

Financial Statements

AltaLink, L.P.

For the years ended December 31, 2008 and 2007

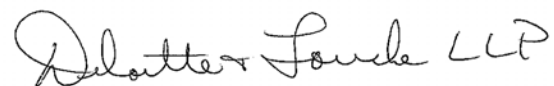
AUDITORS' REPORT

To the Partners of AltaLink, L.P.

We have audited the balance sheets of AltaLink, L.P. as at December 31, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



February 2, 2009
Calgary, Alberta

Chartered Accountants

AltaLink, L.P.**BALANCE SHEET**

(in thousands of dollars)

As at	December 31, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents <i>[note 8a]</i>	\$ —	\$ —
Accounts receivable <i>[notes 8a and 10]</i>	20,991	42,925
Prepaid expenses and deposits	11,476	8,147
Regulatory assets <i>[note 4]</i>	516	13
	32,983	51,085
Property, plant and equipment <i>[notes 3c and 6]</i>	1,223,606	1,151,618
Contributions in advance of construction <i>[note 8a]</i>	39,751	38,512
Operating and maintenance charges in advance <i>[note 8a]</i>	7,733	2,382
Regulatory assets, long-term <i>[note 4]</i>	2,797	2,306
Accrued benefit pension asset <i>[note 13]</i>	2,079	2,329
Goodwill	202,066	202,066
	\$ 1,511,015	\$ 1,450,298
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities <i>[notes 8a and 10]</i>	\$ 42,965	\$ 42,919
Other liabilities	1,319	1,368
Regulatory liabilities <i>[note 4]</i>	6,759	5,327
Current portion of long-term debt <i>[note 7]</i>	142	135
	51,185	49,749
Accrued employment benefits liabilities <i>[note 13]</i>	2,442	1,815
Other liabilities, long-term	3,242	2,767
Contributions in advance of construction liability <i>[note 8a]</i>	39,751	37,737
Operating and maintenance charges deferred revenue <i>[note 8a]</i>	7,733	2,382
Regulatory liabilities, long-term <i>[note 4]</i>	20,774	15,464
Asset retirement obligations <i>[note 5]</i>	60,181	57,954
Long-term debt <i>[notes 7 and 8]</i>	818,388	793,839
	1,003,696	961,707
Commitments and contingencies <i>[notes 14 and 16]</i>		
Partners' equity		
Partners' capital <i>[note 12]</i>	408,536	408,536
Retained earnings	98,783	80,055
	507,319	488,591
	\$ 1,511,015	\$ 1,450,298

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, 2008	Year ended December 31, 2007
REVENUE		
Transmission tariff	\$ 222,228	\$ 200,849
Miscellaneous revenue	8,656	9,535
Allowance for equity funds used during construction	2,472	3,055
	233,356	213,439
EXPENSES		
Operating <i>[note 10]</i>	61,319	54,761
Property taxes	16,753	15,281
Depreciation and accretion	74,487	67,944
	152,559	137,986
	80,797	75,453
Interest and amortization of deferred financing fees <i>[notes 7d and 10]</i>	(44,169)	(42,098)
Allowance for debt funds used during construction	3,278	4,146
	39,906	37,501
Gains on disposals of assets	822	77
Net and comprehensive income for the year	\$ 40,728	\$ 37,578
Retained earnings, beginning of year	\$ 80,055	\$ 61,224
Transition adjustment on adoption of financial instruments standards <i>[note 3a]</i>	—	2,853
Distributions	(22,000)	(21,600)
Net income for the year	40,728	37,578
Retained earnings, end of year	\$ 98,783	\$ 80,055

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, 2006	331,904	\$ 424,720	\$ 40	\$ 424,760
Transition adjustment on adoption of financial instruments standards <i>[note 3a]</i>	—	2,853	—	2,853
Net income for the year	—	37,574	4	37,578
Equity investment received	—	45,000	—	45,000
Distributions	—	(21,598)	(2)	(21,600)
Balance at December 31, 2007	331,904	488,549	42	488,591
Net income for the year	—	40,724	4	40,728
Distributions	—	(21,998)	(2)	(22,000)
Balance at December 31, 2008	331,904	\$ 507,275	\$ 44	\$ 507,319

See accompanying notes to the financial statements

AltaLink, L.P.

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Year ended December 31, 2008	Year ended December 31, 2007
OPERATING ACTIVITIES		
Net income for the year	\$ 40,728	\$ 37,578
Items not involving cash		
Depreciation	71,524	64,875
Amortization of deferred financing fees	1,697	1,321
Accretion expense	2,963	3,069
Allowance for funds used during construction	(5,750)	(7,201)
Gains on disposals of assets	(822)	(77)
Asset retirement obligations settled	(2,651)	(1,560)
Change in regulatory assets and liabilities	4,333	795
Change in other non-cash items	1,352	1,942
Funds generated from operations	113,374	100,742
Change in non-cash working capital items related to operations <i>[note 15]</i>	24,984	(6,701)
Cash provided by operating activities	138,358	94,041
INVESTING ACTIVITIES		
Capital expenditures	(174,444)	(230,486)
Use of customer contributions	33,117	12,682
Proceeds from the sale of assets	848	272
Cash used in investing activities	(140,479)	(217,532)
FINANCING ACTIVITIES		
Issuance of senior debt	100,142	135
Repayment of senior debt	(100,135)	(128)
Increase in commercial paper and bank credit	24,322	100,705
Settlement of deferred financing fees	(984)	(50)
Distributions	(22,000)	(21,600)
Equity investment received	—	45,000
(Increase) decrease in contributions in advance of construction	(1,238)	6,320
Increase (decrease) in contributions in advance of construction liability	2,014	(8,269)
Increase in operating and maintenance charges in advance	(5,351)	(2,382)
Increase in operating and maintenance charges deferred revenue	5,351	2,382
Increase in other liabilities	—	1,378
Cash provided by financing activities	2,121	123,491
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	\$ 42,594	\$ 41,036

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

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. 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.

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, and Macquarie Transmission Alberta Ltd. owns the remaining 23.075% limited partnership interest.

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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

b) Regulation

The Partnership is regulated by the Alberta Utilities Commission (AUC), 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 regulatory process, certain expenses and credits are deferred as assets or liabilities on the balance sheet. Regulatory assets represent costs incurred in the current period or in prior periods that are expected to be recovered in future periods. Regulatory liabilities represent amounts collected which are either held as reserves for future use or are to be refunded in future periods. 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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.

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 valuation of intangible assets with indefinite lives, such as goodwill; the amount 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 recovery and settlement of the regulated assets and liabilities.

It is management's opinion that no material uncertainties put into question the Partnership's ability to continue as a going concern.

d) Cash and cash equivalents

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

e) Property, plant and equipment

Property, plant and equipment are carried at cost, which includes direct labour, materials and allocated overheads, less depreciation. The Partnership capitalizes major replacements and upgrades to property, plant and equipment if these costs have been included in capital assets for regulatory purposes and are expected to be recovered within rates. The Partnership capitalizes an allowance for funds used during construction (AFUDC) which represents the cost of debt and equity financing incurred during construction as approved by the 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

e) Property, plant and equipment (cont'd)

Depreciation is calculated on a straight-line basis with various rates ranging from 1.99% 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%. Non-emergency spare parts and long-term capital inventory items are included in the property, plant and equipment balance, but are not depreciated. These 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. For regulatory purposes the net proceeds from the retirement or disposal of an asset in the normal course of business is reflected in accumulated depreciation. When a regulated asset is retired or disposed of in the normal course of business, there is no gain or loss recorded in income, other than for land. Any difference between the cost of the asset and the accumulated depreciation is charged to the accumulated depreciation account for that asset.

f) 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 presented separately in the financial statements; however, there has been no change in the accounting policy.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

g) 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 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.

h) 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 2008 by examining the business and regulatory environment, current market conditions, the ownership structure, 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 2007 and that the carrying value of the goodwill has not been impaired.

i) 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

i) Employee future benefit plans (cont'd)

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).

j) Taxes

As a limited partnership, AltaLink does not pay income taxes. Instead, the tax consequences of its operations are borne by its partners on a pro rata basis in proportion to 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. As at December 31, 2008, the technical amendments were awaiting Parliamentary approval.

k) 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

l) 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.

m) 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".

n) 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

Changes affecting the current year financial statements

a) Financial Instruments

With effect from January 1, 2007, AltaLink adopted the following new 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 as at January 1, 2007, which has been captioned as "Transition adjustment on adoption of financial instruments standards".

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

a) Financial Instruments (cont'd)

Effective January 1, 2008, AltaLink adopted the following Handbook Sections: 3862, *Financial Instruments – Disclosures*, and 3863, *Financial Instruments – Presentation*.

- i) As described in note 8, 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 have not been 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 impact on the financial statements of AltaLink.

b) Capital disclosures

As described in note 9, 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

Effective January 1, 2008, the Partnership adopted the new CICA Handbook Section 3031, *Inventories* for measurement and disclosure of inventories. The standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value, and on cost formulas used to assign costs to inventories. The standard also indicated that spare parts may be included in property, plant and equipment if they met certain criteria in line with the provisions of the new standard. As a result of reviewing its inventory, the Partnership reclassified all of its materials and supplies and construction materials and supplies (2008 - \$13.2 million; 2007 -\$13.4 million) to property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

d) 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 retroactively. 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 3064, *Goodwill and Intangible Assets*, which is required to be adopted for fiscal years ending on or after October 1, 2008 and Section 1100, *Generally Accepted Accounting Principles* discussed in notes 3(e) and 3(f) respectively.

e) Goodwill and intangible assets

In February 2008, the 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. Section 3064 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.

f) Accounting for rate regulated operations

Beginning on January 1, 2009, Section 1100 of the CICA Handbook, *Generally Accepted Accounting Principles* - was 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* - was also amended. These amendments are expected to have the following affect on AltaLink's financial statements.

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

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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

f) Accounting for rate regulated operations (cont'd)

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.

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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

4. REGULATORY ASSETS AND LIABILITIES

The following are the regulatory assets and liabilities:

	December 31, 2008	Change to regulatory asset/liability balance in 2008	Remaining recovery settlement period (years)	December 31, 2007
(in thousands of dollars)				
Regulatory assets				
Regulated financing fees ^{A, B}	\$ 1,278	\$ (486)	3	\$ 1,764
Hearing costs reserve ^{A, B}	516	503	1-2	13
Canada Revenue Agency deferral	542	—	2	542
Non-issued debt deferral	977	977	—	—
Total regulatory assets	3,313			2,319
Less: Current regulatory assets	516			13
Long-term regulatory assets	\$ 2,797			\$ 2,306
Regulatory liabilities				
Self-insurance reserve ^{A, B}	\$ 1,104	\$ 291	2	\$ 813
Pension liability account ^B	3,785	(33)	—	3,818
Pension asset offset [note 13]	2,079	(250)	—	2,329
Future income tax liability ^B	8,100	—	—	8,100
Property tax deferral account ^A	6,922	3,735	1-2	3,187
Insurance premium deferral account ^{A, B}	658	447	1-2	211
Debt cost deferral account ^A	123	—	1-2	123
Canada Revenue Agency reserve ^B	404	—	—	404
Annual tower payments account ^A	832	262	1-2	570
Direct Assigned Capital Projects deferral account ^{A, B}	3,513	2,277	1-2	1,236
Approved hearing costs	13	13	—	—
Total regulatory liabilities	27,533			20,791
Less: Current regulatory liabilities	6,759			5,327
Long-term regulatory liabilities	\$ 20,774			\$ 15,464

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, 2008 is nil (December 31, 2007 – nil).

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

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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 regulatory 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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 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 expenses.

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 AltaLink'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, 2008, amortization of finance fees totalled \$1.70 million (December 31, 2007 - \$1.32 million), which is \$0.49 million (December 31, 2007 - \$0.28 million) higher than would have been recorded in the absence of rate regulation.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

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, 2008 is \$2.98 million (December 31, 2007 - \$2.44 million) versus \$2.73 million (December 31, 2007 - \$2.30 million) actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2008 is \$0.25 million (December 31, 2007 - \$0.14 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, the revenue requirement includes 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%.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

4. REGULATORY ASSETS AND LIABILITIES [CONT'D]

Generic cost of capital (cont'd)

The rate of return on common equity has been adjusted annually for the years 2005 through 2008. The adjustment was calculated as 75% of the change in yield of long-term Government of Canada bonds. It was further provided that if the adjustment exceeded +/- 2%, the AUC would consider undertaking a review of the formula. On November 30, 2006, the AUC issued an order setting the 2007 ROE at 8.51%. On November 30, 2007, the AUC issued an order setting the 2008 ROE at 8.75%.

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, 2008, the estimated total undiscounted amount of asset retirement obligations was approximately \$130.7 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 2009 and 2047. Discount rates ranging from 4.13% to 7.46% were used to calculate the carrying value of the asset retirement obligations.

	Year ended December 31, 2008	Year ended December 31, 2007
(in thousands of dollars)		
Balance, beginning of year	\$ 57,954	\$ 56,380
Net change in liabilities for the year	1,915	65
Liabilities settled in year	(2,651)	(1,560)
Accretion expense	2,963	3,069
Balance, end of year	\$ 60,181	\$ 57,954

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

5. ASSET RETIREMENT OBLIGATIONS [CONT'D]

For the year ended December 31, 2008, GAAP required \$2.963 million (December 31, 2007 - \$3.069 million) to be recorded as accretion expense to the asset retirement obligations and \$2.195 million (December 31, 2007 - \$5.935 million) to be recorded as depreciation expense for the asset retirement costs that are added to the carrying amounts of property, plant and equipment.

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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2008			December 31, 2007		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
(In thousands of dollars)						
Transmission network	\$ 1,367,392	\$ (329,836)	\$ 1,037,556	\$ 1,264,168	\$ (264,868)	\$ 999,300
500kV project costs	38,652	(1,343)	37,309	—	—	—
Assets under construction	112,978	—	112,978	115,767	—	115,767
Long-lived asset ¹	45,185	(22,592)	22,593	43,414	(20,311)	23,103
Spare parts	13,170	—	13,170	13,448	—	13,448
	\$ 1,577,377	\$ (353,771)	\$ 1,223,606	\$ 1,436,797	\$ (285,179)	\$ 1,151,618

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

The total amount of AFUDC for the year ended December 31, 2008 was \$5.750 million (\$7.201 million for the twelve months ended December 31, 2007).

As of December 31, 2008, approximately \$38.7 million in capital expenditures has been incurred related to the Edmonton to Calgary 500kV transmission line project and has been included in property, plant and equipment. 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 recovered through the regulatory process. AltaLink plans to file the Direct Assign capital deferral account application for 2007 with the AUC during Q1 2009 requesting that an amount of \$38.7 million be added to rate base effective 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.

AltaLink, L.P.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

7. DEBT

	Effective interest rate	Maturing	December 31, 2008	December 31, 2007
(in thousands of dollars)				
Senior Debt <i>[note 7c]</i>				
Series 03-1, 4.450%	5.206%	2008	\$ —	\$ 100,000
Series 03-2, 5.430%	5.804%	2013	325,701	325,836
Series 06-1, 5.249%	5.299%	2036	150,000	150,000
Series 08-1, 5.243%	5.312%	2018	100,000	—
			575,701	575,836
Series 3, subordinated 8.000% <i>[note 10]</i>	8.020%	2012	85,000	85,000
Commercial paper	2.244%	2011	26,951	140,221
Bank credit facilities <i>[note 7b]</i>	2.647%	2011	137,735	—
			825,387	801,057
Less: Deferred financing fees <i>[note 3a]</i>				
Series 3, 8.000%			55	56
Series 03-1, 4.450%			—	346
Series 03-2, 5.430%			4,769	5,586
Series 06-1, 5.249%			1,086	1,095
Series 08-1, 5.423%			891	—
Financing fees related to debt to be issued in 2009			56	—
			6,857	7,083
Total debt, net of deferred financing fees			818,530	793,974
Less: current portion of long-term debt			142	135
Total long-term debt			\$ 818,388	\$ 793,839

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

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

7. DEBT [CONT'D]

a) Capital markets platform

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 (MTI), dated April 28, 2003 between the Partnership, the General Partner and BNY Trust Company of Canada, as trustee. The MTI 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. One of the principal covenants is that AltaLink cannot become liable for any indebtedness, unless the aggregate amount of all indebtedness does not exceed 75% of the total capitalization. Indebtedness is calculated as total short-term and long-term debt adjusted for deferred financing fees. Total capital is calculated as equity plus indebtedness.

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 has secured the obligations relating to the Series 03-1 Senior Bonds, Series 03-2 Senior Bonds, Series 3 Subordinated Bonds, Series 06-1 Medium-term Notes, Series 08-1 Medium-term Notes 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 Medium-term Notes, Series 08-1 Medium-term Notes and the credit facilities rank equally with each other and all future senior secured indebtedness that is issued by the Partnership.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

7. DEBT [CONT'D]

b) Bank credit facilities

As at December 31, 2008, the Partnership had \$285.0 million (2007 - \$285.0 million) of bank credit facilities which mature in 2011.

December 31, 2008		Commercial Paper Outstanding	Availability	Maturity Date	
	Committed	Drawdowns			
Commercial paper back-up facility	\$ 200,000	\$ 137,735	\$ 26,951	\$ 35,314	December 10, 2011
Revolving line of credit	85,000	—	—	85,000	May 1, 2011
	\$ 285,000	\$ 137,735	\$ 26,951	\$ 120,314	

December 31, 2007		Commercial Paper Outstanding	Availability	Maturity Date	
	Committed	Drawdowns			
Commercial paper back-up facility	\$ 200,000	\$ —	\$ 139,305	\$ 60,695	December 10, 2010
Revolving line of credit	85,000	916	—	84,084	May 1, 2010
	\$ 285,000	\$ 916	\$ 139,305	\$ 145,899	

The commercial paper back-up facility provides support for the borrowing under the unsecured commercial paper program of \$200.0 million. Drawdowns consist of Canadian prime rate loans and bankers' acceptances. As at December 31, 2008, borrowing under this program was \$137.7 million (December 31, 2007 – nil). Commercial paper issuance reduces the availability under the \$200.0 million line of credit. As at December 31, 2008, commercial paper outstanding was \$27.0 million (December 31, 2007 - \$139.3 million). The average term to maturity for drawdowns under the commercial paper back-up facility including outstanding commercial paper was 11 days as at December 31, 2008 (December 31, 2007 – 19 days) with a weighted average interest rate of 2.72% (December 31, 2007 – 4.90%).

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

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

7. DEBT [CONT'D]

c) Letters of credit

As at December 31, 2008, the Partnership had secured letters of credit outstanding totalling \$0.109 million (December 31, 2007 - \$0.087 million).

d) 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 debt. The Series 3 Subordinated Bond is payable to AILP. Series 03-1 debt was replaced by Series 08-1 debt in 2008 and was therefore excluded from the current portion of long-term debt at December 31, 2007.

Series 03-1 and Series 03-2

The Series 03-1 Senior Bonds had no right to early redemption and matured 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 and Series 08-1

The medium-term 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.

Short-form base shelf prospectus

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 \$800.0 million of secured, medium-term notes. On May 29, 2008, \$100.0 million of notes were issued under the shelf prospectus and the proceeds were used to repay \$100.0 million of Series 03-1 notes, which matured on June 5, 2008.

AltaLink, L.P.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

7. DEBT [CONT'D]

e) Interest expense and amortization of deferred financing fees

	Year ended December 31, 2008	Year ended December 31, 2007
(in thousands of dollars)		
Deferred financing fees amortized	\$ 1,697	\$ 1,321
Interest on debt	42,472	40,777
Total interest and amortization of deferred financing fees on debt	44,169	42,098
Less: short-term portion of interest on debt	—	—
Total long-term portion of interest and amortization of deferred financing fees	\$ 44,169	\$ 42,098

f) Scheduled Principal repayments

(in thousands of dollars)

Maturing	
2009	\$ 142
2010	—
2011	164,685
2012	85,000
2013	325,560
2014 and thereafter	250,000
	\$ 825,387

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

8. FINANCIAL INSTRUMENTS

a) Fair value financial instruments

Upon adoption of the standards as described in note 3(a) Financial Instruments, AltaLink has made the following classifications:

Financial Instrument	Designated Category	Measurement Basis	Associated Risks	Fair Value at December 31, 2008
Cash and cash equivalents	Held for trading	Fair value	<ul style="list-style-type: none"> • Market • Credit • Liquidity 	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"> • Credit • Liquidity 	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"> • Liquidity 	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"> • Market • Liquidity 	\$799.4 million ¹
Contributions in advance of construction	Held for trading	Fair value	<ul style="list-style-type: none"> • Market • Credit • Liquidity 	Approximates fair value due to the nature of the asset ²
Contributions in advance of construction liability	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> • Liquidity 	Approximates fair value due to the nature of the liability ²
Operating and maintenance charges in advance	Held for trading	Fair value	<ul style="list-style-type: none"> • Market • Credit • Liquidity 	Approximates fair value due to the nature of the asset ³
Operating and maintenance charges in advance liability	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> • Liquidity 	Approximates fair value due to the nature of the liability ³

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

8. FINANCIAL INSTRUMENTS [CONT'D]

1. Fair values are determined using quoted market prices for the same or similar issues. Where 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 1.49% at December 31, 2008 (December 31, 2007 - 4.49%). Interest received is accumulated throughout the year and paid annually to the 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 1.49% at December 31, 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.

b) 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 95% of its accounts receivable balance is due from the AESO (December 31, 2007 – 91%). For the year ended December 31, 2008, transmission tariff revenues accounted for approximately 95% (December 31, 2007 – 94%) 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.

To this date, the balance in the Partnership's allowance for doubtful accounts has been zero. As of December 31, 2008, over 99% of receivables have been outstanding for less than 30 days.

c) 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

8. FINANCIAL INSTRUMENTS [CONT'D]

c) Market Risk (cont'd)

i) Interest Rate Risk

All of the long-term debt issues, listed in the table in note 7, have been approved by the 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 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 price risk upon renewal.

The Partnership's commercial paper, bankers' acceptances and bank loans have variable interest rates and, accordingly, expose the Partnership to interest rate cash flow 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.

The Partnership's commercial paper, bankers' acceptances and bank loans are not subject to deferral account treatment. AltaLink forecasts the interest rate on its commercial paper, bankers' acceptances and bank loans in the GTA and is subject to interest rate risk. As at December 31, 2008, the Partnership had \$166.4 million of commercial paper, bankers' acceptances and bank loans outstanding at an average rate of 2.72%. A 10% increase in short-term interest rates (27 basis points) would produce an increase in interest expense and reduction in net income for the year of \$0.1 million.

ii) Foreign Exchange Risk

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

d) 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.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

8. FINANCIAL INSTRUMENTS [CONT'D]

d) Liquidity Risk (cont'd)

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.

9. CAPITAL RISK MANAGEMENT

AltaLink's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electrical transmission system within its service territory. To ensure this access to capital, the Partnership targets a long-term capital structure that includes approximately 62.5% long-term debt and 37.5% equity. The Partnership maintains this ratio through the issuance of bonds or other indebtedness, and/or equity investments received from its partners.

Summary of capital structure

	December 31, 2008		December 31, 2007	
	(millions)	%	(millions)	%
Total long-term debt ^{1.}	\$ 825.2	61.9	\$ 801.0	62.1
Partners' equity	507.3	38.1	488.6	37.9
Total	\$ 1,332.5	100.0	\$ 1,289.6	100.0

1. The December 31, 2008 balance does not include deferred financing fees of \$6.9 million (December 31, 2007 - \$7.1 million)

In the management of capital, the Partnership includes partners' equity, short-term and long-term debt, and cash and cash equivalents in the definition of capital.

As at December 31, 2008, the Partnership has externally imposed capital requirements by virtue of the master trust indenture and the bank credit facilities described in note 7 to which it is subject that limit the amount of debt that can be incurred relative to equity. The Partnership was in compliance with these externally imposed capital requirements as at December 31, 2008

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

10. RELATED PARTY TRANSACTIONS

In 2002, AltaLink executed a ten-year contract with SNC-Lavalin Inc., for the provision of engineering, procurement and construction management services for directly assigned capital projects undertaken by AltaLink. These services have been provided to AltaLink on behalf of SNC-Lavalin Inc. by its subsidiary, SNC-Lavalin ATP Inc. 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 \$54.4 million for construction related services which are capitalized in various projects, compared to \$110.4 million for the year ended December 31, 2007.

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, 2008	Year ended December 31, 2007
(in thousands of dollars)		
Included in operating costs are the following amounts charged from related parties:		
Employee compensation and benefit charges	\$ 47,610	\$ 41,062
Consulting services	12	33
Operating expenses	41	18
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	54,423	110,442
Included in miscellaneous revenue are the following amounts charged to related parties	361	479

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

	December 31, 2008	December 31, 2007
(in thousands of dollars)		
AltaLink Management Ltd.	\$ (4,873)	\$ (3,669)
SNC Lavalin ATP Inc.	(17,231)	(21,913)
AltaLink Investments, L.P.	(1,092)	(1,072)
AltaLink Investment Management Ltd.	4	8
AltaLink Holdings, L.P.	224	46
Macquarie North America Ltd.	—	1

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

11. REGULATORY DECISIONS

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

a) 2007-08 GTA

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.

b) 2004-06 Deferral accounts

Decision 2008-076 was issued on August 26, 2008 confirming full recovery of the Direct Assign capital deferral account for May 2004 through December 2006 and the disposition of other deferral accounts. On January 30, 2009, the Partnership was directed to settle the related regulatory liabilities with the AESO in the amount of \$1.4 million, to be paid by February 17, 2009.

12. 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 first be 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 did not invest any additional equity (2007 - \$45.0 million), and no partnership units were issued (2007 - nil).

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

13. EMPLOYEE FUTURE BENEFITS PLANS

	Year ended December 31, 2008		Year ended December 31, 2007	
	Pension Plan	Other benefits	Pension plan	Other benefits
(in thousands of dollars)				
Fair value of plan assets				
Balance, beginning of year	\$ 8,420	\$ —	\$ 8,503	\$ —
Transfers to defined benefit option	—	—	17	—
Employee contributions	17	—	18	—
Company contributions	101	9	—	6
Benefit payments	(131)	(9)	(75)	(6)
Actual loss on plan assets	(1,396)	—	(43)	—
Balance, end of year	7,011	—	8,420	—
Accrued benefits obligation				
Balance, beginning of year	7,941	2,454	7,637	1,756
Transfers to defined benefit option	—	—	17	—
Current service cost	149	347	191	137
Employee contributions	17	—	18	—
Benefit payments	(131)	(9)	(75)	(6)
Interest cost	439	152	392	94
Experience (gain) loss	(1,790)	(973)	(239)	473
Balance, end of year	6,625	1,971	7,941	2,454
Funded status				
Funded status – surplus (deficit)	386	(1,971)	479	(2,454)
Supplemental pension plan	—	(346)	—	(279)
Unamortized past service costs	—	371	—	424
Unamortized actuarial losses (gains)	1,794	(496)	1,850	494
Solvency deficiency payment	(101)	—	—	—
Accrued asset (liability), end of year	\$ 2,079	\$ (2,442)	\$ 2,329	\$ (1,815)
Amortization period in years	4	15	4	15
	%	%	%	%
Discount rate	7.50	7.40	5.00	5.50
Discount rate for expense determinations	5.50	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	—	5.00
Dental care cost escalation	—	5.00	—	5.00
Provincial Health Care premium escalation	—	3.50	—	3.50

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

13. 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, and extrapolated to December 31, 2008. 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, 2008 and 2007

13. EMPLOYEE FUTURE BENEFITS PLANS [CONT'D]

b) Costs recognized

	Year ended December 31, 2008		Year ended December 31, 2007	
	Registered	Other	Registered	Other
(in thousands of dollars)				
Current service cost	\$ 149	\$ 347	\$ 191	\$ 137
Interest cost on benefit obligation	439	153	392	94
Loss on plan assets	1,396	—	43	—
Experience (gain) losses	(1,790)	(973)	(239)	473
Difference between expected return and actual return on plan assets	(1,987)	—	(638)	—
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefits obligation for the year	2,042	990	389	(473)
Difference between amortization of past service costs for the year and actual plan amendments for the year	—	53	—	53
Defined benefit expense	249	570	138	284
Regulatory adjustment to offset expense	(249)	—	(138)	—
Defined benefit expense recognized in financial statements	—	570	—	284
Defined contribution expense of registered pension plan	2,729	—	2,298	—
Supplemental pension expense	—	67	—	94
Net expense recognized in the financial statements	\$ 2,729	\$ 637	\$ 2,298	\$ 378

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

13. 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, 2008 are as follows:

	One percentage point increase	One percentage point decrease
(in thousands of dollars)		
Effect on total service and interest cost	\$ 70	\$ (59)
Effect on post-retirement benefits obligation	214	(187)

The asset mix of the defined benefit component of the pension plan as of December 31, 2008 consists of 55% equity, 39% bonds, and 6% cash (December 31, 2007 – 63% equity, 32% bonds and 5% cash).

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 and terminated on October 31, 2008. 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)

2009	3,549
2010	3,166
2011	3,166
2012	3,166
2013	3,047
2014 and thereafter	27,557
	\$ 43,651

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

15. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items related to operations

	December 31, 2008	December 31, 2007
<hr style="border: 0.5px solid black;"/>		
(in thousands of dollars)		
(Increase) decrease in accounts receivable	\$ 20,727	\$ (4,589)
Increase in prepaid expenses and deposits	(3,369)	(5,674)
(Decrease) increase in accounts payable and accrued liabilities	6,747	(1,040)
Increase (decrease) in other liabilities	(49)	389
Increase in short-term regulatory liabilities	928	4,213
	<hr style="border: 0.5px solid black;"/> \$ 24,984	<hr style="border: 0.5px solid black;"/> \$ (6,701)

16. CONTINGENCIES

The Partnership has resolved the issues relating to the indemnification claimed by Imperial Oil Limited (IOL) from 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 arose from a disruption to power service on December 13, 2006. Effective December 17, 2008, both parties agreed, in writing, to a mutually acceptable resolution which has not had a material impact on the Partnership's financial statements as at December 31, 2008.

In Decision 2007-012, the AUC directed the Partnership to use the flow-through (i.e. current 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 would 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. In its 2009-2010 GTA, filed with the AUC on September 16, 2008, the Partnership requested a delay in the implementation of future income tax related directives in Decision 2007-012 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 December 31, 2008.

During 2008, the Partnership paid intervenor costs related to the 500kV Edmonton to Calgary transmission reinforcement project, as directed in Utility Cost Orders given by the AUC. These Orders are fully recoverable through the regulatory process. Some intervenors have filed for a Leave to Appeal these Orders to the Alberta Court of Appeal for a portion of their disallowed costs. The Partnership has determined that the impact of any amendments to the Utility Cost Orders would not be material to the Partnership's financial statements.

AltaLink, L.P.

NOTES TO FINANCIAL STATEMENTS [CONT'D]

Years ended December 31, 2008 and 2007

16. 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.

17. COMPARATIVE FIGURES

As described in note 3(c), certain comparative figures have been reclassified to conform to the current year's presentation.