Financial Statements

AltaLink, L.P.

April 30, 2003

AUDITORS' REPORT

To the **Directors of the General Partner of AltaLink, L.P.:**

We have audited the balance sheets of **AltaLink, L.P.** as at April 30, 2003 and April 30, 2002, and the statements of income and deficit, changes in partners' equity and cash flows for the year ended April 30, 2003 and the ten month period ended April 30, 2002. These financial statements are the responsibility of AltaLink, L.P.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of AltaLink, L.P. as at April 30, 2003 and April 30, 2002 and the results of its operations and its cash flows for the year ended April 30, 2003 and the ten month period ended April 30, 2002 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
June 20, 2003

Chartered Accountants

ALTALINK, L.P.

BALANCE SHEETS

(in thousands of dollars)
As at

	April 30, 2003	April 30, 2002
ASSETS		
Current		
Cash and cash equivalents *[note 13]*	**$ ¾**	$ 12,244
Accounts receivable *[notes 6 and 13]*	**16,779**	12,415
Materials and supplies	**803**	799
Prepaid expenses and deposits	**1,087**	2,234
	18,669	27,692
Capital assets *[note 4]*	**804,552**	758,341
Deferred financing fees *[note 6]*	**4,907**	4,799
Accrued benefit pension asset *[note 12]*	**3,247**	4,276
Materials and supplies	**7,232**	7,188
Goodwill *[note 3]*	**201,833**	200,848
	$ 1,040,440	$ 1,003,144
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities [*note 6]*	**$ 31,419**	$ 13,676
Other liabilities	**191**	40
Regulatory liabilities *[note 8]*	**6,790**	3,969
Short term debt *[notes 5, 6, and 13]*	**421,752**	506,675
	460,152	524,360
Accrued employment benefits liabilities *[note 12]*	**765**	700
Other liabilities *[note 7]*	**1,076**	—
Regulatory liabilities	**10,013**	14,973
Provision for future removal and site restoration	**130,729**	126,641
Long term debt *[note 5, 6, and 13]*	**100,234**	34
	702,969	666,708
Commitments and contingencies *[notes 3 and 14]*		
Partners' Equity		
Partners' capital *[note 9]*	**338,537**	338,537
Deficit	**(1,066)**	(2,101)
	337,471	336,436
	$ 1,040,440	$ 1,003,144

See accompanying notes

Approved on behalf of the Board:

(Signed) DAVID TUER — Director

(Signed) PIERRE ANCTIL — Director

ALTALINK, L.P.

STATEMENTS OF INCOME AND DEFICIT

(in thousands of dollars)
For the,

	Year ended April 30, 2003	Ten Months ended April 30, 2002
REVENUE		
Operating and miscellaneous revenue *[notes 6 and 8]*	**$ 151,439**	$ 524
Interest	**146**	27
Allowance for equity funds used during construction	**914**	—
	152,499	551
EXPENSES		
Operating *[note 6]*	**42,488**	2,331
Depreciation	**49,762**	152
	92,250	2,483
	60,249	(1,932)
Interest and amortization of deferred financing fees *[notes 5 and 6]*	**(31,106)**	(169)
Allowance for debt funds used during construction	**1,237**	—
Net income (loss) for the period	**30,380**	(2,101)
Retained earnings (deficit), beginning of period	**(2,101)**	—
Distributions *[note 10]*	**(29,345)**	—
Deficit, end of period	**$ (1,066)**	$ (2,101)

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

(in thousands)

	Limited Partner Units	Limited Partner	General Partner	Total
Balance at July 3, 2001	¾	$ —	$ —	$ —
Contributions by partners	342,905	342,905	34	342,939
Less: underwriting fees	—	(4,402)	—	(4,402)
	342,905	338,503	34	338,537
Net loss for the period	—	(2,101)	—	(2,101)
Balance at April 30, 2002	342,905	336,402	34	336,436
Net income for the year	—	**30,377**	**3**	**30,380**
Distributions *[note 10]*	¾	**(29,342)**	**(3)**	**(29,345)**
Balance at April 30, 2003	**342,905**	**$ 337,437**	**$ 34**	**$ 337,471**

See accompanying notes

ALTALINK, L.P.

STATEMENTS OF CASH FLOWS

(in thousand of dollars)
For the,

	Year ended April 30, 2003	Ten Months ended April 30, 2002
OPERATING ACTIVITIES		
Net income (loss) for the period	**$ 30,380**	$ (2,101)
Items not involving cash		
Depreciation and amortization of deferred financing fees	**51,814**	163
Allowance for funds used during construction	**(2,151)**	—
Change in other non-cash items *[note 15]*	**(2,790)**	—
Funds generated (used) in operations	**77,253**	(1,938)
Change in non-cash working capital items *[note 15]*	**(853)**	(756)
	76,400	(2,694)
INVESTING ACTIVITIES		
Acquisition of transmission assets *[note 3]*	**(798)**	(823,531)
Additions to capital assets	**(71,121)**	(2,148)
	(71,919)	(825,679)
FINANCING ACTIVITIES		
Capital contributions	¾	342,939
Payment of underwriting fees *[note 6]*	¾	(4,402)
Decrease in lease obligation	**(95)**	—
Distributions paid *[note 10]*	**(29,345)**	—
Increase in debt	**15,128**	506,500
Additions to deferred financing fees *[note 6]*	**(2,413)**	(4,420)
	(16,725)	840,617
Net increase (decrease) in cash and cash equivalents	**(12,244)**	12,244
Cash and cash equivalents, beginning of period	**12,244**	—
Cash and cash equivalents, end of period	**$ ¾**	**$ 12,244**

Cash interest paid during the period	**$ 28,900**	$ —

See accompanying notes

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

April 30, 2003
(in thousands of dollars)

1. NATURE OF OPERATIONS

AltaLink, L.P. (the "Partnership") was formed under the laws of the Province of Alberta on July 3, 2001, and is managed by the General Partner, AltaLink Management Ltd. (the "General Partner"). The Partnership has one limited partner, AltaLink Investments, L.P. The Partnership was formed to acquire and operate the electrical transmission assets from TransAlta Energy Corporation located in Alberta. These transmission assets were acquired on April 29, 2002. Although the General Partner holds legal title to the assets the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

The Partnership's purchase of transmission assets was partially financed by $421,500 in short term bridge loans from Ontario Teachers' Pension Plan Board, one of the Partnership's four ultimate owners, and by an $85,000 short term subordinated bridge loan from AltaLink Investments, L.P. The Partnership intends to replace the remaining bridge loans with long term third party financing. On June 5, 2003 $296,500 of the short term bridge loans was replaced with long term third party financing through the issuance of bonds of $300,000 *[note 16]*. The Partnership will continue to be dependent upon its owners for refinancing any remaining portion of the bridge facilities that are not successfully re-financed with third parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis of Accounting

The financial statements of the Partnership have been prepared by management in accordance with Canadian generally accepted accounting principles. All amounts reported are in Canadian dollars unless otherwise stated. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment the Partnership operates within often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates.

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

B) Regulation

The Partnership is regulated by the Alberta Energy and Utilities Board (AEUB), the regulator, pursuant to the *Electric Utilities Act (Alberta)* (EUA), pursuant to Part 2 of the *Public Utilities Board Act (Alberta)*, and pursuant to the *Hydro and Electric Energy Act (Alberta)*. These acts and regulations cover matters such as tariffs, rates, construction, operations, financing and accounting. Pursuant to the EUA, the transmission of all electrical energy through the interconnected electric system in the province of Alberta is administered by an independent transmission administrator.

The Partnership accounts for certain transactions in accordance with applicable regulation (regulatory accounting) when three criteria are met: the rates for services or products provided to customers are established by or are subject to approval by a regulatory body; the regulated rates are designed to recover the cost of providing the services or products; and it is reasonable to assume that rates are set at levels that will recover the cost that can be charged to and collected from customers. Under regulatory accounting, the timing of the Partnership's recognition of certain assets, liabilities, revenues and expenses may differ from that otherwise expected under Canadian generally accepted accounting principles for non-regulated businesses.

The Partnership operates under cost of service regulation as prescribed by the AEUB. Earnings are determined on the basis of rate of return on rate base. The Partnership applies for tariff revenue based on estimated costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs of service being different from that which was estimated, other than for certain prescribed costs.

Included in the revenue tariff and regulatory liabilities are reserves relating to self insurance and hearing costs, which are deferred and recorded in regulatory liabilities as the tariff is received. Actual hearing costs and self insurance are expensed as incurred and revenue is recognized in the same period, reducing the regulatory liability.

As part of the acquisition of the transmission assets a pension asset has been recognized. For rate making purposes pension expense recognition differs from that expected under Canadian generally accepted accounting principles for non-regulated businesses. In order to recognize the pension expense or income in these financial statements on the same basis as it is recovered through the rates charged to customers, a regulatory liability has been established which is equal to the pension asset recognized. This liability will be reduced or increased on the same basis as the pension asset is reduced or increased thus changing the pension expense or income under Canadian generally accepted accounting principles to the amount allowed for rate-making purposes.

For rate making purposes, a separate pension liability exists which is included in regulatory liabilities and will be increased or reduced as funding of the pension plan differs from the pension income or expense which is allowed by the regulator to be included in rates.

C) Cash and Cash Equivalents

Cash equivalents have been restricted to investments that are readily convertible into a known amount of cash and which have an original maturity of three months or less. Short-term, liquid investments with original maturities of more than three months are included in short-term investments. Short-term investments are valued at the lower of cost and market values.

D) Materials and Supplies

Materials and supplies represent spare parts held for day to day operations and construction material held for internal construction and maintenance of capital assets. Those items representing construction material for capital assets are classified as long-term assets. The assets that are held for consumption are carried at the lower of cost and replacement cost and the materials and supplies classified held for resale are valued at lower of cost and net realizable value. Cost is determined on an average cost basis, other than for major equipment which is determined on a specific item basis.

E) Capital Assets

Capital assets are carried at cost, which includes direct internal labour and allocated overheads less depreciation. The Partnership capitalizes major maintenance to capital assets. Regulated operations capitalize an allowance for funds used during construction ("AFUDC") which represents the cost of debt and equity financing incurred during construction. AFUDC is a non-cash item that will be recovered in rates charged to customers over the service life of the assets, commencing with the asset's inclusion in the rate base.

Certain assets may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are recorded as a reduction of the cost of property.

Regulated operations provide for depreciation on a straight-line basis with various rates ranging from 2.00% to 33.33% as approved by the AEUB, based on depreciation studies prepared by the Partnership. Changes to depreciation rates requested by the AEUB are accounted for on a prospective basis. Depreciation rates reflect estimated service lives. The AEUB approved rates are applied to the original historical capital costs reflected for the regulatory rate making purposes, which overall are greater than those reflected in these financial statements. As such, the effective depreciation rates under Canadian generally accepted accounting principles are usually higher.

When a regulated asset is retired or disposed of there is no gain or loss recorded in income, other than for land. Any difference between the cost of the asset and the accumulated depreciation is charged to the accumulated depreciation account for that asset. For regulatory purposes the net proceeds from the retirement or disposal of the asset adjusts the accumulated depreciation.

F) Future Site Restoration

A provision for estimated costs of future removal, dismantlement, site restoration and abandonment (net of expected recoveries) is made for certain assets. The depreciation expense for these assets includes a provision for estimated site restoration costs which is included in the liability for future removal and site restoration on the balance sheet. For regulatory purposes the provision for estimated site restoration costs is included in accumulated depreciation and is netted against capital assets. Upon the retirement of the assets, the removal and restoration costs, net of recoveries, are charged to this provision. This provision is based on engineering estimates of costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible use of the site.

G) Deferred Financing Fees

Costs incurred to arrange debt financing are capitalized as deferred financing costs and are amortized over the period in which they are expected to be recovered through rates. Deferred financing costs that are not expected to be recovered through rates are amortized on a straight line basis over the term of the related debt. The amortization of these charges is included as part of interest on debt.

H) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write-down for impairment. A goodwill impairment has occurred when the carrying value of the reporting unit exceeds its fair value. An impairment loss is recognized to the extent that the carrying amount of the goodwill of a reporting unit exceeds its fair value. In the fourth quarter of each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value.

I) Employee Future Benefits

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.

All accrued obligations for employee future benefit plans, post employment and post retirement benefits are determined using the projected benefit method prorated on services. In valuing the cost of post-retirement benefits as well as the cost of pension benefits, the Partnership uses management's best estimate assumptions, except for the discount rate, where the Partnership uses the long-term market rate of high quality debt instruments at the measurement date. Current service costs are expensed in the period. In accordance with generally accepted accounting principles, cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees receiving benefits under the plan. The Partnership uses market values to value pension assets. When the recognition of a transfer of employees and employee related benefits gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement. Under regulatory accounting principles, the expense ultimately recognized in these financial statements is that which is recognized for rate making purposes *[note 2 B]*.

J) Taxes

The Partnership is not subject to income tax. The taxable income or loss of the Partnership is allocated to the individual partners based upon their respective ownership percentage of the Partnership at year end. Similarly, individual partners are responsible for Federal large corporation tax applicable to their respective interest in the Partnership. Accordingly, no tax expense is recognized in these financial statements.

K) Foreign Currency Translation

The Partnership's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Revenues and expenses are translated at the exchange rate prevailing on the date of the transaction except for depreciation and amortization, which are translated at the exchange rate prevailing when the related assets were acquired. Gains and losses on translation are reflected in income when incurred.

L) Revenue Recognition

Revenues from rate-regulated operations are recognized on the accrual basis in accordance with rates and policies set by the regulator, and include an estimate of services provided but not yet billed.

(in thousands of dollars)

Any revenue that has been received but not yet earned is classified as other liabilities on the financial statements.

M) Deferred Lease Inducements

Deferred lease inducements represent leasehold improvements paid for by the landlord. Deferred lease inducements are amortized on a straight-line basis over the periods of the leases, and the amortization is recorded as a reduction of rent expense.

3. BUSINESS ACQUISITION

On April 29, 2002, the Partnership acquired substantially all of the electrical transmission assets and operations of TransAlta Energy Corporation located in Alberta for total cash consideration of $828,222 including acquisition costs of $9,684. This transaction was accounted for using the purchase method of accounting whereby assets acquired and liabilities assumed are recorded at fair values. The operating results were included in the financial statements from the closing date of purchase. The fair values of the net assets acquired are as follows:

Assets acquired	
Current assets	**$ 14,607**
Capital assets	**757,584**
Accrued benefit pension asset	**5,676**
Goodwill	**201,833**
Current liabilities	**(9,164)**
Accrued employment benefits liabilities	**(700)**
Long term regulatory liabilities	**(14,973)**
Provision for future removal and site restoration	**(126,641)**
Fair value of net assets acquired	**$ 828,222**

As at April 30, 2002 there was a contingent addition to rate base which was subject to regulatory approval which had not been accounted for in the acquisition of the assets and operations. Regulatory approval for the additional asset was subsequently received resulting in capital assets and goodwill increasing by $3,175 and $985 respectively and are reflected in the table above. Additional contingent items of approximately $2,369 have not been included in the purchase price as the outcome cannot be reasonably determined. These items will be recognized as part of the purchase price at the time any consideration becomes payable. There are other contingent items which could affect the amount and allocation of the purchase price, but their effect cannot be reasonably estimated or determined at this time. Any contingent consideration will be recognized as an additional business acquisition cost when resolved or when consideration becomes payable.

April 30, 2003
(in thousands of dollars)

4. CAPITAL ASSETS

2003

	Regulated Depreciation Rates %	Effective Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
Substations, transmission lines & telecontrol	**3.04 – 7.18**	**5.28-17.75**	**$ 789,728**	**$ 41,468**	**$ 748,260**
Division offices	**2.41**	**2.43**	**15,495**	**635**	**14,860**
Surface & mineral rights	**2.00**	**4.46**	**14,176**	**594**	**13,582**
Uninstalled meters & transformers	**3.53**	**1.38**	**12,249**	**390**	**11,859**
Vehicles	**8.47**	**11.25**	**5,923**	**667**	**5,256**
Capital leases	**33.33**	**33.33**	**302**	**89**	**213**
Other	**6.67 – 20.00**	**7.27-20.42**	**16,914**	**1,896**	**15,018**
Land	¾	¾	**11,158**	¾	**11,158**
Customer contributions	**4.11-5.68**	**4.37-11.80**	**(27,425)**	**(1,321)**	**(26,104)**
			838,520	**44,418**	**794,102**
Assets under construction	¾	¾	**10,450**	¾	**10,450**
	¾	¾	**$ 848,970**	**$ 44,418**	**$ 804,552**

2002

	Regulated Depreciation Rates %	Effective Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
Substations, transmission lines & telecontrol	3.04 – 7.18	5.38-27.22	$ 714,716	$ 143	$ 714,573
Division offices	2.41	3.58	6,902	1	6,901
Surface & mineral rights	2.00	4.47	14,170	2	14,168
Uninstalled meters & transformers	3.53	1.45	12,303	1	12,302
Vehicles	8.47	14.14	4,693	2	4,691
Capital leases	33.33	33.33	56	—	56
Other	6.40 – 20.00	10.72 – 24.15	6,783	6	6,777
Land	—	—	11,298	—	11,298
Customer contributions	4.11-5.68	4.75-11.8	(24,559)	(3)	(24,556)
			746,362	152	746,210
Assets under construction	—	—	12,131	—	12,131
	—	—	$ 758,493	$ 152	$ 758,341

(in thousands of dollars)

Future removal and site restoration costs of $4,088 were charged to depreciation expense during the year ended April 30, 2003 and was nil for the ten month period ended April 30, 2002. The total amount of AFUDC capitalized for the year ended April 30, 2003 was $2,151 and was nil for the ten month period ended April 30, 2002.

For rate making purposes the capital assets number included in the rate base calculation is capital assets less the provision for future removal and site restoration, assets under construction and unamortized software.

5. DEBT

	Effective Interest rate	Maturing Fiscal	2003	2002
Series 1	5.13 %	2004	**$ 296,568**	$ 296,579
Series 2	4.85 %	2004	**125,046**	125,033
Series 3	8.91 %	2013	**85,037**	85,046
Capital Lease Obligations	7.84 %	2005	**207**	51
Banker's Acceptances	3.30%	2004	**12,716**	—
Bank Overdraft	5.00%	2004	**2,412**	—
Total debt			**521,986**	506,709
Less: current portion			**421,752**	506,675
Total long term debt			**$ 100,234**	$ 34

A. Credit Facility

On May 10, 2002 the Partnership entered into a $185,000 unsecured credit agreement. In May 2003 the maturity date was extended to May 7, 2006 and may be extended for successive 364 day periods with the consent of the facility provider. The maturity extends as the revolving period of the bank facility is renewed each year. Subject to extension with the consent of the facility provider, no borrowings may be made under the credit agreement after May 7, 2004 and all amounts owing there under must be repaid by May 7, 2006. The facility may be used only for capital expenditures and general corporate purposes and cannot be drawn down for the purpose of refinancing existing indebtedness. The facility provides funding by way of prime rate loans, U.S. base rate loans, bankers' acceptances, LIBOR loans and letters of credit and prohibits the Partnership from granting security on its assets to other parties unless the same security is granted to the facility provider. As at April 30, 2003 there was $15,128 outstanding on the credit facility. The amount outstanding as at April 30, 2003 has been classified as long term debt because the Partnership has both the ability to continue rolling the Banker's Acceptances maturity date under the revolving bank credit facilities which do not mature until May 7, 2006 and the intention to extend the amounts outstanding for a period greater than one year.

B. Letters of Credit

As at April 30, 2003 and April 30, 2002, the Partnership had letters of credit to third parties outstanding totaling $15,179 and $20,900 respectively.

C. Debt Facilities

In April 2002, the Partnership issued an aggregate of $506,500 of unsecured bonds. The Series 1 Floating Rate Senior Bridge Bond, Series 2 Senior Real Return Bridge Bond and Series 3 Subordinated Bond were issued pursuant to the master trust indenture, which establishes common security and covenants. As of April 28, 2003, the Series 1 Floating Rate Senior Bridge Bond and the Series 2 Real Return Bond were extended to mature on December 31, 2003 and adjustments were made to the interest rates. As of November 1, 2002 the Series 3 Subordinated Bond was extended to mature on October 1, 2012 and the interest rate was adjusted from 9.80% to 8.0%.

Series 1

$296,500 Series 1 Floating Rate Senior Bridge Bond, due December 31, 2003. The interest rate is a floating rate set as the 90-day Banker's Acceptance Rate ("BA") (set at the beginning of each interest payment period) plus an interest margin. *[note 16]*

Series 2

$125,000 Series 2 Senior Real Return Bridge Bond, due December 31, 2003. The interest rate is a fixed rate of 6.7%.

Series 3

$85,000 Series 3 Subordinated Bond, due October 1, 2012. The interest rate is a fixed rate of 8%. The payment of the principal and interest of the Series 3 Subordinated Bond are subordinated to all senior bonds. This debt represents a refinancing of the Series 3 short term debt outstanding in the April 30, 2002 audited financial statements.

For the Series 1 and Series 2 Senior Bridge Bonds, interest is payable in arrears on August 1, 2003, November 1, 2003, and December 31, 2003. The Series 1 and Series 2 Senior Bridge Bonds can be redeemed in whole or in part at any time at a redemption price of principal plus accrued and outstanding interest. On the Series 3 Subordinated Bond interest is payable quarterly on August 1, November 1, February 1, and May 1. The Series 3 Subordinated Bond may not be redeemed while any of the Series 1 and Series 2 Senior Bridge Bonds are still outstanding unless the Series 3 Subordinated Bond is redeemed for the purpose of refinancing with other subordinated debt. The Series 3 Subordinated Bond is unsecured.

(in thousands of dollars)

D. Net Interest Expense

Interest expense on debt for the year ended April 30, 2003 was $29,054 (ten months ended April 30, 2002 - $158). During the year ended April 30, 2003 $2,052 (ten months ended April 30, 2002 - $11) of deferred financing fees had been amortized and included in interest expense. Interest expense for the twelve months ended April 30, 2003 was reduced by the allowance for debt funds used during construction which is included in capital assets of $1,237 (ten months ended April 30, 2002 – nil).

E. Principal Repayments

Fiscal	2003
2003	$ —
2004	**421,599**
2005	**100**
2006	**15,131**
2007	¾
2008 and thereafter	**85,000**
	$ 521,830

6. RELATED PARTY TRANSACTIONS

AltaLink Management Ltd.

Pursuant to the terms of the Partnership Agreement, the General Partner provides administrative and operational services to the Partnership on a cost reimbursement basis. The employees that provide the administrative and operational services are employed by the General Partner and the Partnership has indemnified the General Partner for all expenses and liabilities associated therewith. Services are invoiced and settled on a semi-monthly basis. Operating and capital expenses included $18,285 (ten months ended April 30, 2002 - $835) of salaries and benefits that have been invoiced from the General Partner for the year ended April 30, 2003 at exchange amounts. The General Partner has been granted a 0.01% interest in the Partnership in consideration for acting as General Partner. The interest granted to the General Partner in conjunction with the issuance of units that have been issued to the Limited Partner as at the period end has been valued at $34 and has been recorded as an administrative expense of the Partnership during the ten month period ended April 30, 2002. For the year ended April 30, 2003 distributions of $3 were paid.

NOTES TO FINANCIAL STATEMENTS

April 30, 2003
(in thousands of dollars)

AltaLink Investments, L.P.

Included in miscellaneous revenue is $242 (April 30, 2002 - $17) for consulting services provided to AltaLink Investments, L.P. These services have been recorded at exchange amounts. Included in interest expense is $7,571 (April 30, 2002 - $46) which relates to the Series 3 Subordinated Bridge Bond payable to AltaLink Investments, L.P *[note 5]*. For the year ended April 30, 2003 distributions of $29,342 were paid to AltaLink Investments, L.P.

SNC Lavalin Inc.

SNC Lavalin Inc., a subsidiary of SNC-Lavalin Group Inc., provided administrative and consulting services of $18 during the year ended April 30, 2003 and $356 for the ten month period ended April 30, 2002 in relation to the acquisition of the transmission assets and other operating activities. SNC-Lavalin Group Inc. is the parent of SNC-Transmission Ltd. which is a 50% owner of AltaLink Investments, L.P. Of the $356 as at April 30, 2002 the Partnership has capitalized $41 of the consulting services to assets under construction for services provided in relation to leasehold improvements and $56 which represented reimbursement of third party costs and have been recorded as acquisition costs. These services were recorded at exchange amounts.

During the twelve month period ended April 30, 2003 SNC-Lavalin ATP Inc., a subsidiary of SNC-Lavalin Group Inc., provided consulting services for the construction of capital assets totaling $52,888 (April 30, 2002 - nil). These amounts have been included in capital assets as at April 30, 2003. The Partnership received $79 (April 30, 2002 - nil) in miscellaneous revenue from SNC-Lavalin ATP Inc. during the year ended April 30, 2003. These services were recorded at exchange amounts.

On April 30, 2002 the Partnership disposed of the engineering and services operations including vehicles, tools and instruments, computer hardware and computer software that were previously acquired, to SNC Lavalin ATP, a subsidiary of SNC–Lavalin Group Inc., for $1,221. The assets sold were recorded at their re-sale value when originally acquired from TransAlta Energy Corporation. In addition, effective April 29, 2002, a pro-rata share of the pension surplus transferred from TransAlta Energy Corporation to the Partnership was sold to SNC Lavalin ATP for that amount. While the estimated amount of this surplus is $1,401, the exact value of this pro-rata share of the surplus will be determined on the date that the surplus transfer occurs, after receiving the necessary approvals from the appropriate regulatory bodies, which is expected to occur in the second quarter of fiscal 2004 *[Note 12A]*.

Nexacor Realty Management ("Nexacor"), which is a subsidiary of SNC-Lavalin Group Inc., provided management services totaling $59 during the year ended April 30, 2003 and $95 during the period ended April 30, 2002 relating to the renovation of the Partnership's offices. These amounts have been recorded as assets under construction and were recorded at exchange amounts.

Macquarie North America Ltd.

Macquarie North America Ltd., the parent of Macquarie Transmission Alberta Ltd., a 15% owner of AltaLink Investments, L.P., incurred third party costs of $119 during the ten month period ended April 30, 2002 in relation to the acquisition of the transmission assets. Macquarie North America Ltd. provided consulting services during the ten month period ended April 30, 2002 of $4,088 to the Partnership in relation to the acquisition. These costs have been invoiced to the Partnership and have been recorded as acquisition costs as at April 30, 2002. Macquarie North America Ltd. provided $100 (April 30, 2002 - $65) in consulting and financial advisory services during the year ended April 30, 2003 of which $35 (April 30, 2002 - $65) was recorded as financing fees, $21 (April 30, 2002 – nil) was recorded as capital assets, and $44 (April 30, 2002 – nil) was recorded as operating expenses. These services were recorded at exchange amounts.

Ontario Teachers' Pension Plan Board

Ontario Teachers' Pension Plan Board, the parent of OTPPB TEP Inc., a 25% owner of AltaLink Investments, L.P., incurred third party costs of $40 during the ten month period ended April 30, 2002 in relation to the acquisition of the transmission assets. These costs have been invoiced to the Partnership at exchange amounts and have been recorded as acquisition costs as at April 30, 2002. In addition the Partnership paid Ontario Teachers' Pension Plan Board $445 (April 30, 2002 - $4,093) in relation to the issuance and extension of the Series 1 Senior Bridge Bond to Ontario Teachers' Pension Plan Board during the year ended April 30, 2003. This amount has been recorded as deferred financing fees. Included in interest expense is $21,264 (April 30, 2002 - $112) for the year ended April 30, 2003 which relates to Series 1 and Series 2 Senior Bridge Bonds payable to Ontario Teachers' Pension Plan Board *[note 5]*.

Trans-Elect, Inc.

Trans-Elect, Inc., the parent of 3057246 Nova Scotia Company, a 10% owner of AltaLink Investments, L.P., provided services in relation to renovation and construction of the control center during the ten month period ended April 30, 2002. These services have been recorded as capital assets as at April 30, 2002. During the year ended April 30, 2003 there was $155 in consulting services. These services were recorded at exchange amounts.

Other

To provide part of the financing for the acquisition of the transmission assets, AltaLink Investments, L.P. provided capital in April 2002 of $331,904 in exchange for units. SNC Lavalin Inc. ($2,201), Macquarie North America Ltd. ($660), Ontario Teachers' Pension Plan Board ($1,101) and Trans-Elect, Inc. ($440) each charged the Partnership an underwriting fee in relation to the issuance of capital. The underwriting fees have been recorded as a capital cost of issuing the units to AltaLink Investments, L.P. and have therefore been deducted from partners' capital as at April 30, 2002.

(in thousands of dollars)

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

	2003	2002
AltaLink Management Ltd.	**$ ¾**	**$** (15)
AltaLink Investments, L.P.	**24**	18
SNC Lavalin Inc.	**(13,858)**	2,365
Nexacor Realty Management	¾	(95)
Macquarie North America Ltd.	¾	(65)
Ontario Teachers' Pension Plan Board	¾	(40)
Trans-Elect, Inc.	¾	(315)

In addition there is $85,037 (April 30, 2002 - $85,046) owing to AltaLink Investments, L.P. as at April 30, 2003 and there is $421,614 (April 30, 2002 - $421,612) owing to Ontario Teachers' Pension Plan Board for debt outstanding as at April 30, 2003 *[note 5]*.

7. OTHER LIABILITIES

Other long term liabilities consist of the following:

	2003	2002
Deferred lease inducement	**$ 965**	$ —
Long term incentive liability	**111**	—
	$ 1,076	**$** ¾

8. MEASUREMENT UNCERTAINTY

The Partnership's tariff revenue being received from the transmission administrator is currently being calculated on an interim tariff set by the Alberta Energy and Utilities Board ("AEUB"). The Partnership filed a general tariff application with the AEUB as of September 30, 2002 to finalize rates for the fiscal years ending April 30, 2003 and April 30, 2004. This tariff application is based on traditional cost of service methodology. It is not possible to precisely determine what the final approved tariff will be until the AEUB provides a decision on the tariff application. As a result, management has included in the Partnership's April 30, 2003 financial statements its best estimates as to the final tariff. This estimate differs in comparison to the interim refundable tariff that is currently being received. Further material adjustments may be required once the AEUB has made a determination as to the appropriate final tariff. The difference between the interim tariff received and the amount estimated is recorded as a regulatory liability or asset.

NOTES TO FINANCIAL STATEMENTS

April 30, 2003
(in thousands of dollars)

9. PARTNERS' CAPITAL

The Partnership is authorized to issue an unlimited number of units. The units are voting and participate equally in profits, losses and capital distributions of the Partnership. The General Partner is not entitled to vote and any Limited Partner who is in default of payment of the subscription price for units shall not be entitled to vote in respect of any units.

Any units issued by the Partnership must be offered to the existing Limited Partner in proportion to its interest in the Partnership.

The 0.01% interest granted to the General Partner in consideration for acting as General Partner of the Partnership does not entitle the General Partner to units of the Partnership.

10. DISTRIBUTIONS TO PARTNERS

During the year ended April 30, 2003, the Partnership made distributions of $29,345 (ten months ended April 30, 2002 – nil).

11. FUTURE INCOME TAXES

Future income tax assets and liabilities have not been recognized in these financial statements for temporary differences between the tax and accounting basis of assets and liabilities, as the Partnership is not subject to tax and no tax expense is recognized.

The net difference between the net book value and the tax base of the Partnership's assets and liabilities as at April 30, 2003 was $25,482 (April 30, 2002 - $21,981) and ($5,271) (April 30, 2002- ($51)), respectively. The difference between the net book value and the tax base of the Partnership's assets as at April 30, 2002 have been adjusted to reflect a change in the amount of capital cost allowance deductions claimed by the partners.

12. EMPLOYEE FUTURE BENEFITS

A. Description

The General Partner employs staff and provides administrative and operational services to the Partnership on a cost reimbursement basis. As part of the purchase of the transmission assets the Partnership assumed pension obligations in respect of the transmission employees. At the valuation date of April 30, 2002, pension assets to be transferred exceeded the related liabilities assumed. The pension obligation was transferred by the Partnership to the General Partner at the value of the pension surplus and the Partnership will be credited with any pension income and charged for any pension expense. The transfer resulted in a long term pension asset being established in the Partnership which will be reduced through pension expense charges or increased by pension income. Any cash funding of the pension plan by the General Partner will be reimbursed by the Partnership. The Partnership has indemnified the General Partner for all costs and liabilities associated with its employment of staff, including any pension liabilities. As such the pension is reported as if it is held by the Partnership even though the legal plan sponsor and employer of the staff is the General Partner. The pension assets will be transferred once the General Partner establishes a plan and pension regulatory approvals are received which is expected to occur in the second quarter of fiscal 2004 and in the interim TransAlta Energy Corporation continues to administer the plan *[Note 2B]*.

The General Partner intends to establish a registered pension plan with defined benefit and defined contribution options covering substantially all of the employees of the General Partner. Only those members who at the date of the acquisition were covered by the defined benefit option will be allowed to continue in that option and all other employees and any new employees will be covered under the defined contribution option. The latest actuarial valuation was done as at April 30, 2002.

Other accrued employment benefits include the health and dental coverage provided to a limited number of employees.

During the year ended April 30, 2003 the Partnership recorded regulatory pension income of $2,863 (April 30, 2002 - nil) offset by an expense of $65 (April 30, 2002 - nil) relating to post retirement benefits. The Partnership did not commence regulated operations until after the acquisition from TransAlta Energy Corporation and therefore recorded nil regulatory pension income for the ten month period ended April 30, 2002.

The current service cost recognized for the ten month period ended April 30, 2002 is $69. This amount was recognized prior to the acquisition of the regulated transmission assets from TransAlta Energy Corporation.

NOTES TO FINANCIAL STATEMENTS

April 30, 2003
(in thousands of dollars)

B. Status of plans

	2003		
	Registered	**Other**	**Total**
Fair value of plan assets	$ 6,021	$ —	$ 6,021
Accrued Benefit Obligation	3,933	654	4,587
Funded status-plan surplus (liability)	2,088	(654)	1,434
Unamortized net actuarial losses (gains)	1,159	(111)	1,048
Total recognized in financial statements	$ 3,247	$ (765)	$ 2,482
Amortization period in years (EARSL)	7	7	—

	2002		
	Registered	Other	Total
Fair value of plan assets	$ 7,696	$ —	$ 7,696
Accrued Benefit Obligation	3,420	700	4,120
Funded status-plan surplus (liability)	4,276	(700)	3,576
Total recognized in financial statements	$ 4,276	$ (700)	$ 3,576

The significant actuarial assumptions utilized in measuring the Partnership's accrued benefit obligations were as follows:

	2003	
	Registered %	**Other %**
Liability discount rate	6.75	6.75
Expected long-term rate of return on plan assets	7.0	—
Rate of compensation increase (exclusive of promotion increases)	3.5	—
Health care cost escalation	—	9.5
Dental care cost escalation	—	4.0
Provincial healthcare premium escalation	—	2.5

NOTES TO FINANCIAL STATEMENTS

April 30, 2003
(in thousands of dollars)

	2002	
	Registered %	Other %
Liability discount rate	7.0	3.75
Expected long-term rate of return on plan assets	7.0	—
Rate of compensation increase (exclusive of promotion increases)	3.5	—
Health care cost escalation	—	10.0
Dental care cost escalation	—	4.0
Provincial healthcare premium escalation	—	2.5

The health care cost escalation used as an estimate is 10.0% as at April 30, 2002 with a decrease of 0.5% per year for 10 years and 5.0% per year thereafter.

13. FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

Cash consists of amounts held in cash deposit accounts with a Canadian chartered bank. Due to the short-term nature of cash, the carrying values do not differ materially from the fair values. Cash earned an effective interest rate of 2.33% during the year ended April 30, 2003 and 1.78% during the ten month period ended April 30, 2002.

Accounts receivable, other assets, accounts payable and accrued liabilities are short term in nature and as such the carrying amounts are a reasonable estimate of the fair values of these items.

As at April 30, 2003 the fair values of the outstanding debt and interest payments of the Series 1 Floating Rate Senior Bridge Bond, Series 2 Senior Real Return Bridge Bond and the Series 3 Subordinated Bond were $296,525, $125,136 and $96,300 respectively (April 30, 2002: Series 1 - $296,579; Series 2 - $125,033; Series 3 - $85,046). Borrowings under the bank credit facility and the capital lease obligations are for short terms and are market rate based, thus carrying values approximate fair value.

b) Concentrations of credit risk

The Partnership has a concentration of credit risk as approximately 66% of its accounts receivable balance is due from the Transmission Administrator of Alberta (April 30, 2002 – 47%), 17% of the accounts receivable balance is due from TransAlta Utilities Corporation (April 30, 2002 – 27%) and 8% is due from SNC Lavalin Inc. (April 30, 2002 – 21%).

April 30, 2003
(in thousands of dollars)

14. COMMITMENTS

A) On June 1, 2002 the Partnership entered into a 10 year operating lease for premises. As at April 30, 2003 the Partnership has received a leasehold improvement allowance from the landlord in the amount of $1,114. There are additional operating leases that are for premises in Red Deer, Lethbridge and Calgary that all have a lease term of 5 years. Expected minimum lease payments in future years are as follows:

Fiscal	**2003**	2002
2003	**$ —**	$ 579
2004	**818**	632
2005	**818**	632
2006	**818**	632
2007	**818**	632
2008	**779**	676
2009 and thereafter	**3,056**	2,755
	$ 7,107	$ 6,538

B) Subject to regulatory approval from the AEUB the Partnership will complete an offering to Ontario Teachers' Pension Plan Board of $125,000 10 year senior real return bonds pursuant to a supplemental indenture under the Master Indenture at the option of Ontario Teachers' Pension Plan Board. If regulatory approval from the AEUB is given the proceeds will be used to redeem the Series 2 Senior Real Return Bridge Bonds. If regulatory approval is not granted by the AEUB to issue the Senior Real Return Bonds then the Partnership will seek regulatory approval to complete a term offering to Ontario Teachers' Pension Plan Board of $125,000 10 year fixed rate senior bonds at the option of Ontario Teachers' Pension Plan Board. The proceeds from these offerings will be used to redeem the Series 2 Senior Real Return Bridge Bonds. If regulatory approval is not obtained for either of the above then the Partnership at its sole discretion can redeem the Series 2 Senior Real Return Bridge Bonds with proceeds of any equity securities or indebtedness.

ALTALINK, L.P.

NOTES TO FINANCIAL STATEMENTS

April 30, 2003
(in thousands of dollars)

1 5. SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Items Related to Operations:

	2003	2002
Change in non-cash working capital items related to operations		
Increase in accounts receivable	**$ (8,185)**	$ (526)
Increase in materials and supplies	**(4**	—
Decrease (increase) in prepaid expenses and deposits	**1,**	(1,068)
Increase in accounts payable and accrued liabilities	**3,225**	680
Increase in other liabilities	**15**	—
Increase in regulatory liabilities	**2,**	—
Increase (decrease) in accrued interest on short term debt	**(8**	158
	$(8	$ (756)

b) Change in Other Non-Cash Items Related to Operations:

	2003	2002
Change in other non-cash items related to operations		
Decrease in accrued benefit pension asset	**$ 1,029**	$ —
Increase in accrued employment benefits liabilities	**65**	—
Increase in other liabilities	**1,076**	—
Decrease in regulatory liabilities	**(4,960)**	—
	$ (2,790)	$ —

16. SUBSEQUENT EVENTS

On June 5, 2003 the Partnership issued a senior bond of $100,000 with an interest rate of 4.45% which will mature on June 5, 2008 and a senior bond of $200,000 with an interest rate of 5.43% which will mature on June 5, 2013. The bonds proceeds were used to repay the $296,500 Series 1 Floating Rate Senior Bridge Bond.

Upon the signing of the amended and restated master trust indenture on June 5, 2003 between the Partnership, the General Partner and The Trust Company of Bank of Montreal, as trustee, the Partnership secured the obligations of the Series 1 and Series 2 Senior Bridge Bond Holders and the credit facility with a first floating charge security interest on its assets.

NOTES TO FINANCIAL STATEMENTS

April 30, 2003
(in thousands of dollars)

17. COMPARATIVE FIGURES

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