

Financial Statements

**AltaLink, L.P.**

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

**AltaLink, L.P.**

**BALANCE SHEET**  
(Unaudited)

(in thousands of dollars)

As at	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable <i>[note 8]</i>	22,087	42,925
Materials and supplies	1,302	1,345
Prepaid expenses and deposits	9,103	8,147
Regulatory assets	3	13
	<b>32,495</b>	52,430
Property, plant and equipment <i>[note 9]</i>	1,188,036	1,138,170
Contributions in advance of construction <i>[note 2]</i>	41,604	38,512
Operating and maintenance charges in advance <i>[note 2]</i>	6,378	2,382
Regulatory assets, long-term	5,168	2,306
Accrued benefit pension asset	2,141	2,329
Construction materials and supplies	11,718	12,103
Goodwill	202,066	202,066
	<b>\$ 1,489,606</b>	<b>\$ 1,450,298</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 8]</i>	\$ 43,678	\$ 42,919
Other liabilities	2,096	1,368
Regulatory liabilities	11,877	5,327
Current portion of long-term debt <i>[note 4]</i>	138	135
	<b>57,789</b>	49,749
Accrued employment benefits liabilities	2,285	1,815
Other liabilities	3,140	2,767
Contributions in advance of construction liability <i>[note 2]</i>	41,604	37,737
Operating and maintenance charges deferred revenue <i>[note 2]</i>	6,378	2,382
Regulatory liabilities, long-term	18,105	15,464
Asset retirement obligations <i>[note 3]</i>	59,427	57,954
Long-term debt <i>[notes 2 &amp; 4]</i>	796,454	793,839
	<b>985,182</b>	961,707
<b>Contingencies <i>[note 10]</i></b>		
<b>Partners' equity</b>		
Partners' capital	408,536	408,536
Retained earnings	95,888	80,055
	<b>504,424</b>	488,591
	<b>\$ 1,489,606</b>	<b>\$ 1,450,298</b>

See accompanying notes to the financial statements

AltaLink, L.P.

**STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS**  
(Unaudited)

(in thousands of dollars)

	<b>Three months ended September 30, 2008</b>	Three months ended September 30, 2007	<b>Nine months ended September 30, 2008</b>	Nine months ended September 30, 2007
<b>REVENUE</b>				
Transmission tariff	\$ 54,283	\$ 51,536	\$ 163,329	\$ 152,690
Miscellaneous revenue	2,149	2,410	6,881	6,573
Allowance for equity funds used during construction	1,185	715	3,555	2,146
	<b>57,617</b>	54,661	<b>173,765</b>	161,409
<b>EXPENSES</b>				
Operating expenses	14,702	13,984	47,168	41,490
Property taxes	4,276	4,424	12,802	13,267
Depreciation and accretion	18,090	16,410	53,588	49,254
	<b>37,068</b>	34,818	<b>113,558</b>	104,011
	<b>20,549</b>	19,843	<b>60,207</b>	57,398
Interest and amortization of deferred financing fees <i>[note 4]</i>	(11,153)	(10,929)	(32,908)	(30,854)
Allowance for debt funds used during construction	1,570	971	4,712	2,914
	<b>10,966</b>	9,885	<b>32,011</b>	29,458
Gain (loss) on the sale of assets	54	95	222	84
<b>Net and comprehensive income for the period</b>	<b>\$ 11,020</b>	\$ 9,980	<b>\$ 32,233</b>	\$ 29,542
<b>Retained earnings, beginning of period</b>	<b>\$ 90,368</b>	\$ 72,839	<b>\$ 80,055</b>	\$ 61,224
Transition adjustment on adoption of financial instruments standards <i>[note 2]</i>	—	—	—	2,853
Distributions	(5,500)	(5,400)	(16,400)	(16,200)
Net income for the period	11,020	9,980	32,233	29,542
<b>Retained earnings, end of period</b>	<b>\$ 95,888</b>	\$ 77,419	<b>\$ 95,888</b>	\$ 77,419

See accompanying notes to the financial statements

**AltaLink, L.P.**

**STATEMENT OF CHANGES IN PARTNERS' EQUITY**  
(Unaudited)

(in thousands)

	<b>Units</b>	<b>Limited Partner</b>	<b>General Partner</b>	<b>Total</b>
<b>Balance at December 31, 2006</b>	<b>331,904</b>	<b>\$ 424,720</b>	<b>\$ 40</b>	<b>\$ 424,760</b>
Transition adjustment on adoption of financial instruments standards [note 2]	—	2,853	—	2,853
Net income for the year	—	37,574	4	37,578
Equity injection	—	45,000	—	45,000
Distributions	—	(21,598)	(2)	(21,600)
<b>Balance at December 31, 2007</b>	<b>331,904</b>	<b>488,549</b>	<b>42</b>	<b>488,591</b>
Net income for the period	—	32,230	3	32,233
Distributions	—	(16,398)	(2)	(16,400)
<b>Balance at September 30, 2008</b>	<b>331,904</b>	<b>\$ 504,381</b>	<b>\$ 43</b>	<b>\$ 504,424</b>

*See accompanying notes to the financial statements*

AltaLink, L.P.

**STATEMENT OF CASH FLOWS**  
(Unaudited)

(in thousands of dollars)

	Three months ended September 30,2008	Three months ended September 30,2007	Nine months ended September 30,2008	Nine months ended September 30, 2007
<b>OPERATING ACTIVITIES</b>				
Net income for the period	\$ 11,021	\$ 9,980	\$ 32,233	\$ 29,542
Items not involving cash				
Depreciation	17,349	15,614	51,366	46,866
Amortization of deferred financing fees	255	312	945	914
Accretion	741	796	2,222	2,388
Allowance for funds used during construction	(2,755)	(1,686)	(8,267)	(5,060)
Loss (gain) on the sale of assets	(54)	(95)	(222)	(84)
Asset retirement obligations settled	(335)	65	(749)	(1,209)
Change in long-term regulatory accruals	506	1,506	(220)	1,221
Change in other non-cash items	736	366	1,030	109
Funds generated in operations	27,464	26,858	78,338	74,687
Change in non-cash working capital items	5,140	(8,246)	31,138	(9,338)
Cash provided by operating activities	32,604	18,612	109,476	65,349
<b>INVESTING ACTIVITIES</b>				
Capital expenditures	(30,688)	(64,098)	(108,249)	(173,637)
Use of customer contributions	689	615	12,481	6,018
Proceeds from the sale of assets	74	98	245	255
Cash used in investing activities	(29,925)	(63,385)	(95,523)	(167,364)
<b>FINANCING ACTIVITIES</b>				
Issuance of senior notes	—	—	100,070	67
Repayment of senior notes	—	—	(100,067)	(63)
Increase in other debt	2,816	32,680	2,433	75,557
Deferred financing fees	5	(7)	(763)	(50)
Distributions paid	(5,500)	(5,400)	(16,400)	(16,200)
Increase in partners' equity	—	17,500	—	42,500
(Increase) decrease in contributions in advance of construction	(9,084)	(359)	(3,092)	558
Increase (decrease) in contributions in advance of construction liability	9,084	359	3,867	(1,732)
(Increase) in operating and maintenance charges in advance	(2,343)	—	(3,996)	—
Increase in operating and maintenance charges deferred revenue	2,343	—	3,996	—
Increase in other liabilities	—	—	—	1,378
Cash provided by (used in) financing activities	(2,679)	44,773	(13,953)	102,015
<b>Net increase in cash and cash equivalents</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Cash and cash equivalents, beginning of period	—	—	—	—
<b>Cash and cash equivalents, end of period</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Cash interest paid during the period</b>	<b>\$ 7,137</b>	<b>\$ 6,302</b>	<b>\$ 28,268</b>	<b>\$ 26,295</b>

See accompanying notes to the financial statements

## NOTES TO FINANCIAL STATEMENTS

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 1. BASIS OF ACCOUNTING

The interim financial statements of AltaLink, L.P. (the Partnership or "AltaLink") 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, 2007, except for the changes in accounting policies cited in Note 2, 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, 2007. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2008.

### 2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

#### *Changes affecting the current year financial statements*

#### a) Financial Instruments

With effect from January 1, 2007, AltaLink adopted the following accounting standards: Canadian Institute of Chartered Accountants (CICA) 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 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 for 2007, as described below.

Prior to the adoption of the 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 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".

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007

(Unaudited)

### 2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Effective January 1, 2008, AltaLink adopted the following Handbook Sections: 3862 – *Financial Instruments – Disclosures*, and Section 3863 – *Financial Instruments – Presentation*, which were effective for interim periods beginning on or after October 1, 2007.

- i) As described in Note 5, Section 3862, *Financial Instruments – Disclosures* describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, *Financial Instruments – Presentation* replaced Section 3861, *Financial Instruments – Disclosure and Presentation*.
- ii) Section 3863 – *Financial Instruments – Presentation*, establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of *Financial Instruments – Presentation* does not have any effect on the Partnership's financial statements.

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

#### **b) Capital Disclosures**

As described in Note 6, 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.

#### **c) 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* is not expected to have an effect on the Partnership's income statement but may result in a reclassification on the balance sheet.

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

#### d) Contributions and Operating and Maintenance Charges in Advance of Construction

For certain projects, customers are required to provide cash contributions to the Partnership in advance of construction. As construction expenditures are incurred for those projects, the cash contributions are drawn down to fund the cost of 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.

In addition, certain customers are required to provide advance funding related to future operating and maintenance costs of certain assets. When the projects for which advance funding of operating and maintenance expenditures have been provided are put into service, the advance funding will be drawn down over the life of the related assets.

Prior to January 1, 2008, contributions in advance of construction included cash received in advance for capital projects as well as cash received in advance for future operating and maintenance costs. As the latter amounts have become more significant, effective January 1, 2008, these amounts have been shown separately on the financial statements; however, there has been no change in the accounting policy.

#### *Future Accounting Changes*

#### a) Goodwill and Intangible Assets

CICA Handbook Section 3064 – *Goodwill and Intangible Assets* which is required to be adopted for fiscal years beginning on or after October 1, 2008 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062 and as a result, there is no impact on AltaLink's financial statements. The Partnership will adopt this standard on January 1, 2009.



## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

#### b) 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. The adoption of the new standards is expected to have an impact on the recognition and measurement and disclosure and presentation of regulatory asset retirement obligations, reserve and deferral accounts, pension assets, future income tax liabilities and allowance for funds used during construction. For a more detailed description of these expected changes, see Note 3 (b)(ii) to the December 31, 2007 financial statements.

### 3. ASSET RETIREMENT OBLIGATIONS

As of September 30, 2008, the estimated total undiscounted amount of asset retirement obligations was approximately \$131.2 million (December 31, 2007 - \$132.9 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.

	<b>As at September 30, 2008</b>	<b>As at December 31, 2007</b>
(in thousands of dollars)		
Balance, beginning of period	\$ 57,954	\$ 56,380
Liabilities incurred in period	—	65
Liabilities settled in period	(749)	(1,560)
Accretion expense	2,222	3,069
<b>Balance, end of period</b>	<b>\$ 59,427</b>	<b>\$ 57,954</b>

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

## 4. DEBT

	Effective interest rate	Maturing	As at September 30, 2008	As at December 31, 2007
(in thousands of dollars)				
Series 3 subordinated 8.000%	8.020%	2012	\$ 85,000	\$ 85,000
Series 03-1 4.450%	5.206%	2008	—	100,000
Series 03-2 5.430%	5.804%	2013	325,770	325,836
Series 06-1 5.249%	5.299%	2036	150,000	150,000
Series 08-1 5.243%	5.292%	2018	100,000	—
Commercial paper and bankers' acceptances, unsecured	3.543%	2010	142,724	140,221
			<b>803,494</b>	<b>801,057</b>
Less: deferred financing fees				
Series 3 8.000%			58	56
Series 03-1 4.450%			—	346
Series 03-2 5.430%			5,004	5,586
Series 06-1 5.249%			1,090	1,095
Series 08-1 5.243%			750	—
			<b>6,902</b>	<b>7,083</b>
Total debt, net of deferred financing fees			<b>796,592</b>	793,974
Less: Current portion of long-term debt			<b>138</b>	135
<b>Total long-term debt</b>			<b>\$ 796,454</b>	<b>\$ 793,839</b>

On May 16, 2008, the Partnership filed a short-form base shelf prospectus to facilitate the issuance of medium-term notes. This shelf prospectus has a 25 month life and permits the Partnership to issue up to an aggregate of \$800 million of secured, medium-term notes. On May 29, 2008, \$100 million of notes were issued under the shelf prospectus and the proceeds were used to repay \$100 million of Series 03-1 notes, which matured on June 5, 2008. The Series 08-1 notes are senior secured obligations of the Partnership. Collateral for the secured debt obligations consists of a first floating charge security interest on the Partnership's assets.

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 4. DEBT [CONT'D]

#### Interest and amortization of deferred financing fees

	<b>Three months ended September 30, 2008</b>	Three months ended September 30, 2007	<b>Nine months ended September 30, 2008</b>	Nine months ended September 30, 2007
(in thousands of dollars)				
Deferred financing fees amortized	\$ 255	\$ 312	\$ 945	\$ 914
Interest on debt	<b>10,898</b>	10,617	<b>31,963</b>	29,940
Total interest and amortization of deferred financing fees on debt	<b>11,153</b>	10,929	<b>32,908</b>	30,854
Less: short-term portion of interest on debt	—	—	—	—
Total long-term portion of interest and amortization of deferred financing fees	<b>\$ 11,153</b>	\$ 10,929	<b>\$ 32,908</b>	\$ 30,854

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 5. FINANCIAL INSTRUMENTS

Upon adoption of the standards as described in note 2(a) Financial Instruments, AltaLink has made the following classifications:

Financial Instrument	Designated Category	Measurement Basis	Associated Risks	Fair Value at September 30, 2008
Cash and cash equivalents	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to short-term nature
Accounts receivable	Loans and receivables	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to short-term nature
Accounts payable and accrued liabilities	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Approximates fair value due to short-term nature
Long-term debt	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Market</li> <li>• Liquidity</li> </ul>	\$793.5 million <sup>1</sup>
Contributions in advance of construction	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the asset <sup>2</sup>
Contributions in advance of construction liability	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the liability <sup>2</sup>
Operating and maintenance charges in advance	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the asset <sup>3</sup>
Operating and maintenance charges in advance liability	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the liability <sup>3</sup>

## **NOTES TO FINANCIAL STATEMENTS [CONT'D]**

Three and nine months ended September 30, 2008 and 2007  
**(Unaudited)**

### **5. FINANCIAL INSTRUMENTS [CONT'D]**

1. Fair values are determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on AltaLink's current borrowing rate for similar borrowing arrangements.
2. 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 3.24% at September 30, 2008 (December 31, 2007 - 4.49%). Interest received is accumulated throughout the year and paid annually to the Alberta Electric System Operator (AESO).
3. Operating and maintenance charges in advance are held in short-term investments, the carrying values of which do not differ materially from the fair values. Operating and maintenance charges in advance earned an effective interest rate of 3.24% at September 30, 2008 (December 31, 2007 - 4.49%).

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.

#### **a) Credit Risk**

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause AltaLink to incur a financial loss. There is exposure to credit risk on all financial assets included in the balance sheet. To help manage this risk:

- There is a policy for establishing credit limits;
- Collateral may be required where appropriate; and,
- Exposure to individual entities is managed through a system of credit limits.

The Partnership has a concentration of credit risk as approximately 88% of its accounts receivable balance is due from the AESO (December 31, 2007 – 91%). For the nine months ended September 30, 2008, transmission tariff revenues accounted for approximately 94% (September 30, 2007 – 95%) of operating revenues. The remainder was comprised mainly of revenue from tower and land leases and the provision of services to other utilities.

The AESO is the Independent System Operator established as a statutory corporation under the Electric Utilities Act of the Province of Alberta, whose board members are appointed by the Alberta Minister of Energy. The remainder of the receivables are mostly from investment grade entities.

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 5. FINANCIAL INSTRUMENTS [CONT'D]

To this date, the balance in the Partnership's allowance for doubtful accounts has been zero. As of September 30, 2008, 94% of receivables have been outstanding for less than 30 days.

#### b) Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Components of market risk to which AltaLink is exposed are discussed below.

##### i) Interest Rate Risk

All of the long-term debt issues, listed in the table in Note 4, have been approved by the Alberta Utilities Commission (AUC) before the debt was issued. Approximately 90% of the long-term debt has been approved by the AUC as regulatory debt, and the approved costs are fully recoverable in rates. The Partnership is not exposed to interest rate risk with respect to the cost of the approved component of long-term debt issues during the current General Tariff Application (GTA) period as the cost of the debt is subject to a deferral account whereby deficiencies or surpluses are subject to disposition through the regulatory process.

The non-regulated components of the long-term debt have been issued at fixed rates, maturing in 2012, 2013, 2018 and 2036, and the Partnership may be exposed to interest rate risk upon renewal.

The Partnership's commercial paper and bankers' acceptances have variable interest rates and, accordingly, expose the Partnership to interest rate risk through fluctuations in the variable interest rates.

To help manage interest rate risk, AltaLink controls the proportion of fixed and variable rate positions in accordance with target levels; ensures access to diverse sources of funding; and, reduces refinancing risk by establishing and managing in accordance with target maturity profiles, which means managing the maturity dates of its debt obligations so they do not all mature at the same time.

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 5. FINANCIAL INSTRUMENTS [CONT'D]

**i) Interest Rate Risk (cont'd)**

The Partnership's commercial paper and bankers' acceptances are not subject to deferral account treatment. AltaLink forecasts the interest rate on its commercial paper and bankers' acceptances in the GTA and is subject to interest rate risk. As at September 30 2008, the Partnership had \$142.7 million of commercial paper and bankers' acceptances outstanding at an average rate of 3.54%. A 10% increase in short-term interest rates (35 basis points) would produce an increase in interest expense and reduction in net income for the third quarter of \$0.1 million.

**ii) Foreign Exchange Risk**

AltaLink does not have a significant exposure to foreign exchange risk.

**c) Liquidity Risk**

Liquidity risk includes the risk that, as a result of AltaLink's operational liquidity requirements:

- It will not have sufficient funds to settle a transaction on the due date;
- It will be forced to sell financial assets at a value which is less than what they are worth; and,
- It may be unable to settle or recover a financial asset at all.

To manage this risk, AltaLink has readily accessible standby credit facilities and other funding arrangements in place; generally uses financial instruments that are tradeable in highly liquid markets; and, has a liquidity portfolio structure that requires surplus funds to be invested in highly liquid financial instruments.

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 6. CAPITAL RISK MANAGEMENT

AltaLink's objectives when managing capital are to safeguard the Partnership's ability to continue as a going concern, so that it can continue to provide returns for partners and maintain an optimal capital structure to reduce the cost of capital for customers and other stakeholders. In order to maintain or adjust the capital structure, AltaLink may adjust the amount of distributions paid to partners, return capital to partners, or request new contributions from partners.

The Partnership has developed a financing structure referred to as the "Capital Markets Platform" to finance the operation, maintenance and development of its assets. This structure is capable of accommodating a variety of debt instruments and borrowings, including term bank debt, revolving bank lines of credit, publicly-issued and privately-placed term debt securities, bankers' acceptances, commercial paper and medium-term notes.

The Partnership has entered into a Master Trust Indenture, which establishes a set of common covenants by the Partnership for the benefit of all of its lenders under the Capital Markets Platform. All indebtedness of the Partnership is intended to be governed under the Capital Markets Platform where, among other things, the ranking and security (if any) of the various debt instruments are determined. The Partnership is not permitted to borrow other than under the Capital Markets Platform except in certain limited circumstances and, in any event, not in excess of an aggregate of \$20 million. AltaLink delivers an "Officer's Certificate" to the Trustee saying the aggregate amount of all indebtedness does not exceed 75% of total capital as defined below.

Under the Indenture, the Partnership may issue two categories of debt, namely (i) senior debt and (ii) subordinated debt. Bonds may be issued either as "Obligation Bonds" (to directly evidence the indebtedness of the Partnership to the holder of such debt) or as "Pledged Bonds" (to be held by the holder as collateral security for the indebtedness specified in the related instrument of pledge). The specific terms and conditions of each series of bonds under the Capital Markets Platform are set forth in the series supplement authorizing the series. It is expected that publicly-issued and privately-placed bonds will be in the form of Obligation Bonds, whereas all other indebtedness of the Partnership under the Capital Markets Platform will be supported by Pledged Bonds.

The Partnership is well within any debt targets and other ratios required by the Master Trust Indenture. However, there are more stringent, self-imposed debt targets that are monitored regularly which have an impact on borrowing levels and timing of equity injections from AltaLink's partners. One of the key ratios used by AltaLink to manage its capital structure is the leverage ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total short-term and long-term debt adjusted for the change in presentation of deferred financing fees. Total capital is calculated as equity as shown in the balance sheet plus net debt.



## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 6. CAPITAL RISK MANAGEMENT [CONT'D]

Currently, AltaLink's strategy is to maintain the debt leverage ratio at a maximum of 62.5% in order to access financing at a reasonable cost.

### 7. EMPLOYEE FUTURE BENEFITS

	<b>Three months ended September 30, 2008</b>	Three months ended September 30, 2007	<b>Nine months ended September 30, 2008</b>	Nine months ended September 30, 2007
(in thousands of dollars)				
Pension and other post-employment benefit expense consists of:				
Other post-employment benefits	\$ 142	\$ 71	\$ 427	\$ 213
Supplemental pension expense	17	14	50	41
	<b>\$ 159</b>	\$ 85	<b>\$ 477</b>	\$ 254

### 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 AUC 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 2008, AltaLink paid SNC-Lavalin ATP \$38.5 million for construction related services which are capitalized in various projects, compared with \$87.7 million for the nine months ended September 30, 2007 and \$10.2 million for the three months ended September 30, 2008 (2007 - \$30.6 million).

AltaLink, L.P.

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 8. RELATED PARTY TRANSACTIONS [CONT'D]

In the normal course of business, the Partnership transacts with its partners and other related entities under common control. Amounts due from (to) related parties included in accounts receivable and accounts payable are:

	<b>As at September 30, 2008</b>	As at December 31, 2007
<hr/>		
(in thousands of dollars)		
AltaLink Management Ltd.	\$ (4,303)	\$ (3,669)
SNC Lavalin ATP Inc.	(13,508)	(21,913)
AltaLink Investments, L.P.	(1,118)	(1,072)
AltaLink Investment Management Ltd.	2	8
AltaLink Holdings, L.P.	12	46
Macquarie North America Ltd.	—	1

## NOTES TO FINANCIAL STATEMENTS [CONT'D]

Three and nine months ended September 30, 2008 and 2007  
(Unaudited)

### 9. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2008			December 31, 2007		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
(In thousands of dollars)						
Transmission network	\$ 1,306,319	\$ (312,554)	\$ 993,765	\$ 1,264,168	\$ (264,868)	\$ 999,300
Assets under construction	172,814	—	172,814	115,767	—	115,767
Long-lived asset <sup>1</sup>	43,414	(21,957)	21,457	43,414	(20,311)	23,103
	<b>\$ 1,522,547</b>	<b>\$ (334,511)</b>	<b>\$ 1,188,036</b>	<b>\$ 1,423,349</b>	<b>\$ (285,179)</b>	<b>\$ 1,138,170</b>

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

The total amount of allowance for funds used during construction (AFUDC) for the nine months ended September 30, 2008 was \$8.3 million (\$5.1 million for the nine months ended September 30, 2007), \$2.8 million for the three months ended September 30, 2008 (\$1.7 million for the three months ended September 30, 2007) and \$7.2 million for the twelve months ended December 31, 2007.

Included in Assets under construction is approximately \$38.7 million in capital expenditures, related to the Edmonton to Calgary 500kV transmission line project. AltaLink incurred these expenditures pursuant to direction letters issued by the AESO, which is a normal step in 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. AltaLink plans to file the Direct Assign capital deferral account application for 2007 with the AUC during Q4 2008 requesting an amount of \$36.1 million, which is net of AFUDC, be added to rate base as of December 31, 2007. 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.

## **NOTES TO FINANCIAL STATEMENTS [CONT'D]**

Three and nine months ended September 30, 2008 and 2007  
**(Unaudited)**

### **10. CONTINGENCIES**

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. AltaLink filed its 2009-2010 GTA with the AUC on September 16, 2008, in which the AUC was requested to delay the implementation of the flow-through method and allow the retention of the future income tax account balance until certain proposed major transmission construction projects had been completed. As disposition of these matters 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 these matters at September 30, 2008.

On May 14, 2008, the Partnership received a motion from an intervenor in the 500kV Edmonton to Calgary transmission reinforcement proceeding (500kV proceeding) seeking an order from the AUC, that AltaLink pay approximately \$2.7 million in intervenor costs incurred in the 500kV proceeding. The motion arises from a cost order respecting the 500kV Proceeding. It is the Partnership's position that all costs which AltaLink prudently incurred in respect of the 500kV Proceeding, including intervenor costs, constitute legitimate costs reasonably incurred by AltaLink. In various cost orders the AUC awarded the majority of intervenor costs claimed. Some intervenors have filed for a Leave to Appeal these Orders to the Alberta Court of Appeal. The potential outcome of this action is presently unknown and, as a result, no amounts have been accrued in relation to this matter at September 30, 2008.

**AltaLink, L.P.**

## **NOTES TO FINANCIAL STATEMENTS [CONT'D]**

Three and nine months ended September 30, 2008 and 2007  
**(Unaudited)**

### **10. CONTINGENCIES [CONT'D]**

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.

### **11. COMPARATIVE FIGURES**

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