. Discount rates ranging from 4.52% to 5.41% were used to calculate the carrying value of the asset retirement obligations.

	Year ended December 31, 2007	Year ended December 31, 2006
(in thousands of dollars)		
Balance, beginning of year	**$ 56,380**	$ 56,276
Net change in liabilities for the year	**65**	(2,546)
Liabilities settled in year	**(1,560)**	(323)
Accretion expense	**3,069**	2,973
Balance, end of year	**$ 57,954**	$ 56,380

For the year ended December 31, 2007, GAAP required $3.069 million (December 31, 2006 - $2.973 million) to be recorded as accretion expense to the asset retirement obligations and $5.935 million (December 31, 2006 - $2.622 million) to be recorded as depreciation expense for the asset retirement costs that are added to the carrying amounts of property, plant and equipment.

5. 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, no obligation has been recognized at this time because the date of final removal cannot be reasonably determined.

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.

6. CONTINGENCIES

AltaLink Management Ltd. (AML), the General Partner of the Partnership, 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 determine the outcome of the claim, therefore a provision for a liability is not included in these financial statements.

6. CONTINGENCIES [CONT'D]

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 the Partnership or its contractors and therefore the Partnership 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 matter, and therefore the potential outcome and amount of any settlement are presently unknown; therefore a provision for a liability is not included in these financial statements.

In Decision 2007-012, the AUC directed the Partnership 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 AUC 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 AUC directed the Partnership 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 determine the outcome. As a result, no amounts have been accrued in relation to this matter at December 31, 2007.

In addition, from time to time, the Partnership 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 the Partnership's financial position.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2007 and 2006

7. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2007			December 31, 2006		
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
(In thousands of dollars)						
Transmission network	**$ 1,264,168**	**$ (264,868)**	**$ 999,300**	$ 1,102,376	$ (211,832)	$ 890,544
Assets under construction	**115,767**	**—**	**115,767**	84,049	—	84,049
Long-lived asset [1]	**43,414**	**(20,311)**	**23,103**	44,101	(15,127)	28,974
	$ 1,423,349	**$ (285,179)**	**$ 1,138,170**	$ 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 year ended December 31, 2007 was $7.201 million, and $4.653 million for the year ended December 31, 2006.

Included in Assets under construction is approximately $35.0 million in capital expenditures, related to the 500kV Project, for which regulatory proceedings are expected to recommence in 2008. AltaLink incurred these expenditures pursuant to direction letters issued by the AESO, which is a normal step within the regulatory process. In addition, the AESO has acknowledged that these costs should be recovered and that it is prepared to support AltaLink in an application for recovery. It is the opinion of management that these expenditures will be capitalized and recovered through the regulatory process. Should a need for an adjustment arise as a result of the regulatory process, management will reflect the impact in the financial statements related to the period when the regulatory decision is made.

8. DEBT

	Effective interest rate	Maturing	**December 31, 2007**	December 31, 2006
(in thousands of dollars)				
Series 3, subordinated 8.000% *[note 9]*	**8.010%**	2012	**$ 85,000**	$ 85,000
Series 03-1, senior 4.450% [1]	**5.070%**	2008	**100,000**	100,000
Series 03-2, senior 5.430%	**5.700%**	2013	**325,836**	325,964
Series 06-1, senior 5.249%	**5.270%**	2036	**150,000**	150,000
Commercial paper, unsecured	**4.890%**	2010	**140,221**	39,382
			801,057	700,346
Less: deferred financing fees *[note 3a]*				
Series 3, 8.000%			**56**	—
Series 03-1, 4.450%			**346**	—
Series 03-2, 5.430%			**5,586**	—
Series 06-1, 5.249%			**1,095**	—
			7,083	
Total debt, net of deferred financing fees			**793,974**	700,346
Less: current portion of long-term debt			**135**	128
Total long-term debt			**$ 793,839**	$ 700,218

[1] Series 03-1 debt will be rolled over in 2008 and is therefore excluded from the current portion of long-term debt.

The Partnership intends to hold all of its long-term debt to maturity.

For the twelve months ended December 31, 2007, the amortization of deferred financing fees using the effective interest rate method was $1.321 million compared to $1.623 million which would have been the amount if the Partnership was still using the straight-line method.

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.

8. DEBT [CONT'D]

a) Credit facility

As at December 31, 2007, the Partnership had $285.0 million (2006 - $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 11, 2010
Credit facility	**85,000**	—	May 2, 2010
	$ 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, 2007, borrowing under this program was $140.2 million (December 31, 2006 - $39.4 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 19 days as at December 31, 2007 (December 31, 2006 – 12 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, 2007, the Partnership had secured letters of credit outstanding totaling $0.087 million (December 31, 2006 - $0.860 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2007 and 2006

8. DEBT [CONT'D]

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 amount, 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

(in thousands of dollars)	**Year ended December 31, 2007**	Year ended December 31, 2006
Deferred financing fees amortized	**$ 1,321**	$ 1,591
Interest on debt	**40,777**	35,429
Total interest and amortization of deferred financing fees on debt	**42,098**	37,020
Less: short-term portion of interest on debt	**—**	7
Total long-term portion of interest and amortization of deferred financing fees	**$ 42,098**	$ 37,013

e) Scheduled Principal repayments

(in thousands of dollars)	
Maturing	
2008	**$ 100,135**
2009	**—**
2010	**140,221**
2011	**—**
2012	**85,000**
2013 and thereafter	**475,701**
	$ 801,057

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2007 and 2006

9. 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 AUC and approved in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the AUC 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:

	Year ended December 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	**$ 41,062**	$ 36,434
Consulting services	**21**	83
Operating expenses	**9**	12
Interest expense on Series 3 Subordinated Bond	**6,800**	6,800
Included in property, plant and equipment additions are the following amounts charged from related parties	**110,442**	149,722
Included in miscellaneous revenue are the following amounts charged to related parties	**7**	159

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

	December 31, 2007	December 31, 2006
(in thousands of dollars)		
AltaLink Management Ltd.	**$ (3,669)**	$ (2,842)
AltaLink Investment Management Ltd.	**—**	(193)
SNC Lavalin ATP Inc.	**(21,913)**	(44,267)
AltaLink Investments, L.P.	**(1,136)**	(1,136)

10. REGULATORY DECISIONS

On February 16, 2007, the AUC issued Decision 2007-012 with respect to AltaLink's revenue requirement for the period from January 1, 2007 to December 31, 2008 and the disposition of various deferral accounts and the self-insurance reserve account relating to the period from May 1, 2004 to December 31, 2005.

On March 23, 2007, AltaLink filed with the AUC its response pursuant to the directions contained in Decision 2007-012.

On June 19, 2007, the AUC issued Decision 2007-050 confirming AltaLink's compliance with Decision 2007-012 other than the determination of the Debt Cost Deferral account for the year ended December 31, 2006. The AUC directed AltaLink to include in its next GTA a final reconciliation of the Debt Cost Deferral Account that reflects the actual cost of debt incurred by AltaLink relative to the issuance date.

The effects of these Decisions have been reflected in these financial statements.

11. 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 $45.0 million (2006 - $25.0 million) of additional equity, although no partnership units were issued.

12. EMPLOYEE FUTURE BENEFITS PLANS

	Year ended December 31, 2007		Year ended December 31, 2006	
	Pension Plan	**Other benefits**	Pension plan	Other benefits
(in thousands of dollars)				
Fair value of plan assets				
Balance, beginning of year	**$ 8,503**	**$ —**	$ 7,666	$ —
Transfers to defined benefit option	**17**	**—**	—	—
Employee contributions	**18**	**—**	18	—
Company contributions	**—**	**6**	—	5
Benefit payments	**(75)**	**(6)**	(35)	(5)
Actual return on plan assets	**(43)**	**—**	854	—
Balance, end of year	**8,420**	**—**	8,503	—
Accrued benefits obligation				
Balance, beginning of year	**7,637**	**1,756**	7,051	1,294
Plan amendments in year	**—**	**—**	—	327
Transfers to defined benefit option	**17**	**—**	—	—
Current service cost	**191**	**137**	188	89
Employee contributions	**18**	**—**	18	—
Benefit payments	**(75)**	**(6)**	(35)	(5)
Interest cost	**392**	**94**	362	69
Experience (gain) loss	**(239)**	**473**	53	(18)
Balance, end of year	**7,941**	**2,454**	7,637	1,756
Funded status				
Funded status – surplus (deficit)	**479**	**(2,454)**	866	(1,756)
Supplemental pension plan	**—**	**(279)**	—	(188)
Unamortized past service costs	**—**	**424**	—	477
Unamortized actuarial losses	**1,850**	**494**	1,600	21
Accrued asset (liability), end of year	**$ 2,329**	**$ (1,815)**	$ 2,466	$ (1,446)
Amortization period in years	**4**	**15**	5	12
	%	**%**	%	%
Discount rate	**5.00**	**5.50**	5.00	5.00
Expected long-term rate of return on plan assets	**7.00**		7.00	—
Rate of compensation increase	**4.00**		4.00	—
Health care cost escalation	**—**	**5.00**	—	9.50
Dental care cost escalation	**—**	**5.00**	—	4.50
Provincial Health Care premium escalation	**—**	**3.50**	—	2.25

12. 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, 2007. The effective date of the next required valuation for funding purposes is December 31, 2010.

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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2007 and 2006

12. EMPLOYEE FUTURE BENEFITS PLANS [CONT'D]

b) Costs recognized

	Year ended December 31, 2007		Year ended December 31, 2006	
	Registered	**Other**	Registered	Other
(in thousands of dollars)				
Current service cost	**$ 191**	**$ 137**	$ 188	$ 89
Interest cost on benefit obligation	**392**	**94**	362	69
Return on plan assets	**43**	**—**	(854)	—
Actuarial obligation gain/losses	**(239)**	**—**	53	(18)
Plan amendments	**—**	**—**	—	327
Difference between expected return and actual return on plan assets	**(638)**	**—**	318	—
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefits obligation for the year	**389**	**—**	222	18
Difference between amortization of past service costs for the year and actual plan amendments for the year	**—**	**53**	—	(307)
Defined benefit expense	**138**	**284**	289	178
Regulatory adjustment to offset expense	**(138)**	**—**	(289)	—
Defined benefit expense recognized in financial statements	**—**	**284**	—	178
Defined contribution expense of registered pension plan	**2,298**	**—**	2,157	—
Supplemental pension expense	**—**	**94**	—	47
Net expense recognized in the financial statements	**$ 2,298**	**$ 378**	$ 2,157	$ 225

12. EMPLOYEE FUTURE BENEFITS PLANS [CONT'D]

b) Costs recognized (cont'd)

Sensitivity to changes in assumed health care cost trend rates as at December 31, 2007 are as follows:

	One percentage point increase	One percentage point decrease
(in thousands of dollars)		
Effect on total service and interest cost	$ 31	$ (26)
Effect on post-retirement benefits obligation	268	(233)

The asset mix of the defined benefit component of the pension plan as of December 31, 2007 consists of 63% equity, 32% bonds, and 5% cash (December 31, 2006 – 65% equity, 33% bonds and 2% cash).

13. 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.

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

	December 31, 2007	December 31, 2006
(in thousands of dollars)		
Series 3 Subordinated Bond	**$ 85,000**	$ 85,000
Series 03-1 Senior Bonds	**99,883**	100,212
Series 03-2 Senior Bonds	**335,798**	341,206
Series 06-1 Senior Bonds	**145,436**	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.

13. FINANCIAL INSTRUMENTS [CONT'D]

b) Contributions in advance of construction

Contributions in advance of construction are held in short-term investments, the carrying values of which do not differ materially from the fair values. Contributions in advance of construction earned an effective interest rate of 4.49% at December 31, 2007 and 4.24% at December 31, 2006. Interest received is accumulated throughout the year and paid annually to the AESO.

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, 2006 – 88%). For the year ended December 31, 2007, tariff revenues accounted for approximately 94% (December 31, 2006 – 94%) of operating revenues. The remainder was comprised mainly of revenue from tower and land leases and the provision of services to others.

d) Interest rate risk

Existing long term debt has been pre-approved by the AUC and the approved costs are fully recoverable in rates. The Partnership is not exposed to interest rate risk with respect to the cost of a long-term debt issue in 2008 as it is subject to a long-term debt cost deferral account whereby deficiencies or surpluses are subject to disposition through the regulatory process.

The Partnership's commercial paper has variable interest rates and, accordingly, it exposes the Partnership to interest rate risk through fluctuations in the variable interest rate.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2007 and 2006

14. COMMITMENTS

On September 22, 2005 the Partnership entered into a 20 year operating lease for a new head office. 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)

2008	**$ 1,999**
2009	**2,118**
2010	**2,108**
2011	**2,108**
2012	**1,979**
2013 and thereafter	**26,377**
	$ 36,689

15. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items related to operations

	December 31, 2007	December 31, 2006
(in thousands of dollars)		
Increase in accounts receivable	**$ (4,588)**	$ (22,189)
Increase in materials and supplies	**(118)**	(214)
Increase in prepaid expenses and deposits	**(5,674)**	(269)
(Decrease) increase in accounts payable and accrued liabilities	**(1,040)**	5,083
Increase (decrease) in other liabilities	**2,771**	(261)
Increase in short-term regulatory liabilities	**4,213**	988
	$ (4,436)	$ (16,862)

16. COMPARATIVE FIGURES

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