

Management's Discussion and Analysis

AltaLink, L.P.
October 28, 2011



ALTA LINK

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) reflects events known to us as of October 28, 2011. This MD&A is intended to provide you with an understanding of our business, our strategy, our performance, our expectations for the future, and how we manage risk and financial resources. Our Board of Directors approved this MD&A on October 28, 2011, based on the recommendation of our Audit Committee, which reviewed this MD&A in accordance with its terms of reference.

You should read this MD&A in conjunction with our legal advisory on Forward Looking Information, which we have included at the end of this MD&A, as well as our unaudited condensed interim financial statements for the three and nine months ended September 30, 2011 (third quarter financial statements) and our audited annual financial statements for the years ended December 31, 2010 and 2009 (the Financial Statements) and the notes thereto.

This is the first year in which we have prepared condensed interim financial statements under International Financial Reporting Standards (IFRS). We have applied IFRS 1 First time Adoption of International Reporting Standards to prepare the opening statement of financial position as at January 1, 2010, the transition date.

Until December 31, 2010, we prepared our financial statements in accordance with Canadian generally accepted accounting principles (C-GAAP), which differ in some areas from IFRS. In preparing the condensed interim financial statements for 2011, we have adjusted certain amounts reported previously in the financial statements to effect the transition to IFRS. Please refer to note 23 – Explanation of transition from Canadian GAAP to IFRS in the third quarter financial statements.

Amounts are stated in Canadian dollars unless otherwise stated.

Unless otherwise noted, references in this MD&A to "we", "us", "our", "AltaLink" or "the Partnership" mean AltaLink, L.P. and references to a "quarter" and "year" refer to the three-month period ended September 30, 2011 and twelve-month period ended December 31, 2010.

Additional information relating to our business including our Annual Information Form is available on SEDAR at www.sedar.com.

Executive Summary

Highlights

For the three months ended September 30, 2011:

- We invested \$177.5 million (three months ended September 30, 2010 - \$112.3 million) on capital projects to reinforce and expand the transmission system;
- We achieved before tax net income of \$20.6 million (three months ended September 30, 2010 - \$13.4 million);
- We started construction of the Cassils Bowmanton Whitla (CBW) facilities, for which the AUC granted permits and licences (P&L) during the quarter;
- We are awaiting the AUC's decisions regarding our General Tariff Application and the AUC's Generic Cost of Capital proceeding, for which the record closed in the quarter; and,
- SNC-Lavalin acquired the remaining minority interest in us from Macquarie effective September 20, 2011.

Our Business and Strategies

We own and operate regulated electricity transmission facilities in the Province of Alberta. Through our transmission facilities, we deliver electricity safely, reliably and efficiently to approximately 85% of Alberta's population to meet continuously changing customer needs under all operating conditions. We connect generation plants to major load centres, cities and large industrial plants throughout our 212,000 square kilometre service area, which covers a diverse geographic area, including most major urban centres in central and southern Alberta. Our transmission facilities comprise approximately half of the total kilometres in the Alberta Interconnected Electric System (AIES), including interconnections between the AIES and British Columbia's transmission system that link Alberta with the North American western interconnected system.

For more details regarding our business please refer to the "Our Business and Strategies" section of our MD&A for the year ended December 31, 2010.

Our Capability to Deliver Results

We have a number of core competencies and resources that enable us to achieve our corporate objectives.

Financial Strength

We align our financing strategy with the regulated capital structure approved by the AUC and with targets for our key financial metrics. We finance our operations and maintenance capital expenditures from operating cash flows. We intend to fund the growth in capital expenditures from the balance of our operating cash flows, additional borrowings under our capital markets platform, and equity contributions from our limited partner, AltaLink Investments, L.P. (AILP). Through its indirect ownership in AILP, SNC-Lavalin provides solid financial sponsorship and the capacity to contribute the additional equity needed to finance the capital investments we expect to make in the future.

Please refer to the "Our Partnership Structure" section for more details.

Operational Excellence

We design and implement operational, maintenance and capital investment practices to fulfill our commitment to the safe, reliable and cost effective operation of our transmission business. To do so, we employ experienced people with the necessary expertise and knowledge. Our maintenance programs are designed to sustain the useful function of existing transmission assets to ensure that those assets operate in an efficient and reliable manner. Our program-based maintenance activities cover the broad functional spectrum of the transmission business, including tools, safety, lines, substations, telecommunications, metering, vehicles, buildings, control centre and information technology. We utilize life extension and long-range asset replacement programs to ensure timely and effective replacement of assets which have reached the end of their useful life.

Capital Project Execution

In 2002, we entered into an exclusive 10-year contract with a wholly-owned subsidiary of SNC-Lavalin to provide engineering, procurement and construction services for our capital projects. SNC-Lavalin has significant global experience in the electricity industry including the planning, design and construction of approximately 110,000 kilometres of transmission and distribution lines and approximately 1,600 substations. This strategic outsourcing arrangement enhances our capability to deliver results to consumers by facilitating design and execution of our capital projects in a timely and cost-effective manner.

In our 2011 to 2013 GTA, we summarized our plans for a competitive bidding process for engineering, procurement and construction services after the current contract expires in 2012. We have completed the request for qualifications process and have initiated the request for proposal process, both of which are being monitored by an independent fairness advisor.

Organizational Leadership and People

Our leadership team's experience and expertise, combined with our employees' knowledge and dedication to "keeping the lights on" through operational excellence are key to our ability to deliver. We have established a proven track record of reliability, safety and cost effectiveness that compares favourably with our peers and we align our short-term and long-term incentive pay with the needs of our customers.

Environmental Leadership

We provide environmental leadership through innovative practices and sound risk management. We were the first Canadian utility to implement an Avian Protection Plan to mitigate avian interactions with our facilities. We are actively involved in and provide funding for ferruginous hawk research programs, including the installation of artificial nest poles throughout Southern Alberta. All new transformer installations feature secondary oil spill containment. We consider ways to reduce fragmentation of the landscape. We plan to use high voltage direct current technology for our proposed Western Alberta Transmission Line, reducing land use impacts and improving efficiency.

Stakeholder Engagement

We actively engage our stakeholders by providing them with timely, easy to understand information about our operations and proposed transmission projects and gather their input through a variety of methods to reduce the overall impact on land and landowners.

How We Measure Our Performance

Delivering Customer Value

We use certain key measures to determine whether we are meeting our goals and the needs of our customers. Our performance compares favourably to other transmission facility owners in Canada for reliability, safety and cost effectiveness since our inception.

Reliability

We operate our transmission system so as to minimize disruption of service to our customers. Nevertheless, severe weather and other unplanned events cause service disruptions to which we respond as quickly as possible. We have a strong track record in reliability, and continually strive to further reduce the duration of system outages for the benefit of our customers.

Safety

Our safety management initiatives encompass all aspects of our safety systems. We are committed to continuously improving our safety culture and safety management processes. During the nine months ended September 30, 2011 our workplace injury frequency rate increased from 0.28 to 0.48 per 200,000 man hours, compared to the same period in 2010. Our safety statistics include all man hours worked by contractors and sub-contractors. During 2011, an incident involving one of our sub-contractors resulted in fatal injuries to one of the sub-contractor's employees.

Cost Effectiveness

Our goal is to provide Albertans with cost effective transmission service. Electricity is at the core of our economy and critical to our society. Therefore, we focus on ensuring reliability of supply to our customers, while delivering services cost effectively. Our continuous improvement culture embraces our maintenance process, centralized work planning, and scheduling. We will continue to seek business improvements across our organization while delivering reliable and safe transmission service to our customers.

Financial and Operational Performance

Transmission Tariffs

We recognize our revenue based on transmission tariffs approved by the AUC, including adjustments arising from deferral accounts established under regulatory decisions related to those tariffs. On March 4, 2011, the AUC issued Decision 2011-082 approving our Interim Tariff of \$336.2 million for the year 2011. The AUC conducted an oral hearing in May 2011 to consider our General Tariff Application for 2011 to 2013. In July 2011, the AUC completed its oral hearing for its Generic Cost of Capital proceeding which considered the capital structure and return on common equity for all utilities in its jurisdiction. We expect that the AUC will issue decisions regarding both of these proceedings during the fourth quarter of 2011. The outcome of these proceedings may have a material impact on our future net income and capital structure. We reflect any adjustments arising from AUC decisions in the fiscal periods in which they are received.

Please see the "Regulatory Tariff Revenues" section in the MD&A for the year ended December 31, 2010 for more information on the risk factors and uncertainties associated with regulated tariffs.

Growth in Regulated Capital Assets

Growth in our regulated capital assets (both rate base and construction work in progress (CWIP)) provides reliability of supply of transmission service to our customers and is one of the key indicators of future revenue streams. As a regulated utility, we earn most of our net income from allowed returns on equity invested in our regulated capital assets. Our regulated capital assets are the foundation for providing fair returns to our equity investors. We calculate our allowed returns on equity by multiplying our mid-year investments in rate base and construction work in progress by the equity ratio and rate of return approved by the AUC. Our operating cash flow relates primarily to the return on equity, recovery of deemed income taxes, and depreciation related to our rate base. We accrue regulated interest costs and return on equity attributed to our construction work in progress. We do not receive cash flow related to revenue from our construction work in progress until the projects are completed and added to our rate base.

Our long-term capital program includes more than \$500 million of capital replacement and upgrade projects and more than \$4 billion of expansion projects directly assigned to us by the AESO. Our current outlook for 2011 capital expenditures ranges from \$600 - \$700 million. Our actual capital program may vary from our current forecast, depending on the timing of regulatory approvals, directions from the Alberta Electric System Operator (AESO), and other factors beyond our control. In particular, recent developments related to our Major Capital Projects (see below) may materially impact our forecast capital expenditures.

In our GTA, we outlined our plans to finance these capital expenditures through a combination of debt and equity consistent with our deemed capital structure.

Our Partnership Structure

We are a limited partnership, formed under the laws of Alberta on July 3, 2001 pursuant to the Limited Partnership Agreement between AltaLink Management Ltd. (AML), as general partner, and AILP, as the sole limited partner. As general partner, AML manages the regulated electricity transmission facilities that we own and operate in the Province of Alberta. Both AILP and its sole limited partner AltaLink Holdings, L.P. (AHLP) are managed by AltaLink Investments Management Ltd. (AIML).

On September 20, 2011, SNC-Lavalin Inc. became our sole owner when one of its subsidiaries acquired a 23.08% interest in AHLP that was previously held by Macquarie Transmission Alberta Ltd.

Regulatory Environment

We are an electric utility regulated by the Alberta Utilities Commission (AUC), pursuant to the *Electric Utilities Act (Alberta) (EUA)*, the *Public Utilities Act (Alberta)*, the *Alberta Utilities Commission Act (Alberta)* and the *Hydro and Electric Energy Act (Alberta)*. Through various regulatory decisions, these statutes and their respective regulations impact our tariffs, rates, construction, operations and financing.

Major Capital Projects

Transmission Planning and Development

The increasing reliability risks of Alberta's aging transmission system, combined with limited capacity within the system to support the province's economic growth, requires the development of new transmission infrastructure. For more than 30 years there has been limited expansion of the main backbone of the transmission grid in Alberta. This lack of expansion, together with an increased demand for electricity and the construction of new generation facilities, has resulted in increased loading and congestion on the AIES. The following table is an overview of the main projects currently in progress. Please refer to the "Major Capital Projects" section in the MD&A for the year ended December 31, 2010 for more information.

On October 21, 2011, the AUC suspended its process schedule and adjourned the application for our WATL project, a designated critical transmission infrastructure (CTI) project. The Minister of Energy had submitted a written request to the AUC to suspend or adjourn its consideration of the CTI projects until the government completes its review of its approach to certain critical transmission infrastructure.

Overview

Project/ Description	Need Application	Facility Application	Status
Southern Alberta Transmission Reinforcement Large-scale project to construct transmission lines and substations across southern Alberta to interconnect up to 2,700 MW of proposed wind generation projects.	AUC approved 2009	<ul style="list-style-type: none"> Multiple applications planned. Four applications filed and approved, including Cassils Bowmanton Whitla for which P&L has been received, with a projected cost of \$0.8 billion Planning, siting and consultation underway for future applications. 	<ul style="list-style-type: none"> Approved elements under construction.
Western Alberta Transmission Line Reinforce system backbone between Edmonton and Calgary as HVDC transmission line and converter substations.	CTI designation in 2009	<ul style="list-style-type: none"> Filed in March, 2011 with a projected cost of \$1.4 billion. 	<ul style="list-style-type: none"> Hearing was adjourned.
Heartland Region Transmission Development Double-circuit 500 kV transmission line between the Eilerslie Substation and a new substation in the Gibbons-Redwater area and 240 kV loop from the new substation to service industrial load.	CTI designation in 2009	<ul style="list-style-type: none"> Filed in September, 2010. Decision expected November 1, 2011. 	<ul style="list-style-type: none"> Awaiting decision on Facility Application.
Southeast Alberta Transmission Development Regional facilities to meet forecast customer load growth, restore the inter-tie to path rating and enable interconnection of proposed wind generation.	AUC approved 2008	<ul style="list-style-type: none"> All applications approved. 	<ul style="list-style-type: none"> Under construction.
Edmonton Region Transmission System Upgrade Debottleneck 240 kV system for load growth and decommissioning of coal-fired generation.	AUC approved 2009	<ul style="list-style-type: none"> Five applications filed to date; four approved. 	<ul style="list-style-type: none"> Approved elements completed or under construction.
East Calgary Transmission Development Reinforce transmission system in east Calgary and interconnect proposed Shepard Energy Centre.	In progress	<ul style="list-style-type: none"> Filed in June 2011. 	<ul style="list-style-type: none"> Awaiting hearing on Facility Application.
Foothills Area Transmission Development Expand and construct substations and transmission lines in south Calgary region to reinforce local transmission and further interconnect wind energy into the AIES.	In progress	<ul style="list-style-type: none"> Multiple applications planned. Planning, siting and consultation underway for future facility applications. 	<ul style="list-style-type: none"> Awaiting Need Application filing by AESO.
Yellowhead Rebuild and reinforcement of 138 kV system in	AUC approved	<ul style="list-style-type: none"> All applications approved. 	<ul style="list-style-type: none"> Under construction.

Project/ Description	Need Application	Facility Application	Status
Yellowhead region.	2010		
Hanna Reinforcement and enhancements of the transmission system in southeastern Alberta.	AUC approved 2010	<ul style="list-style-type: none"> • Three applications filed. • One hearing completed. 	<ul style="list-style-type: none"> • Awaiting hearing on Facility Application.

CTI – Critical Transmission Infrastructure

Other Regional Developments

The AESO has identified the need to upgrade transmission facilities within several geographic regions of Alberta to meet forecast customer load requirements as well as to interconnect future generation projects. This includes projects in the Red Deer, Central-East and Athabasca regions.

Non-GAAP Financial Measures

We use certain financial metrics that are not defined under IFRS. For more details regarding our non-GAAP financial measures please refer to the “Non-GAAP Financial Measures” section of our MD&A for the year ended December 31, 2010.

Financial Position

We have analysed the information contained in the Financial Statements prepared in accordance with IFRS for both the current and comparative periods, unless otherwise stated. In the following table we discuss significant changes, over \$10.0 million, in our statement of financial position during the nine months ended September 30, 2011. Our financial statements include more detailed information regarding the changes in our property, plant and equipment.

	Increase/(Decrease) (\$ Millions)	Explanation
Cash and cash equivalents	(12.2)	We used cash to finance a portion of our capital expenditure program.
Other non-current assets (note 9)	11.6	Other non-current assets increased primarily due to financial assets related to regulated activities arising from construction work in progress.
Third party deposits and third party deposits liability (note 8)	11.7	We received third party deposits of \$49.6 million in advance of construction of customer-contributed projects and applied \$37.9 million of existing deposits to fund construction costs.
Property, plant and equipment (note 7)	341.1	We had net additions of \$396.0 million to property, plant and equipment, partially offset by \$54.9 million in depreciation.

	Increase/(Decrease) (\$ Millions)	Explanation
Intangible assets (note 6)	14.8	We added \$21.7 million to intangible assets, partially offset by \$6.9 million in amortization.
Trade and other payables (note 10)	62.7	The increase relates primarily to higher construction activity and other costs related to capital projects, the reclassification of financial liabilities related to regulated activities from non-current to current, and interim tariff adjustments to reflect our best estimate as to the outcome of the GTA proceeding.
Short-term debt (note 11)	171.5	We issued commercial paper to finance our capital expenditure program.
Current and non-current deferred revenue (note 12)	29.5	We transferred \$37.9 million from third party deposits, received \$9.0 million through transmission tariff for salvage costs and recognized \$17.4 million as revenue.
Partners' equity (note 18)	106.8	AILP contributed \$75.0 million in new equity. We generated net income of \$55.1 million and distributed \$23.3 million to our partners.

Liquidity and Capital Resources

Liquidity

During the third quarter of 2011, we increased our bank credit facilities to an aggregate of \$900.0 million. The \$850.0 million commercial paper backstop facility provides support to our commercial paper program. As at September 30, 2011, \$171.5 million of commercial paper was outstanding under our commercial paper program. All bank credit facilities may be used for general corporate purposes.

As at September 30, 2011, we had \$728.5 million of liquidity remaining under those facilities. Our liquidity requirements are expected to increase over the next few years to accommodate higher capital expenditures and working capital requirements. In our 2011-2013 GTA, we are forecasting an increase of our credit facilities to \$1.8 billion in 2012 and \$2.3 billion in 2013.

Liquidity Ratios¹

	Nine months ended	
	September 30, 2011	September 30, 2010
Interest coverage		
EBIT coverage ^{2,3}	2.23X	2.35X
EBITDA coverage ^{2,4}	3.65X	4.00X
FFO coverage ^{2,5}	1.93X	3.07X
FFO/debt ⁶	9.05%	14.94%
Debt/total capitalization ⁷	56.9%	57.78%

1. Refer to "Non-GAAP Financial Measures" for further information concerning the non-GAAP financial measures used in this table.
2. For the purposes of calculating the coverage ratios, interest expense is gross of the offset for capitalized borrowing costs and excludes amortization of deferred financing fees on debt.
3. EBIT coverage - Income before interest expense and income tax expense (EBIT) divided by interest expense.
4. EBITDA coverage - Income before interest expense, income tax expense, depreciation and amortization (EBITDA) divided by interest expense.
5. FFO coverage - Funds from operations (FFO) divided by interest expense.

6. FFO/debt – Funds from operations for the last twelve months divided by short-term and long-term debt, excluding deferred financing fees, plus outstanding letters of credit.
7. Debt/total capitalization – Debt includes short-term and long-term debt, excluding deferred financing fees plus outstanding letters of credit divided by total capitalization (debt plus partners' equity). The AltaLink Master Trust Indenture contains a debt/total capitalization covenant with a limit of 75%.

Working Capital

At September 30, 2011, our working capital deficiency was \$331.5 million compared with \$204.9 million at September 30, 2010. The working capital deficiency includes commercial paper issued to finance our capital expenditure program. Our commercial paper program is backstopped by a bank credit facility and we intend to refinance commercial paper with long-term debt later in 2011, as outlined in our General Tariff Application.

We expect this working capital deficiency to continue in the future due to our system expansion plans. The electricity transmission industry is a long-cycle capital-intensive business that requires sufficient cash to fund capital expansion projects and planned maintenance. We fund our transmission business from cash provided by operating activities, and to the extent necessary, through equity injections from AILP and borrowings under our commercial paper program or drawing on our committed bank credit facilities.

Cash Flows

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
Cash and cash equivalents, beginning of period	\$ —	\$ —	\$ 12.8	\$ 8.3
Cash flow provided by (used in):				
Operating activities	51.0	30.6	123.6	90.4
Investing activities	(128.7)	(95.4)	(359.1)	(308.2)
Financing activities	78.2	64.8	223.2	209.5
Cash and cash equivalents, end of period	\$ 0.5	\$ —	\$ 0.5	\$ —

Operating Activities

For the three months ended September 30, 2011 our cash flow from operating activities increased by \$20.4 million compared to the same period in 2010, primarily due to an increase in net income for the quarter and an increase in the current portion of financial liabilities related to regulated activities, as a result of reclassification from non-current to current.

Our cash flow from operating activities for the nine months ended September 30, 2011 increased by \$33.2 million compared to the same period in 2010, for the same reasons as outlined in the paragraph above.

Investing Activities

For the three and nine months ended September 30, 2011, our cash flow used in investing activities increased by \$33.3 million and \$50.9 million respectively, primarily due to an increase in cash used to fund capital expenditures, partially offset by an increase in trade and other payables as a result of an increase in accounts payable and accruals for capital projects.

Most of our capital expenditures during the year-to-date related to the Southern Alberta Transmission Reinforcement, Heartland Regional Transmission Development, Yellowhead Area Transmission Development, Edmonton Region Transmission System Upgrade, Hanna Area Transmission Development, Cassils Bowmanton Whitla Upgrade, and the Western Alberta Transmission Line.

Financing Activities

For the nine months ended September 30, 2011, cash flow provided by financing activities increased by \$13.7 million compared to the same period in 2010. We issued \$171.5 million in short-term debt, compared to issuing \$77.6 million during the same period

in 2010. We have not yet issued long-term debt during 2011, whereas we had issued \$125.0 million of long-term debt during the first nine months of 2010. AILP contributed \$75.0 million (2010 – \$29.3 million) of new equity and we distributed \$23.3 million to our partners (2010 - \$21.0 million).

For the three months ended September 30, 2011, cash flow provided by financing activities increased by \$13.4 million compared to the same period in 2010. We issued \$55.9 million of commercial paper, compared to \$42.8 million during the same period in 2010. AILP contributed \$30.0 million (2010 – \$29.3 million) of new equity and we distributed \$7.8 million to our partners (2010 - \$7.0 million).

Earnings Coverage

	Twelve months ended September 30, 2011
Earnings-to-interest coverage on total debt ^{1,2}	2.27X³

- Earnings-to-interest coverage on total debt is a non-GAAP financial measure. As a result of distributing securities by way of a medium-term note program using the debt shelf procedures, we must include updated earnings coverage ratios with our financial statements. Refer to "Non-GAAP Financial Measures" for further information concerning the non-GAAP financial measures used in this MD&A.
- Earnings-to-interest coverage on total debt equals income before interest expense (excluding amortization of deferred financing fees) on all indebtedness and income taxes divided by annual interest requirements on long-term debt (including capitalized interest). We calculate this ratio by giving pro-forma effect to any long-term debt issued during the period and the use of the proceeds from such long-term debt issues.
- Our interest requirement on long-term debt for the twelve months ended September 30, 2011, was \$55.0 million, including the pro-forma effect of interest payable on the Series 2010-2 notes issued in November 2010. Our earnings before interest and income tax, for the purposes of calculating this ratio, were approximately \$124.9 million.

Credit Ratings

	Nine months ended	
	September 30, 2011	September 30, 2010
DBRS – Commercial paper ¹	R-1 (low)	R-1 (low)
DBRS – Senior secured bonds and medium-term notes ¹	A	A
Standard & Poor's - Senior secured bonds and medium-term notes ²	A-	A-

- On February 15, 2011, DBRS confirmed the above ratings, both with stable trends.
- On November 30, 2010, Standard & Poor's confirmed the above rating with a stable trend.

Results of Operations

Details about differences between IFRS and C-GAAP for revenue and the other items included in this section can be found in the third quarter financial statements, Note 23 – *Explanation of the transition from Canadian GAAP to IFRS*.

Revenue

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
Operations	\$ 75.6	\$ 76.8	\$ 226.7	\$ 209.5
Other	6.5	4.6	16.3	19.7

Revenue from operations:

Revenue from operations includes all revenue earned from our ordinary business activities, i.e. the provision of electricity transmission services. Our transmission tariff includes recovery of operating costs, depreciation and amortization expenses, return on rate base and allowance for funds used during construction (AFUDC).

Our revenue from operations decreased by \$1.2 million for the three months ended September 30, 2011 compared to the same period in 2010. Q3 2010 included the recovery for transmission line repair costs as a result of damage caused by snow storms in southern Alberta. After adjusting for this recovery the increase in revenue from operations is primarily due to expansion of our transmission facilities and recovery of related expenses, which have been included in our approved transmission tariff.

Our revenues from operations increased by \$17.2 million for the nine months ended September 30, 2011, compared to the same period in 2010, primarily due to expansion of our transmission facilities and recovery of related expenses, which have been included in our approved transmission tariff.

Other revenue:

Other revenue includes revenue received from third parties, such as other utilities, and contributions received towards the construction of assets.

Compared to the same period in 2010, cost recovery revenue from third parties increased by \$1.5 million for the three months ended September 30, 2011 and decreased by \$4.9 million for the nine months ended September 30, 2011. Revenue associated with costs recovered from third parties is received on a cost recovery basis and therefore there is no net income impact. These variances are primarily due to the volume of transmission construction services provided to third parties during these periods.

Net and Comprehensive Income

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
	\$ 20.6	\$ 13.4	\$ 55.1	\$ 50.8

Our net and comprehensive income for the three and nine months ended September 30, 2011 increased by \$7.2 million and \$4.3 million, respectively, compared to the same periods in 2010 primarily due to increased investment in electric transmission infrastructure. Our 2010 results included one-time adjustments resulting from the AUC's final determination on our 2009-10 GTA compliance filing, including recovery of costs related to a transmission project voided by the regulator in 2007.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
	\$ 57.2	\$ 48.6	\$ 162.8	\$ 150.6

Our EBITDA for the three and nine months ended September 30, 2011 increased compared to the same periods in 2010. The reasons for these increases are similar to those noted above for the changes in our net income for the same periods. Please refer to "Non-GAAP Financial Measures" for more information about how we calculate EBITDA.

Operating Expenses

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
	\$ 18.2	\$ 17.8	\$ 54.0	\$ 55.8

Our operating expenses include salaries and wages, contracted manpower, general and administration costs. Our operating expenses for the three and nine months ended September 30, 2011 are comparable to the same periods in 2010, which included additional costs related to cost recovery projects. Expenses incurred for cost recovery projects are recovered through revenue and therefore have no net income impact as discussed under "revenue" above.

Property Taxes and Other

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
	\$ 10.2	\$ 17.4	\$ 33.1	\$ 30.0

Property taxes and other expenses are recovered dollar for dollar through regulated deferral and reserve account mechanisms. To the extent that actual costs vary from amounts approved in our tariff, the difference is refunded to or collected from the AESO.

Our property taxes and other expenses for the three months ended September 30, 2011 decreased compared to the same period in 2010 primarily due to \$7.0 million of transmission line repair costs, incurred in Q3 2010, as a result of damage caused by snow storms in southern Alberta.

Our property taxes and other expenses increased for the nine months ended September 30, 2011 compared to the same period in 2010. Annual tower payments and property and linear taxes paid and salvage costs incurred increased in 2011 compared to 2010, while 2010 included self insurance reserve costs for transmission line repair costs as a result of damage caused by snow storms in southern Alberta.

Depreciation and Amortization

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
	\$ 20.9	\$ 21.4	\$ 61.8	\$ 60.8

We calculate depreciation on a straight-line basis using various rates ranging from 1.85% to 14.43%, which are approved by the AUC. Depreciation for the three and nine months ended September 30, 2011 decreased by \$0.5 and increased by \$1.0 million, respectively, compared to the same periods in 2010, primarily due to a combination of decreased depreciation rates (estimated depreciation rates are being used for 2011 until a decision is reached by the AUC on our 2011-2013 GTA) and increased capital projects that have been completed and added to our regulatory rate base.

Finance Costs

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(in millions of dollars)</i>				
	\$ 12.4	\$ 11.2	\$ 38.4	\$ 31.9

Finance costs include interest costs and amortization of deferred financing fees less capitalized borrowing costs. Our interest expense for the three and nine months ended September 30, 2011 increased by \$1.2 million and \$6.5 million, respectively, compared to the same periods in 2010 due to additional debt incurred to finance our capital expenditure program. Our total debt at September 30, 2011 was \$196.0 million higher than a year earlier.

Selected Financial Information Derived from our Financial Statements

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income per unit (\$/unit)	0.062	0.041	0.166	0.153
Funds generated from operations (\$ millions)	40.2	46.2	86.1	115.7
Distributions per unit (\$/unit)	0.023	0.021	0.07	0.063
Total assets (\$ millions)	2,859.5	2,382.3	2,859.5	2,382.3
Short and long-term debt (\$ millions)	1,202.7	1,006.6	1,202.7	1,006.6

Summary of Quarterly Financial Information

QUARTER ENDED	REVENUE	NET INCOME	UNITS	NET INCOME
	(\$MILLIONS)	(\$MILLIONS)	OUTSTANDING (MILLIONS)	PER UNIT (\$/UNIT)
SEPTEMBER 30, 2011	82.1	20.6	331.9	0.062
JUNE 30, 2011	84.7	17.1	331.9	0.052
MARCH 31, 2011	76.3	17.4	331.9	0.052
DECEMBER 31, 2010	96.2	15.5	331.9	0.047
SEPTEMBER 30, 2010	81.4	13.4	331.9	0.041
JUNE 30, 2010	79.7	20.3	331.9	0.061
MARCH 31, 2010	68.2	17.1	331.9	0.051
DECEMBER 31, 2009	76.4	21.7	331.9	0.065
SEPTEMBER 30, 2009	60.6	9.8	331.9	0.030
JUNE 30, 2009	61.4	13.0	331.9	0.039
MARCH 31, 2009	59.3	12.1	331.9	0.036
DECEMBER 31, 2008	59.6	8.5	331.9	0.026

Periods prior to January 1, 2010 were accounted for following Canadian Generally Accepted Accounting Principles.

Risk Management

Our transmission business is subject to a variety of risks and uncertainties, which are more fully described in our annual MD&A for the year ended December 31, 2010. You should carefully consider these risk factors and uncertainties in addition to the other information contained in this MD&A, the corresponding financial statements, our annual information form, press releases, material change reports and our other continuous disclosure documents.

Risk Controls and Other Mitigating Measures

We have instituted controls and other mitigating measures to manage the risks we face. Under our risk management program, we conduct annual risk evaluations to identify and assess our most significant risks and the strategies through which we manage them.

Insurance and Statutory Liability Protection

Our current insurance policies provide coverage for a variety of losses and expenses that could impact our business. This insurance coverage includes general liability, physical loss of or damage to property and boiler and machinery (including substations), directors' and officers' liability, fiduciary liability, employment practices liability, non-owned aircraft liability, and vehicle liability. We believe the extent of this coverage is prudent in the context of our transmission business and utility industry practice, and we anticipate that this coverage will be maintained.

Consistent with past AUC decisions, we do not carry insurance for loss or damage to transmission lines, towers, poles, or physical damage to certain owned vehicles. It is not always possible or economically feasible to insure against all risks on our assets or for other exposure to liabilities, and we may decide not to carry insurance against certain risks as a result of high premiums or for

other reasons. In accordance with prudent industry practice and AUC directives, we self insure against certain risks for which commercial insurance is not maintained. In the event of an uninsured loss greater than \$100,000, we would apply to the AUC to recover the loss through increased funding to our self-insurance reserve or through an increased tariff. Our most recent general tariff application included an application for the recovery of approximately \$7.0 million in costs related to damaged transmission lines caused by severe storms in early 2010 (see "Risk Factors and Uncertainties – Regulated Operations" in the MD&A year ended December 31, 2010).

The Liability Protection Regulation limits our liability in the course of carrying out our duties, responsibilities and functions under the Electric Utilities Act for direct loss or damage arising from our negligence, wilful misconduct or breach of contract. Direct loss or damage is defined in the regulation to exclude loss of profits, loss of revenue, loss of production, loss of earnings, loss of contract or other indirect, special or consequential loss or damage.

Risk Factors and Uncertainties

Despite our initiatives in managing risks, there can be no assurance that one or more of them will not adversely affect our business. Our results of operations, financial position and performance and, accordingly, the value of our outstanding securities, could be adversely affected if we are unable to adequately control or mitigate the effects of such risks on our business.

The following are the more significant items that have an impact on our financial position and results of operations. For more details regarding our risk factors and uncertainties please refer to the "Risk Factors and Uncertainties" section of our MD&A for the year ended December 31, 2010. Risk factors and uncertainties have not materially changed for the nine months ended September 30, 2011.

- Regulated operations
- Project execution risk
- Regulatory financial risk
- Reliability risk
- Restructuring of electricity industry
- Capital resources
- Labour relations
- Availability of people
- Environment, health and safety
- Electric and magnetic fields
- Annual impairment tests
- Competition
- Credit ratings

Transactions with Related Parties

In the normal course of business, we enter into various transactions with AML, AILP, AIML and AHLP. We record these transactions at exchange values based on normal commercial rates. AML employs the people who provide administrative and operational services to our business. We have indemnified AML for all associated expenses and liabilities.

In 2002, we executed a ten-year contract under which a subsidiary of SNC-Lavalin Inc. (SNC-ATP) provides engineering, procurement and construction management services for our direct assigned capital projects. The AUC has reviewed and approved the terms and conditions of this contract in Decision 2003-061 and subsequent decisions. We have incurred \$213.6 million for construction related services with SNC-Lavalin ATP Inc. during the nine months ended September 30, 2011 compared to \$190.1 million for the same period in 2010. On September 30, 2011, our accounts payable and accrued liabilities included \$97.9 million owing to SNC-ATP under this agreement, compared to \$88.6 million at December 31, 2010.

As at September 30, 2011, we were indebted to AILP for \$85.0 million in principal and \$1.1 million of accrued interest under our Series 3 Subordinated Bridge Bond, which is due on October 1, 2012. We make quarterly interest payments of \$1.7 million to AILP at an annual interest rate of 8.0%.

Please see note 14 – *Related party transactions* in the Interim Financial Statements for more details.

Legal Proceedings

We have not commenced and are not currently contemplating any material legal proceedings. We are not aware of any material legal proceedings that have been commenced or are being contemplated against us.

On June 5, 2009, we were served with an action alleging that the plaintiff and we had concluded a binding agreement to sell certain lands in Calgary, Alberta to the plaintiff. The final outcome of this matter is uncertain and there can be no assurance that this matter will be resolved in our favour. Even if this matter is not resolved in our favour, we do not expect the outcome to have a material adverse impact on our financial position, results of operations or liquidity.

Off Balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. We currently have no such off-balance sheet arrangements. Please see note 21 – *Commitments* in the Financial Statements for details of capital and lease commitments.

Critical Accounting Estimates

The preparation of our financial statements requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The more significant estimates that have an impact on our financial condition and the results of our operations are disclosed in the annual MD&A as well as the third quarter financial statements.

Please see Note 2 – *Basis of Preparation*, in the Interim Financial Statements for more details.

Accounting Changes

Changes in Accounting Policies for 2011

The CICA Accounting Standards Board requires the conversion to IFRS from Canadian GAAP for publicly accountable profit-oriented enterprises for both interim and annual financial statements beginning on or after January 1, 2011.

We have completed the transition to IFRS. This is the first year in which we are issuing financial statements under IFRS. Our quarterly statements in 2011 are in compliance with the interim reporting requirements found in IAS 34 – *Interim financial reporting*. Our first annual IFRS compliant financial statements will be for the year ending December 31, 2011.

See note 23 – *Explanation of transition from C-GAAP to IFRS* in the third quarter financial statements showing how we reconciled the differences between our financial statements under C-GAAP and IFRS.

Applying the changes in accounting standards did not have a material impact on our retained earnings. We have not made any significant changes to the way we apply to the regulator for tariff applications, how we receive tariff and how we conduct our operations. Most of the adjustments we made were reclassifications on the Statement of Financial Position and Statement of Comprehensive Income.

We have recognized all revenue from our core operations in one line on the Statement of Comprehensive Income and all revenue from third parties as other revenue.

We have presented expenses in our Statement of Comprehensive Income by nature, classified as follows:

- Operating expenses – included in operating expenses are employee salaries and benefits, contracted labour and general and administration expenses.
- Property taxes and other – included are property taxes, salvage expenses, annual structure payments and hearing and credit facility costs. These costs are fully recovered from the AESO on a deferral and reserve account basis.
- Depreciation and amortization – as a capital intensive business, this is a significant expense for us. We have disclosed this item separately as a result.

We have reclassified certain items on the Statement of Financial Position as follows:

- Software and land rights from PP&E to intangible assets;
- Third party contributions from PP&E to deferred revenue; and
- Recognized assets and liabilities arising from regulated activities as financial assets, financial liabilities or deferred revenue.

Future Accounting Changes That May Impact Our Financial Statements

New and revised IFRS that have been issued but are not yet effective have been discussed in more detail in Note 3(q) to the third quarter financial statements:

The amendments to IAS 12, IAS 1 and IFRS 7 are effective for 2012. As we are not a taxable entity, the amendments to IAS 12 are not expected to impact our Financial Statements.

The amendments to IAS 1 relate to the presentation of Other Comprehensive Income. We do not expect the amendments to have a material impact on our Financial Statements.

The amendments to IFRS 7 have not had an effect on our disclosure as it is our practice to settle transactions in cash. However, if we enter into other types of transfers of financial assets in the future, our disclosures regarding those transfers may be affected.

The remaining new standards and amendments issued by the IASB are effective for 2013 and beyond. We are currently evaluating the impact of the revisions and amendments; however, we do not expect they will have a material effect on our financial reporting.

Forward Looking Information

Prospective investors should be aware that this MD&A contains certain statements or disclosures that may constitute forward-looking information under applicable securities laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that we anticipate or expect may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as "anticipate", "believe", "contemplate", "continue", "enable", "expect", "forecast", "future", "intend", "may", "plan", "potential", "will" or other comparable terminology. Forward-looking information presented in such statements or disclosures may, without limitation, relate to: applications to the AUC for approval of, among other things, our revenue requirements (including deferral and reserve accounts, capital structure and return-on-equity, financing plans, treatment of costs for applicable test periods including deemed income tax, operating expenses, depreciation, capital costs for direct assigned projects and maintenance programs, financing costs related to long-term debt, and short-term borrowing and projected growth in our rate base and assets under construction); transmission system expansion forecasts; the anticipated direct assignment of transmission development projects to us from the AESO pursuant to approved need applications or, in the case of critical transmission infrastructure, our eligibility to submit Facility Applications pursuant to designations by the Government of Alberta or competitive bidding processes; the timing and development of transmission projects and the anticipated capital costs of such

projects; business strategy, plans and objectives of management for future operations; forecast business results; and our anticipated financial performance or condition.

Various factors or assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. These factors and assumptions include, but are not limited to:

- No changes in the legislative and operating framework for Alberta's electricity market which are adverse to AltaLink;
- Decisions from the AUC concerning outstanding tariff and other applications which are consistent with past regulatory principles and are obtained in a timely manner;
- Approved rate-of-return and deemed capital structures for our transmission business which are sufficient to foster a stable investment climate;
- A stable competitive environment;
- Obtaining sufficient capital on acceptable terms to finance our transmission system expansion; and,
- No significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

These assumptions and factors are based on information currently available to us including information obtained by our business from third-party industry analysts. In some occurrences, material assumptions and factors are presented or discussed elsewhere in this document in connection with the statements or disclosure containing the forward-looking information. We caution prospective investors that the foregoing list of material factors and assumptions is not exhaustive.

The forward-looking information in statements or disclosures in this MD&A is based (in whole or in part) on factors which may cause our actual results, performance or achievements to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. These factors are based on information currently available to us including information obtained by our business from third-party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- The risk associated with being subject to extensive regulation including risks associated with AUC action or inaction;
- The risk that the AUC does not provide specific relief to sustain our credit metrics over a growth period characterized by large multi-year transmission facility projects;
- The risk that transmission projects are not directly assigned to us by the AESO or that we are not designated for filing a Facility Application;
- The risk that we are not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures and other obligations;
- The risk that system expansion plans are delayed;
- The risks that the actual costs of completing a transmission project significantly exceed estimated costs;
- The risks to our facilities posed by severe weather, other natural disasters or catastrophic events and our limited insurance coverage for losses resulting from these events;
- The potential for service disruptions and increased costs if we fail to maintain and improve our aging asset base; and
- The risks associated with forecasting our revenue requirements and the possibility that we could incur operational, maintenance or administrative costs above those included in our approved revenue requirement.

We caution investors that the above list of factors is not exclusive. Other factors which could cause our actual results, performance or achievements to differ materially from those contemplated (whether expressly or by implication) in the forward-looking statements or other forward-looking information are disclosed in our publicly filed disclosure documents, including those found under "Risk Factors and Uncertainties" in our annual MD&A and in our Annual Information Form. Risk factors that could lead to such differences include, without limitation:

- Legislative and regulatory developments that could affect costs or revenues;
- The speed and degree of competition entering the market;
- Global capital markets activity;
- Timing and extent of changes in prevailing interest rates;
- Currency exchange rates;
- Inflation levels and general economic conditions in geographic areas where we operate;
- Results of financing efforts;
- Changes in counterparty risk; and
- The impact of accounting standards issued by Canadian standard setters.

All forward-looking information is given as of October 28, 2011. We are not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of these risks, uncertainties and assumptions, readers should not place undue reliance on these forward-looking statements. Any forward-looking information contained in this document is expressly qualified by this statement.

