

Financial Statements

AltaLink, L.P.

For the years ended December 31, 2012
and 2011

The background image is a landscape photograph. In the foreground, there is a field of dry, brownish grass. In the middle ground, a large metal lattice tower for a power line stands prominently. A helicopter is flying in the sky above the tower, with a long cable extending from it down to the tower's structure. Several vehicles, including a white pickup truck and a red SUV, are parked on the ground near the base of the tower. In the background, several wind turbines are visible against a blue sky with scattered white clouds.

ALTALINK

Independent Auditor's Report

To the Partners of AltaLink, L.P.

We have audited the accompanying financial statements of AltaLink, L.P., which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, changes in partners' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AltaLink, L.P. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
March 1, 2013
Calgary, Canada

Statement of Financial Position

	Notes	As at	
		December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>			
ASSETS			
Current			
Cash and cash equivalents		\$ 9,241	\$ 15,408
Trade and other receivables	5	145,612	74,928
		154,853	90,336
Non-current			
Goodwill		202,066	202,066
Intangible assets	6	173,942	104,949
Property, plant and equipment	7	3,469,990	2,637,735
Third party deposits	8	51,991	95,285
Other non-current assets	9	30,891	26,174
		\$ 4,083,733	\$ 3,156,545
LIABILITIES AND PARTNERS' EQUITY			
Current			
Trade and other payables	10	\$ 263,380	\$ 222,006
Commercial paper and bank credit facilities	11(a)	1,778	18,981
Long-term debt maturing in less than one year	11(b)	325,000	85,000
Current portion of deferred revenue	12	14,430	10,036
		604,588	336,023
Non-current			
Long-term debt	11(b)	1,466,979	1,219,244
Deferred revenue	12	587,695	481,094
Third party deposits liability	8	51,991	95,285
Other non-current liabilities	13	22,578	16,252
		2,733,831	2,147,898
Commitments and contingencies	21, 22		
Partners' equity		1,349,902	1,008,647
		\$ 4,083,733	\$ 3,156,545

See accompanying notes to the financial statements.

Approved on behalf of the Board of Directors

"David Tuer"

David Tuer
Director

"Patricia Nelson"

Patricia Nelson
Director

Statement of Comprehensive Income

	Notes	Year ended	
		December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>			
Revenue			
Operations	16	\$ 379,893	\$ 343,206
Other	17	26,735	22,348
		406,628	365,554
Expenses			
Operating	18(a)	(78,948)	(73,819)
Property taxes, salvage and other	18(b)	(45,103)	(44,574)
Depreciation and amortization		(99,205)	(93,099)
		(223,256)	(211,492)
		183,372	154,062
Finance costs	11(e)	(72,994)	(62,355)
Loss on disposal of assets		(2,140)	(5,938)
Net income		108,238	85,769
Other comprehensive income			
Actuarial loss	14(e)	(1,283)	(462)
Total comprehensive income		\$ 106,955	\$ 85,307

See accompanying notes to the financial statements.

Statement of Changes in Partners' Equity

	Units	Allocation to Limited Partner	Allocation to General Partner	Total Retained Earnings	Partners' Capital	Total
<i>(in thousands)</i>						
As at January 1, 2011	331,904	\$ 170,852	\$ 52	\$ 170,904	\$ 638,436	\$ 809,340
Total comprehensive income	—	85,299	8	85,307	—	85,307
Equity investment received	—	—	—	—	145,000	145,000
Distributions paid	—	(30,997)	(3)	(31,000)	—	(31,000)
Balance at December 31, 2011	331,904	225,154	57	225,211	783,436	1,008,647
Total comprehensive income	—	106,944	11	106,955	—	106,955
Equity investment received	—	—	—	—	270,800	270,800
Distributions paid	—	(36,496)	(4)	(36,500)	—	(36,500)
Balance at December 31, 2012	331,904	\$ 295,602	\$ 64	\$ 295,666	\$ 1,054,236	\$ 1,349,902

See accompanying notes to the financial statements.

Statement of Cash Flows

	Note	Year ended	
		December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>			
Cash flows from operating activities			
Receipts from AESO		\$ 312,201	\$ 331,081
Receipts from other third parties		88,091	16,702
Payments to suppliers and contractors		(156,535)	(112,079)
Payments to employees		(33,564)	(29,967)
Interest payments		(72,683)	(59,537)
Payments to AESO		(665)	(4,217)
Net cash provided by operating activities		136,845	141,983
Cash flows from investing activities			
Capital expenditures		(974,737)	(618,693)
Use of third party contributions		125,532	72,912
Proceeds from disposal of assets		2,805	726
Net cash used in investing activities		(846,400)	(545,055)
Cash flows from financing activities			
Senior debt issued		575,000	275,000
Subordinated debt repaid		(85,000)	—
Use of commercial paper and bank credit facilities		(17,203)	18,981
Distributions paid		(36,500)	(31,000)
Equity investment received		270,800	145,000
Change in other financing activities	20	(3,709)	(2,284)
Net cash provided by financing activities		703,388	405,697
Net change in cash and cash equivalents		(6,167)	2,625
Cash and cash equivalents, beginning of year		15,408	12,783
Cash and cash equivalents, end of year		\$ 9,241	\$ 15,408

See accompanying notes to the financial statements.

1. General information

AltaLink, L.P. (the Partnership or AltaLink) was formed under the laws of the Province of Alberta in Canada on July 3, 2001, to own and operate regulated transmission assets in Alberta. The Partnership's registered office is located at 2611 - 3rd Avenue SE, Calgary, Alberta, T2A 7W7. The Partnership has one limited partner, AltaLink Investments, L.P. (AILP), and is managed by AltaLink Management Ltd. (the General Partner). 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.

On September 20, 2011, SNC-Lavalin Transmission Ltd. became the sole owner of the Partnership by acquiring Macquarie Transmission Alberta Ltd. , which previously held a 23.08% minority interest.

SNC-Lavalin Group Inc. (SNC) is the ultimate parent of the Partnership.

The Partnership is regulated by the Alberta Utilities Commission (AUC), pursuant to the Electric Utilities Act (Alberta) (EUA), the Public Utilities Act (Alberta), the AUC Act (Alberta), and the Hydro and Electric Energy Act (Alberta). These statutes and their respective regulations cover matters such as tariffs, construction, operations, financing and accounting. The Alberta Electric System Operator (AESO) administers the transmission of all electrical energy through the Alberta Interconnected Electric System in the Province of Alberta.

During the years ended December 31, 2012 and 2011, the Partnership operated solely in one reportable geographical and business segment.

2. Basis of preparation

(a) Statement of compliance

These annual financial statements have been prepared on a going-concern basis in accordance with International Financial reporting Standards (IFRS).

The Partnership has applied the IFRS standards and IFRS Interpretation Committee (IFRIC) interpretations that are currently applicable.

The principal accounting policies adopted to prepare these financial statements are set out below. The financial statements reflect the financial position and financial performance of the Partnership and do not include all of the assets, liabilities, revenues and expenses of the partners.

These financial statements were approved for issue by the Board of Directors on March 1, 2013.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the accrued defined benefit pension liability, provisions, accrued employment benefits liabilities and certain financial assets and liabilities related to regulated activities, which are measured initially at fair value. Financial assets and liabilities related to regulated activities are subsequently measured at amortized cost.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

(d) Use of estimates and judgement

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. Basis of preparation (cont'd)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Judgements made by management that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported.

As a regulated utility, the Partnership records certain amounts at estimated values until these amounts are finalized. The Partnership bases its estimates and judgements on historical experience, including experience with regulatory processes, current conditions and various other assumptions that are believed to be reasonable under the circumstances. These factors form the basis for making judgements about the carrying values of assets and liabilities. They are also the basis for identifying and assessing the Partnership's accounting treatment with respect to commitments and contingencies. Examples of significant estimates include:

- Expected regulatory decisions on matters that may impact revenue;
- The recovery and settlement of financial assets and liabilities related to regulated activities;
- Key economic assumptions used in cash flow projections;
- The estimated useful lives of assets;
- The recoverability of tangible and intangible assets, including estimates of future costs to retire physical assets or the recoverability of costs associated with direct assigned projects that have been delayed in the regulatory process;
- The recoverability of intangible assets with indefinite lives, such as goodwill; and
- The accruals for capital projects and payroll.

The Partnership applies changes in estimates prospectively as they result from new information. To the extent that a change in accounting estimate gives rise to changes in assets or liabilities, or relates to an item of equity, the Partnership adjusts the carrying amount of the related asset or liability in the period of the change.

The Partnership discloses the nature and amount of a change in an accounting estimate that has an effect in the current period. It also discloses the nature and amount of a change in an accounting estimate that is expected to have an effect in future periods, except when it is impracticable to estimate that effect, in which case the Partnership discloses the fact.

3. Summary of significant accounting policies

(a) Regulation of transmission tariff

The Partnership operates under cost-of-service regulation in accordance with the EUA. The AUC must provide the Partnership with a reasonable opportunity to recover its prudently incurred and forecasted costs, including operating expenses, depreciation, cost-of-debt, capital and taxes associated with investment, and a fair return on investment. Fair return is determined on the basis of return on rate base and allowance for funds used during construction (AFUDC) for non-direct-assigned projects included in construction work-in-progress (CWIP). As disclosed in Note 16, with effect from January 1, 2011 the AUC has authorized accelerated recovery of AFUDC for direct-assigned projects, which is referred to as "CWIP in rate base". The Partnership applies for a transmission tariff based on forecasted costs-of-service. Once approved, the transmission tariff is not adjusted if actual costs-of-service differ from forecast, except certain prescribed costs for which deferral and reserve accounts are established within the transmission tariff. The transmission tariff is received from the AESO in equal monthly installments. All tariff adjustments arising from deferral or reserve accounts relate to services provided to the AESO during the test years, and settlement of these accounts with the AESO is not contingent on providing future services.

If, in management's judgement, a reasonable estimate can be made of the impact future regulatory decisions may have on the current period's financial statements, such an estimate will be recorded in the current period. 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 issued.

3. Summary of significant accounting policies (cont'd)

(b) Revenue recognition

Revenues from regulated activities represent the inflow of economic benefits earned during the period arising in the ordinary course of the Partnership's operating activities. Such revenues are recognized on the accrual basis in accordance with tariffs approved by the AUC, and estimates of services provided but not yet billed to the AESO. The Partnership does not recognize revenue for any portion of tariffs received but not earned. Unearned tariffs are classified as financial liabilities related to regulated activities or deferred revenue in the financial statements.

Other revenue represents revenue received from third parties and includes, but is not limited to, services provided on a cost recovery basis to other utilities. Other revenue is recognized on the accrual basis as the costs are incurred. Rental income from third parties is recognized on a straight-line basis over the lease term.

(c) Financial assets and liabilities related to regulated activities

The regulatory and legal rights and obligations under which the Partnership operates assign the Partnership the right to bill and collect financial assets related to regulated activities in the future from the AESO. The AESO is the Partnership's single counterparty for regulated activities and amounts billed to it by the Partnership are based on specific amounts and timing approved by the AUC. There is no future performance required by the Partnership to recover these amounts. Long-term amounts due from the AESO earn a regulatory return and are discounted at a market rate of interest.

The regulatory and legal rights and obligations under which the Partnership operates also require the Partnership to refund to the AESO certain amounts that have been received in tariff revenue that are greater than its actual expenses. Such financial liabilities related to regulated activities due to the AESO within 12 months are not discounted. Amounts due to the AESO beyond the next 12 months are discounted at a market rate of interest.

(d) Interest in Heartland Region Transmission Development project

The Heartland Region Transmission Development project is a joint operation to construct transmission assets in the Heartland Region. AltaLink has a 50% interest in the joint operation. The Partnership's financial statements include its share of the assets, liabilities, income and expenses of the project, which are classified according to their nature.

(e) Property, plant and equipment

Property, plant and equipment (PP&E) are carried at deemed cost less accumulated depreciation. The initial cost of an asset consists of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and for qualifying assets, borrowing costs that are eligible to be recovered over the estimated useful life of the asset. The Partnership capitalizes major replacements and upgrades if these costs extend the life of the asset and the Partnership expects to use these items during more than one period. Maintenance and repair costs are recognized as expenses in the period in which they are incurred.

Depreciation is calculated over the estimated useful lives of assets on a straight-line basis based on depreciation studies prepared by an independent expert. The expected useful lives of the assets are reviewed annually, and if necessary, changes in useful lives are accounted for prospectively.

When an asset is retired or disposed of in the normal course of business, the gain or loss is recognized immediately in the Statement of Comprehensive Income.

Generally, losses or gains are recoverable from/repayable to the AESO through future transmission tariffs. AltaLink recognizes the related amounts in revenue and records the amount as financial assets or liabilities related to regulated activities. Construction work in progress, capital inventory and land are capitalized but not depreciated. These assets are valued at the lower of cost or net realizable value.

Reviews of PP&E to establish whether there has been any impairment are carried out when a change in circumstance is identified that indicates an asset might be impaired.

3. Summary of significant accounting policies (cont'd)

(f) 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. Goodwill is assessed for impairment annually, and more frequently if there is any indication of impairment.

The Partnership's business represents one single cash generating unit. Goodwill is first assessed for impairment and fully written down before any other assets are assessed for impairment.

If goodwill has been fully written down, the Partnership would test other assets for impairment by assessing the value in use in the business as a whole. The estimated future cash flows for the business would be discounted to their present value using a pre-tax discount rate that reflects the risks specific to the business and relevant market assessments of the time value of money. If the carrying amounts of the assets exceeded the recoverable amount of the business, the assets comprising the business as a whole would be considered to be impaired. If impaired, the assets would be written down proportionately to ensure their carrying amounts reflect the recoverable amount and the impairment loss would be recognized immediately in the Statement of Comprehensive Income.

If an impairment loss subsequently reverses, the carrying amounts of assets other than goodwill would be increased to reflect the lesser of the recoverable amount and the carrying amount that would have been determined, had no impairment loss been recognized in prior periods. A reversal of an impairment loss would be recognized immediately in the Statement of Comprehensive Income.

Management performed an annual goodwill impairment test by examining the business and regulatory environment, current market conditions, the ownership structure, financing activities, credit ratings, and interest rates. It 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 during the year, and that the carrying value of the goodwill has not been impaired.

(g) Intangible assets

The Partnership's intangible assets are non-monetary assets without physical substance that can be individually identified and consist of the following:

i. Land rights

The Partnership pays fees to third parties to access, survey, build and maintain transmission facilities on third party land. Land rights are reported at cost less accumulated amortization and any impairments. Land rights are amortized on a straight-line basis at rates based on the estimated useful lives of tangible assets located on these lands. Changes to amortization rates are accounted for on a prospective basis.

ii. Computer software

Computer software includes application software and enterprise resource planning software. Computer software is reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis at rates based on the estimated useful lives of assets. Changes to amortization rates are accounted for on a prospective basis.

(h) Third party deposits

i. Contributions in advance of construction

For certain projects, the AESO requires third parties wishing to interconnect to the Partnership's transmission facilities to contribute their share of capital project costs in advance of construction. The Partnership uses these cash contributions to fund capital expenditures as construction progresses. Third party contributions are recorded as deferred revenue when capital funds are expended and recognized into other revenue over the useful lives of the associated assets.

3. Summary of significant accounting policies (cont'd)

ii. Operating and maintenance charges in advance of construction

Certain third parties are required to provide advance funding for future operating and maintenance costs of assets constructed with third party-contributed funds. After these assets are put into service, these contributions are recorded as deferred revenue and recognized into other revenue as operating costs are incurred over the useful lives of the associated assets.

(i) Cash and cash equivalents

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

(j) Provisions

Provisions are recognized when the Partnership has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to fulfill the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(k) Employee benefit obligations

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.

i. Defined contribution plan

AltaLink's defined contribution plan is a post-employment plan under which the Partnership and employees pay fixed contributions into the plan and the Partnership has no legal or constructive obligation to pay further amounts. Obligations for contributions to the plan are recognized as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

ii. Defined benefit plans

The 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 assumptions to estimate the 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to other comprehensive income in the Statement of Comprehensive Income in the period in which they arise.

Past service costs are recognized immediately in income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The defined benefit obligation asset or liability is the difference between the present value of the defined benefit obligation, and the fair value of plan assets out of which the obligation is settled.

3. Summary of significant accounting policies (cont'd)

iii. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in the Statement of Comprehensive Income as the related service is provided.

A liability is recognized for the amount expected to be paid under the short-term incentive plan if the Partnership has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

iv. Long-term employee benefits

Long-term employee benefit obligations are measured on a discounted basis and expensed in the Statement of Comprehensive income as the related service is provided.

(l) Short-term and long-term debt

Short-term and long-term debt are measured initially at fair value and subsequently at amortized cost. Costs incurred to arrange long-term debt financing are offset against the debt amount and amortized using the effective interest rate method. The amortization of these charges is included in finance costs.

(m) Income 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 income tax expense is recognized in the financial statements. Any reference to income tax in these statements relates to the recovery in transmission tariff revenue of tax expense borne by the partners.

(n) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the Statement of Financial Position 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.

(o) Deferred lease inducements

Deferred lease inducements represent leasehold improvements paid for by the lessors. Deferred lease inducements are amortized on a straight-line basis over the initial terms of the leases, and the amortization is recorded as a reduction of lease expense. The unamortized balance in deferred lease inducements is included in other liabilities.

(p) Leases

All of the Partnership's leases are classified as operating leases. Payments made under operating leases are recognized in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

(q) Capitalized borrowing costs

Borrowing costs are capitalized if they are incurred in connection with the acquisition or production of a "qualifying asset" for which a considerable period of time is required to prepare the asset for its intended use.

The Partnership borrows funds to provide financing for its capital construction program. Borrowing costs eligible for capitalization are applied to capital expenditures unless the borrowing costs are eligible to be recovered through transmission tariffs in the year in which the costs are incurred. The capitalization rate is based on actual costs of debt used to finance the acquisition or construction of qualifying assets.

3. Summary of significant accounting policies (cont'd)

(r) Adoption of new and revised accounting standards

Amendments to standards effective for the year ended December 31, 2012

IFRS 7 - *Disclosures - Transfers of financial assets*, IAS 1 - *Presentation of financial statements*, and IAS 12 - *Income taxes* have been amended and are effective for the year ended December 31, 2012. These amendments did not have an impact on the Partnership's financial statements or its disclosures.

New standards effective for the year ending December 31, 2013

IFRS 10 - *Consolidated financial statements*, IFRS 11 - *Joint arrangements*, IFRS 12 - *Disclosure of interests in other entities* and IFRS 13 - *Fair value measurement* were issued in May 2011. They replace parts of IAS 27 - *Consolidated and separate financial statements* and IAS 28 - *Investments in associates and joint ventures* and relate to the accounting and disclosure for interests in other entities. IFRS 13 provides guidance on how to measure assets and liabilities at fair value as well as the disclosure required to explain management's assumptions to the reader. It is not expected that adopting these standards will significantly impact the Partnership's financial statements.

Amendments to standards effective for the year ending December 31, 2013

Amendments to IAS 1 - *Presentation of financial statements* were issued by the International Accounting Standards Board (IASB) in September 2011. The amendments relate to the disclosure of other comprehensive income as well as the tax impacts of other comprehensive income. This is not expected to have a significant impact on the Partnership's financial statements.

Amendments to IAS 19 - *Employee benefits* were issued by the IASB in June 2011. The amendments are expected to increase disclosure and presentation in the Partnership's financial statements. Implementing these amendments is not expected to have a significant impact on the Partnership's financial statements.

Amendments to IFRS 7 - *Disclosures - Offsetting financial assets and liabilities* were published jointly by the IASB and Financial Accounting Standards Board in December 2011. The amendments are intended to improve the ability of users of financial statements to compare financial statements prepared in accordance with US GAAP and IFRS. Adopting such amendments is not expected to have a significant effect on the Partnership's financial statements.

In May 2012, the IASB issued a collection of amendments to five standards under its Annual Improvements Project. Amended standards includes IFRS 1 - *First time adoption of International Financial Reporting Standards*, IAS 1 - *Presentation of financial statements*, IAS 16 - *Property, plant and equipment*, IAS 32 - *Financial instruments - Presentation*, and IAS 34 - *Interim financial reporting*. These amendments are not expected to have a significant impact on the Partnership's financial statements.

Effective after 2013

IFRS 9 - *Financial instruments: Classification and measurement* was issued on November 12, 2009 and will replace IAS 39 - *Financial instruments: Recognition and measurement*. IFRS 9 is effective for periods beginning on or after January 1, 2015. The Partnership is evaluating the impact of the amendments on its financial statements as issued, although currently they are not expected to have a significant impact.

Amendments to IAS 32 - *Financial instruments - Presentation* to clarify the application of the offsetting requirements were published in December 2011 to address inconsistencies in current practice. The amendments are effective for periods beginning on or after January 1, 2014, with earlier application permitted. The Partnership does not plan to adopt this amendment early and implementation is not expected to have a significant impact on the financial statements.

4. Risk management and financial instruments

(a) Fair value of financial instruments

Financial Instrument	Designated Category	Measurement Basis	Associated Risks	Fair Value at December 31, 2012
Cash and cash equivalents	Fair value through profit or loss (Held for trading)	Fair value	<ul style="list-style-type: none"> Market Credit Liquidity 	Measured at fair value. Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates.
Trade and other receivables <i>[note 5]</i>	Loans and receivables	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> Credit Liquidity 	Carrying value approximates fair value due to short-term nature.
Other non-current assets <i>[note 9]</i>	Loans and receivables	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> Credit Liquidity 	Amortized cost or carrying value approximates fair value due to nature of asset.
Trade and other payables <i>[note 10]</i>	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> Liquidity 	Carrying value approximates fair value due to short-term nature.
Other non-current liabilities <i>[note 13]</i>	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> Liquidity 	Amortized cost or carrying value approximates fair value due to nature of liability.
Debt <i>[note 11]</i>	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> Market Liquidity 	\$1,967.1 million. Fair values are determined using quoted market prices (which are classified as level 1 inputs) for the same or similar issues.
Third party deposits <i>[note 8]</i>	Fair value through profit or loss (Held for trading)	Fair value	<ul style="list-style-type: none"> Market Credit Liquidity 	Measured at fair value. The cash received is held in short-term investments.
Third party deposits liability <i>[note 8]</i>	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> Liquidity 	Carrying value approximates fair value due to the nature of the liability.

The Partnership currently does not use hedges or other derivative financial instruments in its operations.

(b) Credit risk

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

- The Partnership has 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 83% of its trade receivable balance is due from the AESO (December 31, 2011 – 75%). The credit risk is mitigated by the fact that the AESO has been established under the EUA, while the remaining receivables are mostly due from investment grade utilities. In addition, other receivables include a \$10.1 million recovery of joint project costs (December 31, 2011 - \$21.1 million) due from an investment grade utility pursuant to the terms of the agreement for construction of the Heartland project. The remainder of the accounts receivable is comprised mainly of amounts due from other utilities for tower and land leases and other services.

The Partnership's maximum exposure to credit risk, without taking into account collateral held, equals the current carrying values of cash and cash equivalents, trade and other receivables, financial assets due from the AESO and third party deposits as disclosed in these financial statements.

4. Risk management and financial instruments (cont'd)

(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 the Partnership is exposed are discussed below:

i. Interest rate risk

The Partnership does not have significant exposure to interest rate risk. To manage interest rate risk, the Partnership controls the proportion of floating rate debt relative to fixed rate debt. In addition, the Partnership maintains access to diverse sources of funding under its established capital markets platform.

It is the Partnership's practice to finance substantially all of its debt requirements with long-term debt securities for which interest rates are fixed during the entire term of each security, generally ranging from five to thirty years from the date of issue. To manage short-term liquidity requirements, the Partnership has established bank credit facilities under which interest rates may vary daily unless the Partnership elects to issue bankers' acceptances or commercial paper under which interest rates are fixed during the entire term, typically ranging from one week to ninety days from the date of issue. It is the Partnership's practice to issue bankers' acceptances and commercial paper for substantially all of its short-term funding requirements. The Partnership may be exposed to interest rate risk upon the rollover of debt at maturity or the issuance of new debt.

ii. Foreign exchange risk

The Partnership does not have a significant exposure to foreign exchange risk.

(d) Liquidity Risk

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

- It may not have sufficient funds to settle a transaction on the due date;
- It may be forced to sell financial assets below their fair market value; and,
- It may be unable to settle or recover a financial asset at all.

To manage this risk, the Partnership has readily accessible standby credit facilities and other funding arrangements in place; generally uses financial instruments that are tradable in highly liquid markets; and, has a liquidity portfolio structure wherein surplus funds are invested in highly liquid financial instruments. See note 11 – *Debt* for a maturity analysis.

(e) Capital risk management

In managing its capital structure, the Partnership includes partners' capital, retained earnings and short-term and long-term debt in the definition of capital.

The Partnership manages its capital structure in order to reduce the cost of capital for customers and other stakeholders and to safeguard its ability to continue as a going concern. In order to maintain or adjust the capital structure, the Partnership may adjust the amount of distributions paid to partners, return capital to partners or request additional contributions from partners. The Partnership reduces refinancing risk by diversifying the maturity dates of its debt obligations.

Summary of capital structure

	As at			
	December 31, 2012		December 31, 2011	
	(millions)	%	(millions)	%
Commercial paper and bank credit facilities	\$ 1.8	0.1	\$ 19.0	0.8
Long-term debt, maturing in less than one year	325.0	10.3	85.0	3.6
Long-term debt, excluding deferred financing fees	1,476.7	46.8	1,227.1	52.5
Partners' capital	1,054.2	33.4	783.4	33.5
Retained earnings	295.7	9.4	225.2	9.6
	\$ 3,153.4	100.0	\$ 2,339.7	100.0

4. Risk management and financial instruments (cont'd)

As at December 31, 2012, the Partnership was subject to externally imposed capitalization requirements under the Master Trust Indenture and the bank credit facilities. These agreements limit the amount of debt that can be incurred relative to total capitalization. The Partnership was in compliance with these requirements as at December 31, 2012.

5. Trade and other receivables

	As at	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Trade receivables	\$ 110,140	\$ 33,213
GST receivable	5,571	7,990
Recovery of joint project costs	10,137	21,121
Prepaid expenses and deposits	7,928	5,793
Current portion of financial assets related to regulated activities	11,836	6,811
	\$ 145,612	\$ 74,928

Trade receivables as at December 31, 2012 include \$104.3 million due from the AESO resulting from the timing of cash receipts and accruals related to the interim transmission tariff in accordance with standard regulatory practice until the final approval of the transmission tariff. Tariff payments from the AESO are generally due during the following calendar month. The tariff payment for November 2012 was received when due on January 3, 2013. The November payment and the accrual for December (\$56.8 million) are included within the trade receivable balance above. On January 30, 2013, the AUC issued Decision 2013-023, authorizing the Partnership to recover the accruals related to 2011 and 2012 interim transmission tariffs (\$50.2 million) and the cash was received on March 1, 2013.

Financial assets related to regulated activities include the recovery of certain costs incurred by the Partnership relating to its primary activities that are greater than what has been received to date in tariff revenue. The Partnership has recognized as receivables the expenses to be recovered through the regulatory process. The current portion of such assets reflects the amounts to be recovered within the next twelve months. Included in the December 31, 2012 balance is \$6.1 million related to cancelled projects (December 31, 2011 – nil).

Financial assets related to regulated activities also include amounts that have been added to rate base (AFUDC equity, AFUDC debt, and losses on disposals of property, plant and equipment) for regulatory purposes, which will be recovered or repaid in tariff revenue over a period of time, which has been approved by the AUC.

6. Intangible assets

	Land rights	Computer software	Intangibles in CWIP	Total
<i>(in thousands of dollars)</i>				
Cost				
As at January 1, 2011	\$ 51,601	\$ 37,674	\$ 3,065	\$ 92,340
Additions to CWIP	—	—	29,955	29,955
Transfers	3,794	10,428	(14,222)	—
Retirements	(1)	(36)	—	(37)
As at December 31, 2011	55,394	48,066	18,798	122,258
Additions to CWIP	—	—	77,750	77,750
Transfers	5,781	17,518	(23,299)	—
Retirements	—	(608)	—	(608)
As at December 31, 2012	\$ 61,175	\$ 64,976	\$ 73,249	\$ 199,400
Accumulated amortization				
As at January 1, 2011	\$ (1,079)	\$ (6,296)	\$ —	\$ (7,375)
Amortization	(1,054)	(8,916)	—	(9,970)
Retirements	—	36	—	36
As at December 31, 2011	(2,133)	(15,176)	—	(17,309)
Amortization	(1,116)	(7,641)	—	(8,757)
Retirements	—	608	—	608
As at December 31, 2012	\$ (3,249)	\$ (22,209)	\$ —	\$ (25,458)
Net book value				
As at December 31, 2011	\$ 53,261	\$ 32,890	\$ 18,798	\$ 104,949
As at December 31, 2012	\$ 57,926	\$ 42,767	\$ 73,249	\$ 173,942

Intangible assets in CWIP are not amortized until they are available for use, when they are reclassified to the related asset class.

The Partnership has used the following amortization rates during the year:

	2012	2011
Land rights	2.13%	2.00%
Computer software	11.80%-28.33%	12.38%-24.32%
Intangibles in CWIP	Not subject to amortization	Not subject to amortization

7. Property, plant and equipment

	Lines ¹	Substations ²	Buildings & equipment ³	Land & CWIP ⁴	Total
<i>(in thousands of dollars)</i>					
Cost					
As at January 1, 2011	\$ 735,846	\$ 1,026,848	\$ 83,790	\$ 302,801	\$ 2,149,285
Additions to CWIP	—	—	—	658,980	658,980
Transfers	79,117	191,299	20,093	(290,509)	—
Retirements	(2,672)	(6,768)	(551)	(75)	(10,066)
As at December 31, 2011	812,291	1,211,379	103,332	671,197	2,798,199
Additions to CWIP	—	—	—	927,584	927,584
Transfers	182,954	281,771	13,681	(478,406)	—
Retirements	(1,440)	(4,766)	(331)	(9)	(6,546)
As at December 31, 2012	\$ 993,805	\$ 1,488,384	\$ 116,682	\$ 1,120,366	\$ 3,719,237
Accumulated Depreciation					
As at January 1, 2011	\$ (22,758)	\$ (46,452)	\$ (7,259)	\$ —	\$ (76,469)
Depreciation expense	(23,888)	(50,622)	(8,619)	—	(83,129)
Retirements	(892)	(409)	435	—	(866)
As at December 31, 2011	(47,538)	(97,483)	(15,443)	—	(160,464)
Depreciation expense	(23,820)	(56,122)	(10,506)	—	(90,448)
Retirements	342	854	469	—	1,665
As at December 31, 2012	\$ (71,016)	\$ (152,751)	\$ (25,480)	\$ —	\$ (249,247)
Net book value					
As at December 31, 2011	\$ 764,753	\$ 1,113,896	\$ 87,889	\$ 671,197	\$ 2,637,735
As at December 31, 2012	\$ 922,789	\$ 1,335,633	\$ 91,202	\$ 1,120,366	\$ 3,469,990

1. Lines – transmission lines and related equipment.
2. Substations – substation and telecontrol equipment.
3. Buildings & equipment – office buildings, vehicles, tools and instruments, office furniture, telephone and related equipment and computer hardware.
4. Land & CWIP – land, capitalized inventory, emergency capital spare parts and CWIP. CWIP is reclassified to the appropriate asset classes when the assets are available for use.

The Partnership capitalized borrowing costs of \$0.8 million for the year ended December 31, 2012 (\$0.8 million for the year ended December 31, 2011) at a capitalization rate of 4.74% (5.31% for the year ended December 31, 2011). In Decision 2011-453, the AUC approved, for directly assigned projects, the recovery of borrowing costs during the year in which they are incurred, rather than over the lives of the related assets. The borrowing costs related to directly assigned projects have not been capitalized within PP&E, as there are no future economic benefits associated with those borrowing costs.

The Partnership has used the following depreciation rates during the year:

	2012	2011
Lines	2.48%-4.23%	2.49%-4.86%
Substations	2.81%-10.15%	3.03%-12.09%
Buildings & equipment	2.65%-21.67%	2.68%-23.41%
Land and construction work in progress	Not subject to depreciation	Not subject to depreciation

8. Third party deposits

	As at	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Contributions in advance of construction	\$ 44,699	\$ 84,671
Operating and maintenance charges in advance	7,292	10,614
	\$ 51,991	\$ 95,285

Third party deposits are recognized as non-current assets with corresponding non-current liabilities. These deposits have certain restrictions attached and can be used only for their intended purposes (see note 3 (h)).

Third party deposits are held in short-term investments, which are reinvested as needed. These investments earned an effective interest rate of 1.01% at December 31, 2012 (December 31, 2011 – 1.03%). For contributions in advance of construction, all interest received is paid annually to the AESO.

9. Other non-current assets

	As at	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Non-current portion of financial assets related to regulated activities	\$ 30,891	\$ 26,174

Financial assets related to regulated activities include the recovery of certain costs incurred by the Partnership relating to its primary activities that are greater than what has been received to date in tariff revenue. The Partnership has recognized as receivables the expenses to be recovered through the regulatory process. The non-current portion of such assets reflects the amounts to be recovered beyond the next twelve months.

Financial assets related to regulated activities consist of amounts that have been included in rate base (AFUDC equity, AFUDC debt, and losses on disposals of property, plant and equipment) for regulatory purposes, which will be recovered or repaid in tariff revenue over a period of time, which has been approved by the AUC.

10. Trade and other payables

	As at	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Trade payables	\$ 229,976	\$ 192,273
Accrued interest on long-term debt	9,918	10,280
Other current liabilities	2,639	2,306
Current portion of financial liabilities related to regulated activities	20,847	17,147
	\$ 263,380	\$ 222,006

Financial liabilities related to regulated activities include accruals for the repayment of the difference between certain costs that have been incurred by the Partnership relating to its primary activities and what has been received in tariff revenue. The difference will be refunded to the AESO through the regulatory process. The current portion of such liabilities reflects the amounts to be refunded within the next twelve months.

Financial liabilities related to regulated activities consist of amounts for annual tower payments, property taxes, debt and capital costs which have been received in tariff revenue, but for various reasons the capital projects have not progressed as scheduled.

Other current liabilities include accruals for employee benefits and deferred lease inducements.

11. Debt

(a) Commercial paper and bank credit facilities

As at December 31, 2012	Committed	Drawdowns	Commercial paper outstanding	Letters of credit outstanding	Availability	Maturity date of facility
<i>(in thousands of dollars)</i>						
Revolving credit facility	\$ 1,425,000	\$ —	\$ —	\$ —	\$ 1,425,000	December 27, 2014
Operating line of credit	75,000	1,778	—	612	72,610	December 27, 2014
Total bank credit facilities	\$ 1,500,000	\$ 1,778	\$ —	\$ 612	\$ 1,497,610	

As at December 31, 2011	Committed	Drawdowns	Commercial paper outstanding	Letters of credit outstanding	Availability	Maturity date of facility
<i>(in thousands of dollars)</i>						
Revolving credit facility	\$ 850,000	\$ —	\$ 18,981	\$ —	\$ 831,019	June 30, 2013
Operating line of credit	50,000	—	—	362	49,638	December 14, 2013
Total bank credit facilities	\$ 900,000	\$ —	\$ 18,981	\$ 362	\$ 880,657	

The revolving credit facility provides support for the borrowing under the unsecured commercial paper program and can also be used for general corporate purposes. Drawdowns under either the revolving credit facility or operating line of credit may be in the form of Canadian prime rate loans or bankers' acceptances. At the renewal date, the Partnership has the option to convert both facilities to one-year term facilities.

(b) Long-term debt

	Effective interest rate	Maturing	As at	
			December 31, 2012	December 31, 2011
Series 03-2, 5.430%	5.811%	2013	\$ 325,000	\$ 325,225
Series 2006-1, 5.249%	5.299%	2036	150,000	150,000
Series 2008-1, 5.243%	5.354%	2018	201,674	201,928
Series 2010-1, 5.381%	5.432%	2040	125,000	125,000
Series 2010-2, 4.872%	4.928%	2040	150,000	150,000
Series 2011-1, 4.462%	4.503%	2041	275,000	275,000
Series 2012-1, 3.990%	4.028%	2042	300,000	—
Series 2012-2, 2.978%	3.033%	2022	275,000	—
			1,801,674	1,227,153
Series 3, subordinated 8.000%	8.020%	2012	—	85,000
			1,801,674	1,312,153
Long-term debt maturing in less than one year			(325,000)	(85,000)
			1,476,674	1,227,153
Less: deferred financing fees			(9,695)	(7,909)
Long-term debt			\$ 1,466,979	\$ 1,219,244

On June 29, 2012, the Partnership issued \$300.0 million of Secured Series 2012-1 Medium-Term Notes under the \$1,300.0 million Short Form Base Shelf Prospectus which expired in September 2012. In addition, the Partnership issued \$275.0 million of Secured Series 2012-2 Medium-Term Notes on November 27, 2012 under the new \$2,500.0 million Short Form Base Shelf Prospectus established on November 9, 2012. The total issuance under the new Short Form Base Shelf Prospectus as at December 31, 2012 was \$275.0 million. The new Short Form Base Shelf Prospectus expires in December 2014.

11. Debt (cont'd)

(c) Capital markets platform

The Partnership has implemented a financing structure referred to by the Partnership as the "Capital Markets Platform" to finance the operation, maintenance and development of its assets. The Capital Markets Platform incorporates various 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 Master Trust Indenture dated April 28, 2003 between the Partnership, the General Partner and BNY Trust Company of Canada, as trustee, establishes common covenants for the benefit of all lenders under the Capital Markets Platform. The Capital Markets Platform governs all indebtedness, including the ranking and security (if any) of the various debt instruments. Indebtedness is calculated as total short-term and long-term debt, including outstanding letters of credit, and total capital is calculated as equity plus indebtedness. 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 \$20.0 million. One of the principal covenants is that the Partnership cannot become liable for any indebtedness, unless the aggregate amount of all indebtedness does not exceed 75% of the total capitalization.

Under the Indenture, the Partnership may issue two categories of debt, namely (i) senior debt and (ii) subordinated debt. Bonds may be issued as either "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.

Collateral for the Senior debt obligations consists of a first floating charge security interest on the Partnership's present and future assets. The bank credit facilities rank equally with Senior debt and all future senior secured indebtedness that is issued by the Partnership.

Senior debt is redeemable by the Partnership at the greater of (i) the prevailing Government of Canada bond yield plus a pre-determined premium, and (ii) the face amount of the debt to be redeemed plus, in each case, accrued and unpaid interest to the date of redemption. The Partnership does not intend to redeem any of its long-term debt prior to maturity, other than the Series 3 Subordinated Bonds, which have already been redeemed.

(d) Scheduled principal repayments

(in thousands of dollars)

Maturing		
2013	\$	325,000
2014		—
2015		—
2016		—
2017		—
2018 and thereafter		1,475,000

(e) Finance costs

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Interest expense	\$ 72,321	\$ 61,493
Amortization of deferred financing fees	1,444	1,621
Capitalized borrowing costs	(771)	(759)
	\$ 72,994	\$ 62,355

12. Deferred revenue

	Third Party Contributions	Deferred Revenue for Salvage	Total
<i>(in thousands of dollars)</i>			
As at January 1, 2011	\$ 256,794	\$ 174,960	\$ 431,754
Transferred from third party deposits	72,912	—	72,912
Received through transmission tariff [note 16]	—	10,437	10,437
Recognized as revenue [notes 17 and 18]	(9,172)	(14,801)	(23,973)
As at December 31, 2011	320,534	170,596	491,130
Transferred from third party deposits	125,532	—	125,532
Received through transmission tariff [note 16]	—	11,897	11,897
Recognized as revenue [notes 17 and 18]	(11,867)	(14,567)	(26,434)
As at December 31, 2012	\$ 434,199	\$ 167,926	\$ 602,125
Current portion			\$ 10,036
Long-term portion			481,094
As at December 31, 2011			\$ 491,130
Current portion			\$ 14,430
Long-term portion			587,695
As at December 31, 2012			\$ 602,125

Deposits received from third parties used to finance certain capital construction costs and other charges received in advance are initially recorded as deferred revenue and then subsequently recognized as revenue over the lives of the related assets. Funds provided by the regulator to pay for salvage costs are released into revenue when the associated costs are incurred.

13. Other non-current liabilities

	As at	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Accrued employment benefit liabilities	\$ 6,216	\$ 4,461
Other liabilities	2,756	1,955
Non-current portion of financial liabilities related to regulated activities	13,606	9,836
	\$ 22,578	\$ 16,252

Financial liabilities related to regulated activities include accruals for the repayment of the difference between certain costs that have been incurred by the Partnership relating to its primary activities and what has been received in tariff revenue. The difference will be refunded to the AESO through the regulatory process. The non-current portion of such liabilities reflects the amounts to be refunded beyond the next twelve months.

Financial liabilities related to regulated activities consist of amounts for annual tower payments, property taxes, debt and capital costs which have been received in tariff revenue, but for various reasons the capital projects have not progressed as scheduled.

The accrued employment benefits liability is discussed in Note 14 - *Post employee benefits obligations*.

14. Post employee benefits obligations

(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 transmission employees who are members of the defined benefit plan. The pension obligation was transferred by the Partnership to the General Partner at the value of the pension surplus and the Partnership is credited with any pension income and charged for any pension expense. Any cash funding of the pension plan by the General Partner is 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.

The defined benefit provisions of the plan provide a final average pay type benefit. The defined benefit component requires the employees to contribute 2% of eligible earnings, which includes base salary plus short-term incentive pay. Those members who at the date of the acquisition were covered by the defined benefit component of the plan are continuing in that component, and all other employees and any new employees are covered under a defined contribution component. The defined contribution component of the plan is an 8% employer, and 2% employee funded contribution plan.

The General Partner has a non-registered supplemental pension plan, which is provided to those employees who exceed the income tax limits on maximum pension contributions in a year. Membership in the supplemental pension plan is automatic once registered pension plan contributions have reached the maximum annual amount. Employer contributions to the plan are 8% (2011 – 8%).

Other post retirement benefits include the health and dental coverage provided to some past employees.

(b) Assumptions

The significant actuarial assumptions used in measuring the Partnership's net benefit plan cost are as follows:

The expected return on assets assumption is set based on the plan's target investment policy mix, and management's expectations for equity and fixed income returns over the long-term.

	Year ended			
	December 31, 2012		December 31, 2011	
	Pension %	Other %	Pension %	Other %
Discount rate for funded status	4.30	4.00	5.50	4.95
Discount rate for expense determinations	5.20	4.80	5.50	5.20
Expected long-term rate of return on plan assets	6.00	—	6.75	—
Rate of compensation increase	3.50	—	3.50	—
Health care cost escalation	—	4.50	—	4.50
Dental care cost escalation	—	4.50	—	4.50

14. Post employee benefits obligations (cont'd)

(c) Costs recognized

	Year ended			
	December 31, 2012		December 31, 2011	
	Pension	Other	Pension	Other
<i>(in thousands of dollars)</i>				
Current service cost	\$ 88	\$ 599	\$ 89	\$ 526
Interest cost on benefit obligation	492	205	491	182
Expected return on plan assets	(544)	—	(592)	—
Past service cost amortization	—	—	—	47
Defined benefit expense (income)	36	804	(12)	755
Regulatory adjustment to offset (expense) income	(36)	—	12	—
Expense	—	804	—	755
Defined contribution expense of registered pension plan	5,522	—	4,888	—
Supplemental pension expense	187	—	159	—
Net expense recognized in the financial statements	\$ 5,709	\$ 804	\$ 5,047	\$ 755

(d) Status of plans

The latest actuarial valuation for funding purposes was done as at December 31, 2010 and extrapolated to December 31, 2012. The effective date of the next required valuation for funding purposes is December 31, 2013. The Partnership expects to contribute \$0.3 million to its defined benefit pension plans and \$0.2 million to its other post retirement benefit plans in 2013.

	Year ended			
	December 31, 2012		December 31, 2011	
	Pension	Other	Pension	Other
<i>(in thousands of dollars)</i>				
Fair value of plan assets				
Balance, beginning of year	\$ 9,004	\$ —	\$ 8,818	\$ —
Employee contributions	8	—	10	—
Company contributions	398	101	406	68
Benefit payments	(361)	(101)	(321)	(68)
Actual return on plan assets	760	—	91	—
Balance, end of year	9,809	—	9,004	—
Accrued benefits obligation				
Balance, beginning of year	9,253	3,689	9,045	3,028
Current service cost	88	599	89	526
Employee contributions	8	—	10	—
Benefit payments	(361)	(90)	(321)	(68)
Interest Cost	492	205	491	182
Actuarial loss (gain)	1,442	57	(61)	21
Balance, end of year	10,922	4,460	9,253	3,689
Funded status				
Funded status - deficit	(1,113)	(4,460)	(249)	(3,689)
Unamortized past service costs	—	141	—	141
Supplemental pension plan liability	(784)	—	(664)	—
Accrued liability, end of year	\$ (1,897)	\$ (4,319)	\$ (913)	\$ (3,548)

The asset mix of the defined benefit component of the pension plan as of December 31, 2012 consists of 56% equity and 44% bonds (December 31, 2011 - 60% equity and 40% bonds).

14. Post employee benefits obligations (cont'd)

(e) Actuarial gains and losses recognized directly in other comprehensive income

The cumulative amounts of actuarial gains and losses recognized in other comprehensive income and included in retained earnings is \$2.6 million (2011 - \$1.3 million).

	Year ended					
	December 31, 2012			December 31, 2011		
	Pension	Other	Total	Pension	Other	Total
<i>(in thousands of dollars)</i>						
Net loss arising during the year - post-retirement benefits obligation	\$ 1,226	\$ 57	\$ 1,283	\$ 441	\$ 21	\$ 462

(f) Sensitivity to changes in assumed health care cost trend rates as at December 31, 2012 are as follows:

	One Percentage Point Increase	One Percentage Point Decrease
<i>(in thousands of dollars)</i>		
Effect on total service and interest cost	\$ 126	\$ (105)
Effect on post-retirement benefits obligation	643	(547)

15. Related party transactions

As described in note 1 – *General information*, ALP is indirectly owned by SNC. Up until September 20, 2011, Macquarie Transmission Alberta Ltd. shared ownership with SNC. ALP's direct parent company is AILP.

In 2002, the Partnership executed a ten-year contract for engineering, procurement and construction management services. These services are provided to the Partnership by SNC-Lavalin ATP Inc., a wholly owned subsidiary of SNC. The terms and conditions of this contract have been approved by the AUC and are subject to ongoing regulatory oversight.

In its 2011 - 2012 General Tariff Application, the Partnership summarized its plans for a competitive procurement process for Engineering, Procurement and Construction Management (EPCM) services after its 10-year contract with SNC-Lavalin ATP Inc. expired in April 2012. The projects underway and past the Proposal to Provide Service submission stage at the expiry date are expected to be completed by SNC-Lavalin ATP Inc. under the previous contract. On April 30, 2012, the Partnership entered into five-year contracts with two companies, including SNC-Lavalin ATP Inc., to provide EPCM services for future capital projects.

In the normal course of business, the Partnership transacts with its partners and other related parties. The following transactions were measured at the exchange amount:

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Interest		
AltaLink Investments, L.P.	\$ 37	\$ 6,800
Employee compensation and benefits		
AltaLink Management Ltd.	98,550	85,320
Construction related services		
SNC – Lavalin ATP Inc.	784,669	419,609
Cost Recovery for non-regulated activities		
AltaLink Investments, L.P.	1,128	275

15. Related party transactions (cont'd)

Amounts included in trade and other payables (receivables) are:

	As at	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
AltaLink Management Ltd.	\$ 17,120	\$ 14,529
SNC-Lavalin ATP Inc.	167,434	143,875
AltaLink Investments, L.P.	(637)	1,101

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are due on a 30-day term and are usually settled in cash.

On January 3, 2012 the Partnership repaid \$85.0 million of Series 3 Subordinated Bridge Bonds held by AILP.

For the years ended December 31, 2012 and 2011, there were no other material related party transactions.

Remuneration of senior management

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Salary and other short-term benefits	\$ 3,392	\$ 3,544
Post-employment benefits	255	271
Other long-term benefits	1,627	1,228
Total for all senior management	\$ 5,274	\$ 5,043

Senior Management includes the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Operating Officer, Senior Vice President Business Development, Senior Vice President Law, Regulatory and General Counsel, Senior Vice President External Engagement, Senior Vice President Human Resources, Senior Vice President Projects, and Senior Vice President Customer Service.

Salary and other short-term benefits represent actual salary received during the year, annual short-term incentive plan payments based on the achievement of specific predetermined performance goals, and perquisites. Post-employment benefits include the defined contribution pension plan and supplemental pension plan employer contributions. Other long-term benefits include amounts related to retention and long-term incentive plans.

Remuneration of Board of Directors of the General Partner

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Total fees earned by Directors	\$ 431	\$ 409

The Board of Directors includes the Chairman of the Board, and eight directors. The members of the Board, who are not representatives of the owners, are paid an annual fee plus a fee for meetings attended and additional retainers for serving on board committees.

Transactions with post-employment benefit plans

The defined benefit plan and defined contribution plan are related parties to the Partnership. The Partnership's transactions with the pension plans include contributions and solvency deficiency payments made to the defined benefit plan. The Partnership has not entered into other transactions with the pension plans, nor does it have any outstanding balances at December 31, 2012.

16. Revenue from operations

On November 18, 2011, the AUC issued Decision 2011-453 with respect to the 2011-2012 GTA. On December 8, 2011 the AUC issued Decision 2011-474 regarding the 2011-2012 Generic Cost of Capital proceeding, which awarded a return on equity of 8.75% and a deemed equity ratio of 37%. On January 30, 2013, the AUC issued Decision 2013-023, finalizing the transmission tariffs for 2011 and 2012. The Partnership's 2011 and 2012 revenue from operations includes its best estimate regarding the implementation of these decisions.

The table below summarizes the timing differences between the approved interim transmission tariff and revenue from operations earned during the year.

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Return on rate base	\$ 112,000	\$ 112,000
Recovery of forecast expenses	206,800	206,800
Deemed income taxes	17,400	17,400
Approved interim transmission tariff	336,200	336,200
Receivable/(repayable) directly assigned capital projects related revenue	42,134	(2,089)
Repayable property taxes and other	(5,168)	(2,071)
Salvage costs transferred to deferred revenue [note 12]	(11,897)	(10,437)
AFUDC net of capitalized borrowing costs	911	640
Reclassification of loss on disposal of PP&E to financial assets related to regulated activities, less amounts already received through tariff and transfer from deferred revenue for salvage costs incurred	17,713	20,963
Revenue from operations	\$ 379,893	\$ 343,206

In Decision 2011-082, issued on March 4, 2011, the AUC approved an interim refundable tariff for 2011 and 2012, pending the issuance of a final decision with respect to the 2011-2013 General Tariff Application. As the AUC did not issue its final decision regarding the Partnership's 2011-2012 transmission tariffs until January 30, 2013, the 2011 and 2012 approved transmission tariffs presented in the table above reflect the interim refundable tariff.

Under the CWIP in rate base method, AFUDC is being recovered through current tariffs rather than over the lives of the related assets. The CWIP in rate base method applies to AFUDC related to projects directly assigned by the AESO. AFUDC related to capital replacement and upgrade projects continues to be capitalised. The AESO is the Partnership's only customer related to regulated activities. The Partnership receives all of its revenue from operations from the AESO, including settlements of all financial assets and liabilities related to regulatory activities.

For the year ended December 31, 2012, approximately 93% of the Partnership's revenue is attributable to the AESO (December 31, 2011– 94%).

17. Other revenue

The Partnership occasionally provides transmission construction services to third parties (primarily other utilities) on a cost recovery basis; therefore there is no net income impact. Related costs are included in operating expenses.

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Third party contributions revenue [note 12]	\$ 11,867	\$ 9,172
Costs recovered from third parties	5,302	5,473
Services provided to third parties	4,954	4,895
Tower, land and other lease revenue	1,153	1,253
Related party and other revenue	3,459	1,555
	\$ 26,735	\$ 22,348

18. Expenses

(a) Operating expenses

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Employee salaries and benefits	\$ 34,500	\$ 29,700
Contracted labour	23,200	24,800
Other operating expenses	21,248	19,319
	\$ 78,948	\$ 73,819

(b) Property taxes, salvage and other expenses

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Property and business tax	\$ 22,904	\$ 21,455
Salvage expenses	14,567	14,801
Annual structure payments	6,426	6,000
Credit facility and hearing expenses	1,206	2,318
	\$ 45,103	\$ 44,574

Property taxes, salvage and other expenses do not have an impact on net income because they are fully recovered in tariff revenue (note 16 - Revenue from operations).

19. Partners' equity

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 attached 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.

During the year ended December 31, 2012, the Partners invested additional equity of \$270.8 million (December 31, 2011 - \$145.0 million). No partnership units were issued during the year ended December 31, 2012 (December 31, 2011 – nil).

20. Other cash flow information

	Year ended	
	December 31, 2012	December 31, 2011
<i>(in thousands of dollars)</i>		
Net change in other financing activities		
Deferred financing fees	\$ (3,709)	\$ (2,284)
Third party deposits	43,294	(46,320)
Third party deposits liability	(43,294)	46,320
	\$ (3,709)	\$ (2,284)

21. Commitments

The contractual commitments of the Partnership for the purchase of property, plant and equipment as at December 31, 2012 are \$1,434.0 million (December 31, 2011 - \$1,062.1 million). Almost all of these commitments are with SNC-Lavalin ATP Inc., a wholly owned subsidiary of SNC (December 31, 2011 – 99%).

The Partnership is committed to operating leases that have lease terms which expire between 2013 and 2026. Of the total expected minimum lease payments, 94% relates to the Partnership's head office leases.

Expected minimum lease payments in future years are as follows:

	As at December 31, 2012
<i>(in thousands of dollars)</i>	
Operating lease obligations payable on non-cancellable leases are as follows:	
No later than 1 year	\$ 4,318
Later than 1 year and no later than 5 years	16,555
Later than 5 years	24,624
	\$ 45,497

22. Contingencies

From time to time, the Partnership is subject to legal proceedings, assessments and claims in the ordinary course of business. The Partnership was served with an action on June 5, 2009 alleging that the Plaintiff and the Partnership had concluded a binding agreement for the sale to the Plaintiff of certain lands. 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 or financial performance.