



**Notice to NOVA Shareholders of Petition to the
Court of Queen's Bench of Alberta for
Approval of an Arrangement under the *Business Corporations Act* (Alberta)**

- and -

**Notice to TransCanada Common Shareholders of Petition to the
Court of Queen's Bench of Alberta for
Approval of an Arrangement under the *Canada Business Corporations Act***

- and -

**JOINT MANAGEMENT INFORMATION CIRCULAR
WITH RESPECT TO AN
ARRANGEMENT INVOLVING**

NOVA CORPORATION

- and -

TRANSCANADA PIPELINES LIMITED

May 19, 1998

IN THE COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE OF CALGARY

IN THE MATTER OF SECTION 186 OF THE *BUSINESS CORPORATIONS ACT*,
S.A. 1981, c.B-15, AS AMENDED

IN THE MATTER OF SECTION 192 OF THE *CANADA BUSINESS CORPORATIONS ACT*,
R.S.C. 1985, c.C-44, AS AMENDED

AND IN THE MATTER OF AN ARRANGEMENT PROPOSED BY
NOVA CORPORATION, TRANSCANADA PIPELINES LIMITED AND 3399508 CANADA LTD.
INVOLVING NOVA CORPORATION AND ITS HOLDERS OF COMMON SHARES AND
PREFERRED SHARES AND TRANSCANADA PIPELINES LIMITED
AND ITS HOLDERS OF COMMON SHARES AND 3399508 CANADA LTD.

NOTICE TO NOVA SHAREHOLDERS OF PETITION

NOTICE IS HEREBY GIVEN that a petition (the "Petition") has been filed with the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court"), by NOVA Corporation ("NOVA") under section 186 of the *Business Corporations Act*, S.A. 1981, c.B-15, as amended (the "ABCA"), by TransCanada PipeLines Limited ("TransCanada") and by 3399508 Canada Ltd. ("ArrangeCo.") under section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended (the "CBCA") with respect to a proposed Arrangement (the "Arrangement") involving NOVA, its holders of Common Shares and its holders of Preferred Shares (collectively, the "NOVA Shareholders"), TransCanada and its holders of Common Shares (the "TransCanada Shareholders") and ArrangeCo., which Arrangement is described in greater detail in the Joint Management Information Circular of NOVA and TransCanada dated May 19, 1998 accompanying this Notice of Petition.

AND NOTICE IS FURTHER GIVEN that the said Petition will be heard before the presiding Chambers Justice at the Court House, 611 - 4th Street S.W., Calgary, Alberta, Canada, on the 30th day of June, 1998 at 0900 hrs. (Mountain Daylight Savings Time) or as soon thereafter as counsel may be heard.

At the hearing of the Petition, NOVA intends to seek the following:

- (i) an order approving the Arrangement pursuant to the provisions of section 186 of the ABCA (the "Final Order"); and
- (ii) such other further orders, declarations and directions as the Court may deem just.

The Final Order will constitute the basis for an exemption from certain requirements of the *Securities Act of 1933*, as amended, of the United States of America with respect to the securities of NOVA (herein referred to, upon the Arrangement becoming effective, as NOVA Chemicals) and TransCanada (herein referred to, upon the Arrangement becoming effective, as EnergyCo.) issued pursuant to the Arrangement.

Any NOVA Shareholder or other interested party desiring to support or oppose the Petition may appear and be heard at the time of hearing in person or by counsel for that purpose, provided such shareholder or other interested party files with the Court and serves upon NOVA and TransCanada on or before June 23, 1998, a Notice of Intention to Appear, together with any evidence or materials which is to be presented to the Court, setting out such shareholder's, or other interested party's, address for service in Calgary, Alberta (or alternatively, a telecopier number for service by telecopier). Service on NOVA is to be effected by delivery to the solicitors for NOVA at the address set forth below.

AND NOTICE IS FURTHER GIVEN that, at the hearing and subject to the foregoing, NOVA Shareholders, and any other interested person will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the terms and conditions of the Arrangement to such shareholders. If you do not attend, either in person or by counsel, at that time, the Court may approve or refuse to approve the Arrangement as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice.

AND NOTICE IS FURTHER GIVEN that the Court, by an Interim Order dated May 19, 1998 has given directions as to the calling and holding of the Special Meeting of the NOVA Shareholders for the purpose of such shareholders voting upon the special resolution to approve the Arrangement and, in particular, has directed that the NOVA Common Shareholders and the NOVA Preferred Shareholders shall have the right to dissent under the provisions of section 184 of the ABCA upon compliance with the terms of, and as modified by the Interim Order.

AND NOTICE IS FURTHER GIVEN that a copy of the said Petition and other documents in the proceedings will be furnished to any NOVA Shareholder or other interested party requesting the same by the undermentioned solicitors for NOVA upon written request delivered to such solicitors as follows:

Howard, Mackie
1000, 400 - 3 Avenue S.W.
Calgary, Alberta
T2P 4H2

Attention: Frank R. Foran, Q.C.

DATED at the City of Calgary, in the Province of Alberta, this 19th day of May, 1998.

NOVA Corporation

“Jack S. Mustoe”

Jack S. Mustoe
Senior Vice President and General Counsel

IN THE COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE OF CALGARY

IN THE MATTER OF SECTION 186 OF THE *BUSINESS CORPORATIONS ACT*,
S.A. 1981, c.B-15, AS AMENDED

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TRANSCANADA PIPELINES LIMITED AND 3399508 CANADA LTD.
INVOLVING NOVA CORPORATION AND ITS HOLDERS OF COMMON SHARES AND
PREFERRED SHARES AND TRANSCANADA PIPELINES LIMITED
AND ITS HOLDERS OF COMMON SHARES AND 3399508 CANADA LTD.

NOTICE TO TRANSCANADA COMMON SHAREHOLDERS OF PETITION

NOTICE IS HEREBY GIVEN that a petition (the "Petition") has been filed with the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court"), by NOVA Corporation ("NOVA") under section 186 of the *Business Corporations Act*, S.A. 1981 c.B-15, as amended (the "ABCA"), by TransCanada PipeLines Limited ("TransCanada") and by 3399508 Canada Ltd. ("ArrangeCo.") under section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended (the "CBCA"), with respect to a proposed arrangement (the "Arrangement") involving TransCanada and its holders of Common Shares (the "TransCanada Shareholders"), ArrangeCo. and NOVA Corporation ("NOVA"), and its holders of Common Shares and holders of Preferred Shares (collectively, the "NOVA Shareholders"), which Arrangement is described in greater detail in the Joint Management Information Circular of TransCanada and NOVA dated May 19, 1998 accompanying this Notice of Petition.

AND NOTICE IS FURTHER GIVEN that the said Petition will be heard before the presiding Chambers Justice at the Court House, 611 - 4th Street S.W., Calgary, Alberta, Canada, on the 30th day of June, 1998 at 0900 hrs. (Mountain Daylight Savings Time) or as soon thereafter as counsel may be heard.

At the hearing of the Petition, TransCanada intends to seek the following:

- (i) an order approving the Arrangement pursuant to the provisions of section 192 of the CBCA (the "Final Order"); and
- (ii) such other further orders, declarations and directions as the Court may deem just.

The Final Order will constitute the basis for an exemption from certain requirements of the *Securities Act of 1933*, as amended, of the United States of America with respect to the securities of TransCanada (herein referred to, upon the Arrangement becoming effective, as EnergyCo.) and NOVA (herein referred to, upon the Arrangement becoming effective, as NOVA Chemicals) issued pursuant to the Arrangement.

Any TransCanada Common Shareholder or other interested party desiring to support or oppose the Petition may appear and be heard at the time of hearing in person or by counsel for that purpose, provided such shareholder or other interested party files with the Court and serves upon TransCanada and NOVA on or before June 23, 1998, a Notice of Intention to Appear, together with any evidence or materials which is to be presented to the Court, setting out such shareholder's, or other interested party's, address for service in Calgary, Alberta (or alternatively, a telecopier number for service by telecopier). Service on TransCanada is to be effected by delivery to the solicitors for TransCanada at the address set forth below.

AND NOTICE IS FURTHER GIVEN that, at the hearing and subject to the foregoing, TransCanada Common Shareholders, and any other interested person will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the terms and conditions of the Arrangement to such shareholders. If you do not attend, either in person or by counsel, at that time, the Court may approve or refuse to approve the Arrangement as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice.

AND NOTICE IS FURTHER GIVEN that the Court, by an Interim Order dated May 19, 1998 has given directions as to the calling and holding of the Special Meeting of the TransCanada Common Shareholders for the purpose of such shareholders voting upon the special resolution to approve the Arrangement and, in particular, has directed that the TransCanada Shareholders shall have the right to dissent under the provisions of section 190 of the CBCA, as modified by the Interim Order, upon compliance with the terms of the Interim Order.

AND NOTICE IS FURTHER GIVEN that a copy of the said Petition and other documents in the proceedings will be furnished to any TransCanada Shareholder or other interested party requesting the same by the undermentioned solicitors for TransCanada upon written request delivered to such solicitors as follows:

Bennett Jones Verchere
4500 Bankers Hall East
855 - Second Street S.W.
Calgary, Alberta
T2P 4K7

Attention: A.L. Friend, Q.C.

DATED at the City of Calgary, in the Province of Alberta, this 19th day of May, 1998.

TransCanada PipeLines Limited

“Robert A.M. Young”

Robert A.M. Young, Q.C.
Senior Vice President, Law and
Chief Compliance Officer



JOINT MANAGEMENT INFORMATION CIRCULAR

This Joint Management Information Circular (hereinafter referred to as the "Joint Circular") is being furnished to holders of common shares and preferred shares of NOVA Corporation ("NOVA"), a corporation organized under the laws of Alberta, in connection with the solicitation of proxies by NOVA's management for use at the NOVA Annual and Special Meeting (the "NOVA Meeting") to be held at 1030 hrs., (Mountain Daylight Savings Time) on June 29, 1998, at the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta, Canada and any adjournment or postponement thereof.

This Joint Circular is also being furnished to holders of common shares of TransCanada PipeLines Limited ("TransCanada"), a corporation organized under the laws of Canada, in connection with the solicitation of proxies by TransCanada's management for use at the TransCanada Annual and Special Meeting (the "TransCanada Meeting") to be held at 1330 hrs., (Mountain Daylight Savings Time) on June 29, 1998, at The Westin Calgary, 320 - 4th Avenue S.W., Calgary, Alberta, Canada and any adjournment or postponement thereof.

All information in this Joint Circular relating to NOVA, NOVA Chemicals Ltd. and the chemicals business and the energy services businesses of NOVA has been supplied by NOVA, and all information relating to TransCanada and the energy services businesses of TransCanada has been supplied by TransCanada. Certain capitalized terms used in this Joint Circular without definition have the meanings ascribed thereto in the Glossary of Terms. The information contained in this Joint Circular supersedes the information contained in the Material Change Reports of NOVA and TransCanada each dated February 2, 1998 and filed with the applicable securities regulatory authorities. Unless otherwise specified the information contained herein is given as at the date hereof.

No person is authorized to give any information or to make any representation not contained in this Joint Circular and, if given or made, such information or representation should not be relied upon as having been authorized. This Joint Circular does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation of an offer or proxy solicitation. Neither delivery of this Joint Circular nor any distribution of the securities referred to in this Joint Circular shall, under any circumstances, create an implication that there has been no change in the information set forth therein since the date of this Joint Circular.

La version française du présent document est présentement en cours de traduction et nous prévoyons qu'elle sera disponible vers le 7 juin 1998. Des exemplaires de la version française seront distribués aux actionnaires qui ont demandé par le passé la version française des rapports annuels et des autres documents. Si vous n'avez pas fait une telle demande auparavant et que vous désirez recevoir un exemplaire de la version française de la présente circulaire conjointe, veuillez communiquer avec le 1-800-361-6522.

FORWARD-LOOKING INFORMATION

Certain information in this Joint Circular is forward-looking information and relates to, among other things, anticipated financial performance, business prospects, strategies, new services, market forces, commitments and technological developments. Certain of this information appears in NOVA's, NOVA Chemicals Ltd.'s and TransCanada's Management Discussion & Analysis, included in Appendices G, I and H to this Joint Circular. This forward-looking information is subject to various risks and uncertainties, including those discussed below, that could cause actual results and experience to differ materially from the anticipated results or other expectations expressed. Readers are cautioned not to place undue reliance on this forward-looking information, which is provided as of the date of this Joint Circular unless otherwise stated, and none of NOVA, NOVA Chemicals Ltd. or TransCanada undertake any obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "should" or similar words suggesting future outcomes. The following discussion is intended to identify certain factors, though not necessarily all factors, that could cause future outcomes to differ materially from those set forth in the forward-looking information.

The risks and uncertainties that may affect the operations, performance, development and results of the businesses of NOVA, NOVA Chemicals Ltd. and TransCanada include, but are not limited to, the following factors: availability and price of energy commodities; commodity chemicals and feedstock prices; regulatory decisions; competitive factors and pricing pressures; overcapacity in an industry or segment thereof; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; expected synergies arising from the Arrangement; costs relating to the Arrangement and the combination of the energy services businesses of TransCanada and NOVA; potential increases in maintenance, operating and overhead costs; uncertainties of litigation; the ability to generate adequate cash flow or finance future business requirements through outside sources; compliance with debt covenants; completion of capital or maintenance projects; the availability of adequate levels of insurance; currency and interest rate fluctuations; various events which could disrupt operations (including explosions, fires, and severe weather conditions); and management retention and development.

MANAGEMENT INFORMATION CIRCULARS

This Joint Management Information Circular forms part of and is incorporated by reference into the Management Information Circulars of NOVA and TransCanada, each dated May 19, 1998 (collectively the "Management Circulars"). The Management Circulars contain important information and should be read in conjunction with this Joint Circular. Additional copies of the appropriate Management Circular may be obtained by calling the respective companies or transfer agents, as follows:

For NOVA:

NOVA Corporation
Shareholder Relations
phone: 1-800-661-8686

CIBC Mellon Trust Company
phone: 1-800-387-0825

For TransCanada:

TransCanada PipeLines Limited
Investor Relations
phone: 1-800-361-6522

Montreal Trust Company of Canada,
Shareholder Services
phone: 1-800-558-0046

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SUMMARY

The following is a summary of certain information contained in this Joint Circular and is qualified in its entirety by and should be read in conjunction with the more detailed information appearing elsewhere in this Joint Circular. All financial information relating to the entities resulting from the merger of equals of NOVA and TransCanada and the subsequent split off of NOVA's chemicals business is pro forma information based on the pro forma financial statements of such entities contained herein. Certain capitalized terms used in this Joint Circular without definition are defined in the "Glossary of Terms" which is located immediately following this summary.

The Arrangement

General

NOVA and TransCanada have agreed, subject to the satisfaction of certain conditions precedent, to a merger of equals by way of the Arrangement pursuant to which they will merge, and then split off the commodity chemicals business formerly carried on by NOVA as a separate public company. After the Effective Date NOVA will conduct the commodity chemicals business and TransCanada, its subsidiaries and affiliates will conduct the energy services businesses. For ease of reference, NOVA is referred to in this Joint Circular as "NOVA Chemicals" when reference is made to NOVA at a time after the Effective Date (except in Appendices G and I). Also, for ease of reference, TransCanada is referred to in this Joint Circular as "EnergyCo." when reference is made to TransCanada at a time after the Effective Date. NOVA Common Shareholders and TransCanada Common Shareholders will, upon the Arrangement becoming effective, become holders of common shares of both EnergyCo. and NOVA Chemicals. NOVA Preferred Shareholders will become holders of EnergyCo. Preferred Shares.

The Arrangement will be effected by way of a court approved plan of arrangement (the "Plan of Arrangement") pursuant to an agreement (the "Arrangement Agreement") entered into between NOVA and TransCanada on January 24, 1998, as amended on May 19, 1998. NOVA Common Shareholders and NOVA Preferred Shareholders (collectively, the "NOVA Shareholders"), voting together, are being asked to approve the NOVA Special Resolution in respect of the Arrangement. TransCanada Common Shareholders are being asked to approve the TransCanada Special Resolution in respect of the Arrangement.

The Effect of the Arrangement on Shareholdings

Under the Arrangement, the following share exchanges will occur: (i) each NOVA Common Share will be exchanged for 0.52 of a TransCanada Common Share; (ii) each NOVA Preferred Share will be exchanged for 0.5 of an EnergyCo. Preferred Share; and (iii) each TransCanada Common Share (including TransCanada Common Shares acquired in exchange for NOVA Common Shares pursuant to (i) above) will be exchanged for 0.2 of a NOVA Chemicals Common Share and one EnergyCo. Common Share. The foregoing reflects a consolidation of NOVA Common Shares, whereby the number of NOVA Chemicals Common Shares issued under the Arrangement will equal one-fifth of the then outstanding TransCanada Common Shares (including the shares issued pursuant to (i) above) (the "Consolidation"). No fractional shares will be issued. Shareholders will receive cash in lieu of fractional shares. All outstanding TransCanada Preferred Shares will remain preferred shares of EnergyCo. without any amendment to their terms.

The effect of the Arrangement on the holdings of NOVA Shareholders and TransCanada Common Shareholders is illustrated below based on a shareholding immediately prior to the Arrangement of 100 shares. See "Procedures for Exchange of Securities".

Holdings Immediately Prior to the Arrangement

Holdings Immediately After the Arrangement

100 NOVA Common Shares	52 EnergyCo. Common Shares and 10 NOVA Chemicals Common Shares ⁽¹⁾⁽²⁾
100 TransCanada Common Shares	100 EnergyCo. Common Shares and 20 NOVA Chemicals Common Shares ⁽²⁾
100 NOVA Preferred Shares	50 EnergyCo. Preferred Shares ⁽³⁾

Notes:

- (1) A holder of 100 NOVA Common Shares would be entitled to 10.4 NOVA Chemicals Common Shares but will receive cash in lieu of the 0.4 NOVA Chemicals Common Share fractional amount.

- (2) No fractional NOVA Chemicals Common Shares or EnergyCo. Common Shares will be issued. In lieu of fractional shares, NOVA Common Shareholders and TransCanada Common Shareholders will receive cash. See “Procedures for Exchange of Securities — Fractional Shares”.
- (3) EnergyCo. Preferred Shares will have substantially the same terms as the NOVA Preferred Shares except that, the redemption amount attributable to EnergyCo. Preferred Shares will be \$50 rather than the \$25 redemption amount attributable to the NOVA Preferred Shares and the dividend amount per share will be adjusted proportionately. No fractional EnergyCo. Preferred Shares will be issued. In lieu of fractional shares, NOVA Preferred Shareholders will receive cash equal to the proportion such fraction represents of the \$50 redemption amount plus accumulated but undeclared dividends on such fractional portion to the Effective Date as if such shares had been issued on May 1, 1998.

Benefits of the Arrangement

The Arrangement brings together two of Canada’s largest companies with complementary energy services businesses, corporate objectives and growth strategies. TransCanada and NOVA believe that the two companies’ management, technical, operating and financial expertise will enhance EnergyCo.’s strength and depth in the energy services industry.

As part of the Arrangement, NOVA Chemicals will be split off from EnergyCo. TransCanada and NOVA believe that, as a separate, publicly traded company, NOVA Chemicals will be better positioned to further develop and implement its highly focused, commodity chemicals corporate strategy. NOVA Chemicals is also expected to be more easily analyzed and compared to its publicly-traded chemical company peers as a stand-alone entity.

For a more detailed explanation of the benefits of the Arrangement, see “Benefits of the Arrangement”.

Recommendations of the Boards of Directors

NOVA

The NOVA board of directors has unanimously concluded that the Arrangement is in the best interests of NOVA and is fair to NOVA Common Shareholders and NOVA Preferred Shareholders. **The board of directors of NOVA unanimously recommends that NOVA Common Shareholders and NOVA Preferred Shareholders vote in favour of the Arrangement.**

In reaching the foregoing conclusions, the NOVA board of directors obtained and considered financial, legal and accounting advice, and considered a number of other factors which it believed to be relevant. See “Recommendations of NOVA’s Board of Directors; Reasons for the Arrangement”.

TransCanada

The TransCanada board of directors has unanimously concluded that the Arrangement is in the best interests of TransCanada and is fair to TransCanada Common Shareholders. **The board of directors of TransCanada unanimously recommends that TransCanada Common Shareholders vote in favour of the Arrangement.**

In reaching the foregoing conclusions, the TransCanada board of directors obtained and considered financial, legal and accounting advice, and considered a number of other factors which it believed to be relevant. See “Recommendations of TransCanada’s Board of Directors; Reasons for the Arrangement”.

Opinions of Financial Advisors

RBC Dominion Securities Inc.

RBC Dominion Securities Inc. has acted as financial advisor to NOVA in connection with the Arrangement. In the opinion of RBC Dominion Securities Inc., as at the date of its written opinion and based upon the assumptions made, matters considered and limits of review set forth in its written opinion, the Arrangement is fair from a financial point of view to the NOVA Shareholders. See “Appendix F — Fairness Opinions — Opinion of RBC Dominion Securities Inc.”

Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated

Each of Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated has acted as financial advisor to TransCanada in connection with the Arrangement. In the opinion of Nesbitt Burns Inc., as at the date of its written opinion and based upon the assumptions made, matters considered and limits of review set forth in their written opinion, the Arrangement is fair from a financial point of view to the shareholders of TransCanada. See "Appendix F — Fairness Opinions — Opinion of Nesbitt Burns Inc."

In the opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated, as at the date of its written opinion and based upon the assumptions made, matters considered and limits of review set forth in its written opinion, the Exchange Ratio is fair from a financial point of view to the TransCanada Common Shareholders. See "Appendix F — Fairness Opinions — Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated".

Effective Time of the Arrangement

It is anticipated that the Arrangement will become effective after the requisite court, shareholder and regulatory approvals have been obtained and all other conditions to the Arrangement have been satisfied or waived. As at the date hereof, it is anticipated that the Arrangement will become effective on or about 1800 hrs. (Mountain Daylight Savings Time) (the "Effective Time") on the effective date of the Arrangement (the "Effective Date"), expected to be the 2nd day of July, 1998.

Stock Exchange Listings After the Effective Date

Each of the VSE, ASE, WSE, TSE and ME have conditionally approved the continued listing of the EnergyCo. Common Shares and the additional listing of EnergyCo. Preferred Shares and each of the ASE, TSE and ME have conditionally approved the continued listing of the NOVA Chemicals Common Shares, including in each case the shares to be issued in connection with the Arrangement, subject to EnergyCo. and NOVA Chemicals fulfilling all of the requirements of such stock exchanges. The NYSE has confirmed that, subject to satisfaction of applicable listing requirements, the EnergyCo. Common Shares and the NOVA Chemicals Common Shares will be listed on the NYSE, upon official notice of issuance.

The Companies After the Arrangement

EnergyCo.

Business Strategy

In recognition of the increasingly dynamic and competitive North American and global energy services sector, EnergyCo.'s strategy will be to further develop and evolve its principal lines of business. Management of each of TransCanada and NOVA believe that the following factors will provide the foundation for future growth:

1. the extensive competencies now resident within the energy services businesses of TransCanada and NOVA;
2. the extensive asset position within, or connected to, the Western Canadian Sedimentary Basin, that results from the Arrangement; and
3. the combination of the existing energy assets and expertise of TransCanada and NOVA in Latin America, the Asia-Pacific and other international regions.

EnergyCo.'s development strategy relating to its fundamental businesses will be to provide competitive, coordinated and innovative services to hydrocarbon producers and energy consumers across its principal lines of business.

Business Activities

EnergyCo. is expected to be North America's fourth largest energy services company with extensive operations in four principal lines of business: energy transmission, energy marketing, energy processing, and international energy services.

Energy Transmission

EnergyCo.'s energy transmission businesses will include the operations of NOVA Gas Transmission Ltd. ("NGTL") in Alberta, TransCanada's Canadian Mainline operations and other significant transmission operations and investments in Canada and the United States. See "EnergyCo. North American Pipeline System Map". EnergyCo. is expected to be the largest volume carrier of natural gas in North America. The energy transmission businesses will link the Western Canadian Sedimentary Basin to markets in both Canada and the United States. EnergyCo.'s pro forma net income applicable to common shares from its energy transmission businesses was approximately \$548.9 million for the year ended December 31, 1997.

Energy Marketing

EnergyCo. will continue to be one of the largest natural gas marketers in North America and will also market crude oil, refined products, natural gas liquids and electricity across North America. On a pro forma basis, EnergyCo. was the tenth largest natural gas and energy marketer in North America in 1997. EnergyCo.'s pro forma net income applicable to common shares from its energy marketing business (which excludes results from Pan-Alberta Gas Ltd. and NGC Corporation ("NGC")) was approximately \$7.6 million for the year ended December 31, 1997.

Energy Processing

EnergyCo. will own and operate natural gas and natural gas liquids gathering systems, natural gas processing and liquids extraction plants, specialty chemicals facilities and power generation facilities in Canada and the United States. These interests will include extraction straddle plants at Cochrane and Empress, Alberta, gas processing and gathering facilities in Western Canada and Louisiana, and the specialty chemicals operations of ANGUS Chemical Company and Cancarb Limited. EnergyCo.'s pro forma net income applicable to common shares from its energy processing business was approximately \$69.4 million for the year ended December 31, 1997.

International

EnergyCo. will own a wide array of energy services investments around the world. These investments will include interests in natural gas pipelines in South America, Mexico and Australia; an oil pipeline in Colombia; power generation facilities in Chile and Indonesia; marketing services in Singapore, South America and Barbados; and, consulting services and representative offices in Mexico, South America, the Asia-Pacific region and Europe. EnergyCo.'s international business had a pro forma net loss applicable to common shares of approximately \$3.7 million for the year ended December 31, 1997.

See "The Companies After the Arrangement — EnergyCo."

NOVA Chemicals

Business Strategy

NOVA Chemicals will focus on the manufacturing and marketing of commodity chemicals. NOVA Chemicals' objective will be to maintain and enhance NOVA's strong competitive position by continuing to:

1. focus on access to low-cost feedstock;
2. operate low-cost world scale facilities;
3. invest in cost effective capacity increases of existing facilities;
4. develop focused and fully competitive process and product technology; and
5. position itself to aggressively pursue focused and intelligent growth opportunities through participation in joint ventures, acquisitions and other strategic initiatives.

NOVA applies this strategy in its two commodity chemicals businesses, olefins/polyolefins and styrenics. NOVA also has an equity investment in Methanex Corporation ("Methanex"). Methanex produces methanol, another commodity chemical, using a similar focused strategy.

Business Activities

NOVA Chemicals will continue to operate NOVA's two existing commodity chemicals businesses: olefins/polyolefins and styrenics. The olefins/polyolefins business produces ethylene, polyethylene and a variety of chemical and energy products. The styrenics business produces styrene and styrenic polymers, which include solid polystyrene, expandable polystyrene, engineering resins and certain specialty polymers. NOVA Chemicals will continue to own major olefins/polyolefins production facilities at Joffre, Alberta and in the Sarnia area of Ontario as well as styrenics production facilities at: Sarnia, Ontario; Montreal, Quebec; Beaver Valley, Pennsylvania; Painesville, Ohio; Decatur, Alabama; and Springfield, Massachusetts.

NOVA Chemicals will continue to own approximately 27% of the common shares of Methanex and 26% of the common shares of NGC. Methanex is the world's largest producer and marketer of methanol, another commodity chemical, and NGC is a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom. See "The Companies After the Arrangement — NOVA Chemicals".

NOVA Chemicals' pro forma net income applicable to common shares from its businesses and investments was approximately \$225 million (which excludes a \$57 million loss representing NOVA Chemicals' share of NGC's restructuring charge) for the year ended December 31, 1997.

Dividends

EnergyCo.

It is anticipated that EnergyCo. will initially pay annual dividends on EnergyCo. Common Shares in an amount equal to \$1.12 per share commencing with a quarterly payment in respect of the third quarter of 1998. However, there can be no assurance that such dividends will be declared. The declaration and payment of dividends will be at the discretion of the board of directors of EnergyCo. which will consider earnings, capital requirements, the financial condition of EnergyCo. and other relevant factors.

NOVA Chemicals

It is anticipated that NOVA Chemicals will initially pay annual dividends on NOVA Chemicals Common Shares in an amount equal to \$0.40 per share, after giving effect to the Consolidation, commencing with a quarterly payment in respect of the third quarter of 1998. However, there can be no assurance that such dividends will be declared. The declaration and payment of dividends will be at the discretion of the board of directors of NOVA Chemicals which will consider earnings, capital requirements, the financial condition of NOVA Chemicals and other relevant factors.

NOVA and TransCanada Regular Dividends

NOVA

On May 19, 1998, NOVA declared its second quarter dividend of \$0.10 per NOVA Common Share, payable to holders of record on June 29, 1998. It is expected that such dividend will be paid on July 3, 1998. The NOVA Dividend Reinvestment and Share Purchase Plan will be suspended for the purposes of this dividend payment and will be terminated on the Effective Date. See "NOVA Dividend Reinvestment and Share Purchase Plan".

Holders of NOVA Preferred Shares will receive EnergyCo. Preferred Shares under the Arrangement. A dividend of \$0.64375 per EnergyCo. Preferred Share in respect of the period from the date of issue to July 31, 1998 will be payable upon declaration by EnergyCo. on August 15, 1998. After giving effect to the Arrangement, such dividends will be equal to the dividends that would otherwise have been payable in respect of the NOVA Preferred Shares from May 1, 1998 to July 31, 1998.

TransCanada

On May 19, 1998, TransCanada declared its second quarter dividend of \$0.31 per TransCanada Common Share, payable to holders of record on June 29, 1998. It is expected that such dividend will be paid on June 30, 1998. After the Effective Date, NOVA Shareholders will have the opportunity to participate in the EnergyCo. Dividend Reinvestment and Share Purchase Plan in respect of their EnergyCo. Common Shares and EnergyCo. Preferred Shares. See Appendix M "TransCanada Dividend Reinvestment and Share Purchase Plan".

Accounting Treatment

It is expected that the Arrangement will be accounted for using the pooling of interests method under Canadian generally accepted accounting principles.

Selected Pro Forma Consolidated Financial Information

The following selected pro forma consolidated financial information is based on the assumptions described in the respective notes to each of the EnergyCo. and NOVA Chemicals pro forma consolidated financial statements attached hereto as Appendices J and K, respectively, including the compilation reports of KPMG with respect to EnergyCo. and Ernst & Young with respect to NOVA Chemicals. The pro forma consolidated statements of income assume, among other things, the completion of the Arrangement effective on January 1, 1997, and the pro forma consolidated balance sheets assume, among other things, that the Arrangement had occurred on December 31, 1997. The pro forma statements are not necessarily indicative of what either EnergyCo.'s or NOVA Chemicals' financial position or results of operations would have been if the events reflected therein had been in effect on the dates indicated, nor do they purport to project either EnergyCo.'s or NOVA Chemicals' financial position or results of operations for any future periods. The pro forma consolidated financial information is based on certain assumptions and adjustments, including the nonrecurring expenditures relating to the Arrangement. The selected pro forma consolidated financial information should be read in conjunction with the description of the Arrangement, each of EnergyCo.'s and NOVA Chemicals' pro forma consolidated financial statements attached to this Joint Circular as Appendices J and K, respectively, and the 1997 financial statement information relating to each of NOVA, TransCanada and NOVA Chemicals Ltd. contained in Appendices G, H and I, respectively, to this Joint Circular.

Pro Forma Consolidated Statements of Income

	Year Ended December 31, 1997	
	EnergyCo.	NOVA Chemicals
	(unaudited) (millions of dollars except per share data)	
Revenues	16,807	3,360
Operating Costs and Expenses	14,960 ⁽¹⁾	3,017
Operating Income	1,847	343
Other Expenses	905	4 ⁽²⁾
Income before Income Taxes	942	339
Income Taxes	263	114
Net Income	679	225
Preferred Share Dividends and Preferred Securities Charges	58	—
Net Income Applicable to Common Shares	621	225
Net Income Per Share	\$ 1.37 ⁽¹⁾	\$2.47 ⁽²⁾
Average Shares Outstanding (millions)	454	91

Notes:

- (1) Excludes an unusual charge of \$65 million related to Pan-Alberta Gas Ltd. Net income per share after this charge would be \$1.22.
- (2) Excludes a \$57 million loss representing NOVA Chemicals' share of NGC's restructuring charge. Net income per share after this charge would be \$1.85.

Pro Forma Consolidated Balance Sheets

	December 31, 1997	
	EnergyCo.	NOVA Chemicals
	(unaudited)	
	(millions of dollars)	
Current Assets	2,331	922
Long-Term Investments	669	1,051
Property, Plant and Equipment	17,976	1,817
Other Assets	430	—
Total Assets	<u>21,406</u>	<u>3,790</u>
Current Liabilities	3,663	713
Deferred Amounts	100	346
Long-Term Debt	9,480	1,015
Non-Recourse Long-Term Debt of Joint Ventures	1,220	—
Deferred Income Taxes	258	—
Junior Subordinated Debentures	224	—
Non-Controlling Interests	96	—
Shareholders' Equity	<u>6,365</u>	<u>1,716</u>
Total Liabilities and Shareholders' Equity	<u>21,406</u>	<u>3,790</u>

Preferred Share Dividend and Asset Coverages

	Pro Forma EnergyCo. December 31, 1997	TransCanada March 31, 1998
Dividend Coverage	15.2 times	13.0 times
Net Tangible Asset Coverage;		
Before deduction of recorded deferred income taxes	9.1 times	8.7 times
After deduction of recorded deferred income taxes	8.8 times	8.2 times

See "Capitalization of EnergyCo. and NOVA Chemicals — Preferred Shares Dividend and Asset Coverages".

Key Approvals and Conditions

Court Approval

The Arrangement requires approval by the Court of Queen's Bench of Alberta (the "Court"). The Court will consider the Arrangement, insofar as TransCanada and the TransCanada Common Shareholders are concerned, under the provisions of the *Canada Business Corporations Act* (the "CBCA"), and insofar as NOVA and the NOVA Shareholders are concerned, under the provisions of the *Business Corporations Act (Alberta)* (the "ABCA"). Prior to the mailing of this Joint Circular, NOVA and TransCanada jointly obtained an interim order of the Court (the "Interim Order") providing for the calling and holding of each of the NOVA Meeting and the TransCanada Meeting and other procedural matters as such Meetings pertain to the Arrangement. Subject to approval of the Arrangement by the NOVA Shareholders and the TransCanada Common Shareholders at the NOVA Meeting and the TransCanada Meeting, respectively, the hearing in respect of the final order of the Court (the "Final Order") is scheduled to take place on June 30, 1998 at 0900 hrs. (Mountain Daylight Savings Time) in the Court. All NOVA Shareholders and TransCanada Common Shareholders and other interested parties have the right to participate in, be represented or to present evidence or arguments at the hearing in respect of the Final Order subject to serving and filing a Notice of Appearance as set out in the Notice of Petition for the Final Order and satisfying any other applicable requirements. At the hearing of the application in respect of the Final Order, the Court will consider, among other things, the fairness of the Arrangement to the NOVA Shareholders and to the TransCanada Common Shareholders. The Court may approve the Arrangement as proposed or as amended in any manner the Court may direct, subject to compliance with such

terms and conditions, if any, as the Court deems fit. In the event any amendment is not acceptable to either of NOVA or TransCanada, either party may terminate the Arrangement Agreement and its obligation to consummate the Arrangement, notwithstanding the Final Order.

Shareholder Approvals

Pursuant to the Interim Order, the Court has directed that the NOVA Common Shareholders and NOVA Preferred Shareholders, voting together, be asked to approve the NOVA Special Resolution at the NOVA Meeting and the TransCanada Common Shareholders be asked to approve the TransCanada Special Resolution at the TransCanada Meeting. Pursuant to the Interim Order, the Court has directed that the respective Meetings as they pertain to the Special Resolutions be held as follows:

NOVA Meeting: The NOVA Meeting is scheduled to be held at 1030 hrs. (Mountain Daylight Savings Time) on June 29, 1998, at the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta, Canada.

TransCanada Meeting: The TransCanada Meeting is scheduled to be held at 1330 hrs. (Mountain Daylight Savings Time) on June 29, 1998, at The Westin Calgary, 320 - 4th Avenue S.W., Calgary, Alberta, Canada.

Each Special Resolution must be approved by at least two-thirds of the votes cast at the respective Meetings, subject to further order of the Court. At the NOVA Meeting, each NOVA Common Shareholder and each NOVA Preferred Shareholder will be entitled to vote on the basis of one vote per share for the purpose of voting upon the NOVA Special Resolution. NOVA Preferred Shareholders will not be entitled to vote on annual meeting matters or other special business unrelated to the NOVA Special Resolution. At the TransCanada Meeting, each TransCanada Common Shareholder will be entitled to vote on the TransCanada Special Resolution on the basis of one vote per common share.

Regulatory Approvals

Alberta Energy and Utilities Board

NOVA and TransCanada, and affiliates of NOVA and TransCanada, have applied to the Alberta Energy and Utilities Board ("AEUB") for approval of the union of owners of gas utilities and public utilities. NOVA has also applied to the AEUB, as required under the *Gas Utilities Act* (Alberta), for approval: (i) to transfer all of NOVA's interest in NGTL to a wholly-owned subsidiary of NOVA, which will become a wholly-owned subsidiary of TransCanada pursuant to the Arrangement; and (ii) of the possible merger and consolidation of the property, franchises, privileges and rights of NGTL pursuant to the Arrangement. The order of the AEUB approving these matters was received by NOVA and TransCanada on May 19, 1998.

National Energy Board

The National Energy Board ("NEB"), which regulates certain of the activities of TransCanada's Canadian Mainline operations, has reviewed the Arrangement and has determined that no further action on the part of the NEB pursuant to the *National Energy Board Act* is required.

Competition Act

The Arrangement is a "notifiable transaction" for the purposes of Part IX of the *Competition Act* (Canada). On February 16, 1998, NOVA and TransCanada completed the submission of the required short-form pre-merger notification filing to the Director of Investigation and Research, under the *Competition Act* (Canada) (the "Competition Director") in respect of the Arrangement.

On May 15, 1998 the Competition Director advised NOVA and TransCanada that a review of the Arrangement had been completed and that the Competition Director would not challenge the Arrangement before the Competition Tribunal.

Hart-Scott-Rodino

The *Hart-Scott-Rodino Antitrust Improvements Act of 1976* (United States) provides that the Arrangement may not be consummated until proper notifications have been filed with the appropriate agencies and the applicable waiting period has expired. The proper notifications have been filed and the waiting period expired on April 5, 1998.

Federal Energy Regulatory Commission

The *Federal Power Act* (United States) provides that no public utility or power marketer shall merge or consolidate facilities or operations which are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") without the prior approval of that agency. TransCanada and NOVA submitted a joint application on February 11, 1998 and FERC issued its formal approval of the Arrangement on April 6, 1998.

Other Conditions Precedent

The Arrangement is subject to certain other conditions being satisfied including: (i) the issuance of the Tax Ruling by Revenue Canada in respect of certain Canadian federal income tax consequences of the Arrangement; and (ii) the reaffirmation at the Effective Date of the opinions of each of the auditors of NOVA and TransCanada regarding the expected use of the pooling of interest method under Canadian generally accepted accounting principles to account for the Arrangement. Revenue Canada has issued the Tax Ruling dated May 14, 1998.

Certain Income Tax Considerations

Canadian Federal Income Tax

Holders of NOVA Common Shares

The exchange by a NOVA Common Shareholder of NOVA Common Shares for TransCanada Common Shares will constitute a taxable transaction for Canadian resident holders who hold such shares as capital property, with the result that a holder may realize a capital gain or, subject to certain limitations, a capital loss on the transfer. Such holders will be considered to have disposed of their NOVA Common Shares for proceeds equal to the fair market value at the Effective Time of the TransCanada Common Shares received by the holders and to have acquired the TransCanada Common Shares at a cost equal to the fair market value of their NOVA Common Shares at the Effective Time. Since holders of NOVA Common Shares will become holders of TransCanada Common Shares, the following paragraph will also apply to such holders.

Holders of TransCanada Common Shares

On the exchange by a Canadian resident shareholder of TransCanada Common Shares (including TransCanada Common Shares acquired in exchange for NOVA Common Shares), held by the holder as capital property, for NOVA Chemicals Common Shares and EnergyCo. Common Shares, the holder will generally be deemed to have: (i) acquired the NOVA Chemicals Common Shares at a cost equal to their fair market value at the Effective Time; (ii) acquired the EnergyCo. Common Shares at a cost equal to the amount, if any, by which the holder's adjusted cost base of the TransCanada Common Shares exceeds the cost to the holder of the NOVA Chemicals Common Shares; and (iii) disposed of the TransCanada Common Shares for an amount equal to the aggregate cost to the holder of the NOVA Chemicals Common Shares and EnergyCo. Common Shares.

Holders of NOVA Preferred Shares

Canadian resident holders of NOVA Preferred Shares who hold such shares as capital property will generally be deemed not to have realized a capital gain or capital loss on the exchange of their NOVA Preferred Shares for EnergyCo. Preferred Shares unless such holder chooses to recognize and report a capital gain or a capital loss in the holder's income tax return for the taxation year in which the exchange occurs.

Non-Resident Shareholders

Holders of NOVA Common Shares, NOVA Preferred Shares and/or TransCanada Common Shares who are not resident in Canada and who participate in the Arrangement will generally not be subject to tax in respect of any capital gains realized on: (i) the exchange of NOVA Common Shares for TransCanada Common Shares, (ii) the exchange of NOVA Preferred Shares for EnergyCo. Preferred Shares, or (iii) the exchange of TransCanada Common Shares for NOVA Chemicals Common Shares and EnergyCo. Common Shares, provided that the NOVA Common Shares, the NOVA Preferred Shares and the TransCanada Common Shares (as the case may be) are not “taxable Canadian property” to the holder at the time of the transfer or exchange.

For a more detailed discussion of Canadian federal income tax consequences, see “Certain Income Tax Considerations — Canadian Federal Income Tax Considerations”.

United States Federal Income Tax

Holders of NOVA Common Shares

The exchange of NOVA Common Shares for TransCanada Common Shares will constitute a taxable exchange for United States holders of NOVA Common Shares and, consequently, such holders that hold the NOVA Common Shares as a capital asset will recognize capital gain or loss. Such holders will be considered to have disposed of their NOVA Common Shares for proceeds equal to the fair market value of the TransCanada Common Shares on the Effective Date received in the exchange and to have acquired such TransCanada Common Shares with an initial tax basis equal to their fair market value on the Effective Date and with a holding period that begins on the day after the Effective Date. Since holders of NOVA Common Shares will become holders of TransCanada Common Shares, the following paragraph will also apply to such holders.

Holders of TransCanada Common Shares

On the exchange by a United States holder of TransCanada Common Shares (including TransCanada Common Shares acquired in exchange for NOVA Common Shares) for EnergyCo. Common Shares and NOVA Chemicals Common Shares, such United States holder generally will be deemed to have (i) acquired such EnergyCo. Common Shares with an initial tax basis and holding period that are the same as the adjusted tax basis and holding period for the TransCanada Common Shares surrendered; (ii) received a taxable distribution generally equal to the fair market value of the NOVA Chemicals Common Shares on the Effective Date received by the holder, which distribution will be treated first, as dividend income in an amount equal to such holder’s pro rata share of EnergyCo.’s current and accumulated earnings and profits as of the end of 1998 (EnergyCo. intends to report to such holders in February 1999 the amount of such dividend income, which it is anticipated should be substantially less than the fair market value of the NOVA Chemicals Common Shares received) and, then, as a reduction to such holder’s tax basis in the EnergyCo. Common Shares (referred to in (i) above) to the extent that the fair market value of the NOVA Chemicals Common Shares received exceeds the amount of such dividend income, with any excess being treated as capital gain; and (iii) acquired the NOVA Chemicals Common Shares (referred to in (ii) above) generally with an initial tax basis equal to their fair market value on the Effective Date and with a holding period that begins on the day after the Effective Date.

Holders of NOVA Preferred Shares

The exchange of NOVA Preferred Shares for EnergyCo. Preferred Shares will constitute a taxable exchange for United States holders of NOVA Preferred Shares and, consequently, such holders that hold the NOVA Preferred Shares as a capital asset will recognize capital gain or loss. Such holders will be considered to have disposed of their NOVA Preferred Shares for proceeds equal to the fair market value of the EnergyCo. Preferred Shares on the Effective Date received in the exchange and to have acquired such EnergyCo. Preferred Shares with an initial tax basis equal to their fair market value on the Effective Date and with a holding period that begins on the day after the Effective Date.

For a more detailed discussion of United States federal income tax consequences, see “Certain Income Tax Considerations — United States Federal Income Tax Considerations”.

Summary of Qualification for Tax Plans

Provided the EnergyCo. Common Shares, EnergyCo. Preferred Shares and NOVA Chemicals Common Shares are listed on a prescribed stock exchange, such securities will be qualified investments under the ITA for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans. See "Stock Exchange Listings" and "Eligibility for Investment".

Investment Considerations

In addition to reviewing the entire contents of this Joint Circular, NOVA Shareholders and TransCanada Common Shareholders are asked to carefully consider the matters set forth under "Investment Considerations" contained in this Joint Circular.

Dissent Rights

NOVA

Registered NOVA Shareholders have the right to dissent in respect of the Arrangement and to be paid the fair value of their shares upon compliance with the provisions of section 184 of the ABCA, as provided in, and as modified by, the Interim Order. See "NOVA Shareholders Rights of Dissent" and Appendix D.

TransCanada

Registered TransCanada Common Shareholders, have the right to dissent in respect of the Arrangement and to be paid the fair value of their shares upon compliance with the provisions of Section 190 of the CBCA, as provided in, and as modified by, the Interim Order. See "TransCanada Common Shareholders Rights of Dissent" and Appendix E.

Procedures For Exchange of Securities

Deposit of NOVA Shares

For the NOVA Shareholders, this Joint Circular is mailed with a letter of transmittal. NOVA Shareholders should complete the letter of transmittal and deliver such letter and the certificates representing their NOVA Common Shares and NOVA Preferred Shares to Montreal Trust Company of Canada on or before 1700 hrs. (Mountain Daylight Savings Time) on Friday, June 26, 1998 in order to receive EnergyCo. Common Share certificates and/or EnergyCo. Preferred Share certificates, respectively, commencing as soon as practicable after July 9, 1998, assuming the Arrangement becomes effective. In the event the Arrangement does not become effective, such certificates will be promptly returned. NOVA Shareholders are advised to use registered mail.

Distribution of NOVA Chemicals Common Shares

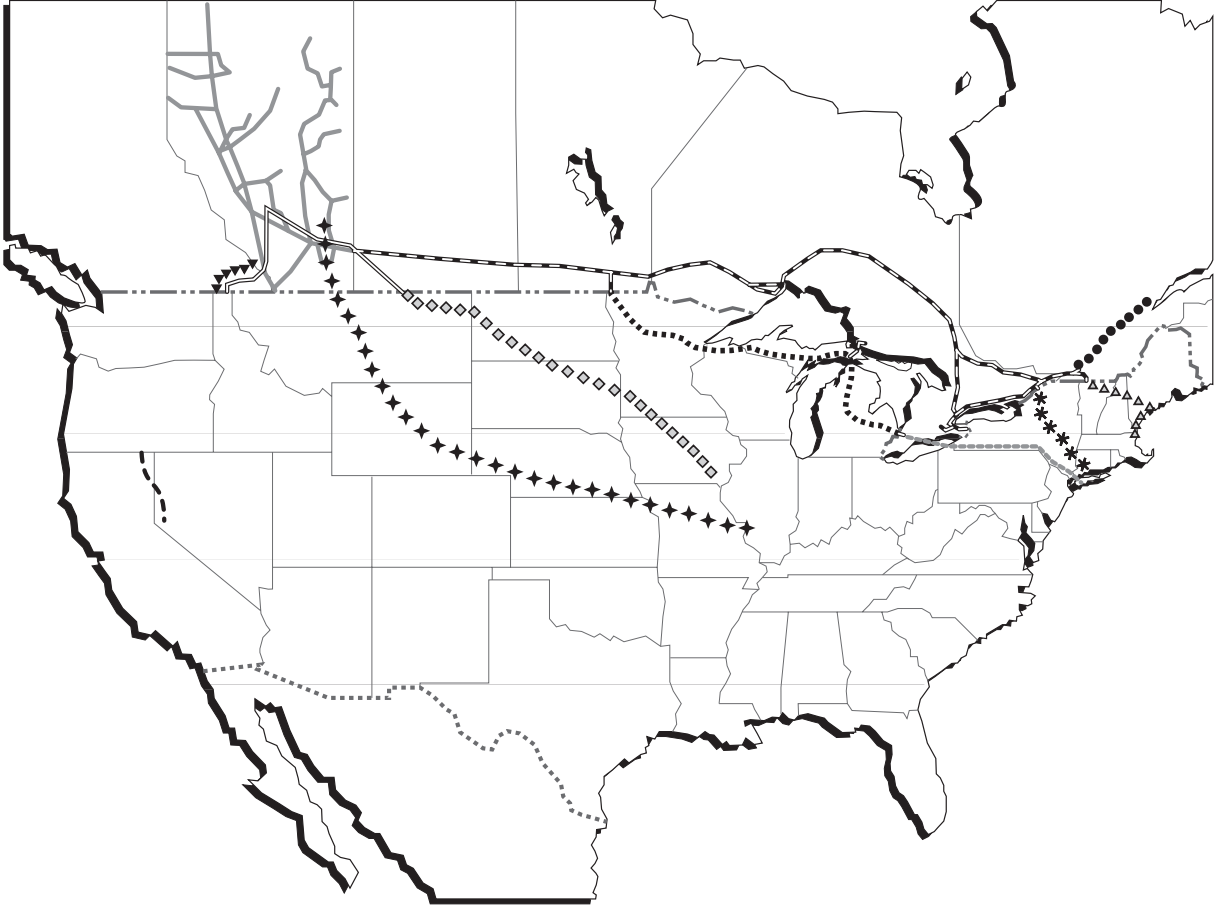
It is currently expected that all TransCanada Common Shareholders of record on July 7, 1998 (or such other date as to which shareholders will receive advance notice), including all former NOVA Common Shareholders who will become TransCanada Common Shareholders pursuant to the Arrangement, will receive certificates representing NOVA Chemicals Common Shares to which they may be entitled to assuming the Arrangement becomes effective.

EnergyCo. Common Shares

Certificates representing TransCanada Common Shares will represent EnergyCo. Common Shares upon the Arrangement becoming effective. No exchange or deposit of TransCanada Common Share certificates will be necessary.

See "Procedures For Exchange of Securities".

ENERGYCO. NORTH AMERICAN PIPELINE SYSTEM MAP



- TransCanada - Canadian Mainline
- NOVA Gas Transmission
- Great Lakes
- Trans Québec & Maritimes
- Foothills
- ◇◇◇◇ Northern Border
- * * * Iroquois
- ▼▼▼▼ ANG Pipeline
- ▲▲▲▲ Portland (under construction)
- - - - Tuscarora
- ◆◆◆◆ Express
- Millennium (under development)

GLOSSARY OF TERMS

“*ABCA*” means the *Business Corporations Act*, S.A. 1981, c.B-15, as amended.

“*AEUB*” means the Alberta Energy and Utilities Board.

“*agreed amount*” has the meaning assigned by subsection 85(1) of the ITA. Any agreed amounts that are expressly referred to in this Joint Circular are expressed in Canadian dollars.

“*arm’s length*” has the meaning assigned by section 251 of the ITA.

“*Amending Agreement*” means the agreement between NOVA and TransCanada dated May 19, 1998, which amended the Arrangement Agreement.

“*ArrangeCo.*” means 3399508 Canada Ltd., a wholly-owned subsidiary of TransCanada.

“*Arrangement*” means the arrangement in respect of TransCanada and ArrangeCo. under the provisions of section 192 of the CBCA and the arrangement in respect of NOVA under the provisions of section 186 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement.

“*Arrangement Agreement*” means the arrangement agreement dated as of January 24, 1998, as amended by the Amending Agreement between TransCanada and NOVA, copies of which are reproduced as Appendix B to this Joint Circular.

“*Articles of Arrangement*” means the articles of arrangement in respect of the Arrangement regarding TransCanada and ArrangeCo. required by the CBCA to be sent to the Director, and in respect of NOVA required by the ABCA to be sent to the Registrar, in each case, after the Final Order is made.

“*ASE*” means The Alberta Stock Exchange.

“*CBCA*” means the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended.

“*Canadian GAAP*” means generally accepted accounting principles, as recommended in the Handbook of the Canadian Institute of Chartered Accountants or, where there is no provision in the Handbook, as reflected in practice.

“*capital property*” has the meaning assigned by section 54 of the ITA.

“*Certificate of Amendment*” means a certificate of amendment issued to NOVA in respect of the Plan of Arrangement pursuant to the ABCA.

“*Certificate of Arrangement*” means the certificate of arrangement issued to TransCanada and ArrangeCo. in respect of the Plan of Arrangement pursuant to the CBCA.

“*Certificates*” means the Certificate of Amendment and Certificate of Arrangement.

“*Competition Act*” means the *Competition Act*, R.S.C. 1985, c.C-34, as amended.

“*Competition Director*” means the Director of Investigation and Research under the Competition Act.

“*Consolidation*” means the consolidation of NOVA Common Shares whereby the number of NOVA Chemicals Common Shares issued under the Arrangement will equal one-fifth of the then outstanding TransCanada Common Shares (after giving effect to the exchange of each NOVA Common Share for 0.52 of a TransCanada Common Share).

“*Court*” means the Court of Queen’s Bench of Alberta.

“*Depository*” means Montreal Trust Company of Canada, 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8 and other offices specified in the letter of transmittal.

“*Director*” means the Director appointed pursuant to section 260 of the CBCA.

“*Effective Date*” means the later of the effective dates, as applicable, indicated upon the Certificates.

“*Effective Time*” means 1800 hrs. (Mountain Daylight Savings Time) on the Effective Date.

“EnergyCo.” is the term used in this Joint Circular to describe and distinguish TransCanada, as it will be constituted immediately after the Arrangement becoming effective, from TransCanada as it is constituted immediately prior to the Arrangement. For greater certainty, “EnergyCo.” means TransCanada, as it will be constituted immediately upon the Arrangement becoming effective.

“EnergyCo. Common Shares” means the common shares in the capital of EnergyCo. to be created and issued pursuant to the Plan of Arrangement.

“EnergyCo. Preferred Shareholders” means the holders of EnergyCo. Preferred Shares.

“EnergyCo. Preferred Shares” means the TransCanada Cumulative Redeemable First Preferred Shares, Series S which will be issued to the NOVA Preferred Shareholders on the share exchange under the Arrangement.

“EnergyCo. Stock Option Plan” means the key employee stock option incentive plans of TransCanada as amended and continued by EnergyCo. on the Effective Date.

“Exchange Ratio” with respect to the NOVA Common Shares means 0.52 TransCanada Common Shares for each NOVA Common Share.

“fair market value” means the highest price available in an open and unrestricted market between informed prudent parties acting at arm’s length and under no compulsion to act.

“FERC” means the Federal Energy Regulatory Commission (United States).

“Final Order” means the order of the Court approving the Arrangement, as such order may be amended at any time prior to the Effective Time or, if appealed, then unless such appeal is withdrawn or denied, as affirmed.

“Interim Order” means an order of the Court, as the same may be amended, containing declarations and directions in respect of TransCanada and ArrangeCo. under the CBCA and in respect of NOVA under the ABCA, in each case, with respect to the Arrangement.

“IRC” means the *Internal Revenue Code of 1986* (United States), as amended.

“ITA” means the *Income Tax Act*, R.S.C. 1985 (5th Supp.) c.1, as amended.

“Joint Circular” means this Joint Management Information Circular of TransCanada and NOVA, prepared and sent to the TransCanada Common Shareholders and the NOVA Shareholders in connection with the Meetings.

“ME” means the Montreal Exchange.

“Meeting” or **“Meetings”** means the TransCanada Meeting or the NOVA Meeting, or both, as applicable.

“Methanex” means Methanex Corporation.

“NGC” means NGC Corporation.

“NGI” means NOVA Gas International Ltd., a subsidiary of NOVA.

“NGTL” means NOVA Gas Transmission Ltd., a subsidiary of NOVA.

“NOVA” means NOVA Corporation, a corporation incorporated under the ABCA.

“NOVA Chemicals” is the term used in this Joint Circular to describe and distinguish NOVA, as it will be constituted immediately after the Arrangement becoming effective, from NOVA as it is constituted immediately prior to the Arrangement. For greater certainty, “NOVA Chemicals” means NOVA as it will be constituted immediately after the Arrangement becomes effective (except in Appendices G and I).

“NOVA Chemicals Common Shares” means the NOVA Common Shares as affected by the Plan of Arrangement and which are distributed by TransCanada as part of the Plan of Arrangement.

NOVA Chemicals Ltd.” means NOVA Chemicals Ltd., a wholly owned subsidiary of NOVA.

“NOVA Common Shareholders” means the holders of NOVA Common Shares at such time.

“NOVA Common Shares” means the common shares in the capital of NOVA.

“NOVA Meeting” means the annual and special meeting of NOVA Common Shareholders (or any adjournment thereof) to be held to, among other things, consider annual and special business of NOVA and the special meeting of NOVA Common Shareholders and NOVA Preferred Shareholders to be held in conjunction therewith as required by the Interim Order, to consider and if deemed advisable, to approve the Arrangement.

“NOVA Optionholders” means holders of NOVA Stock Options as at the Effective Date.

“NOVA Preferred Shareholders” means the holders of NOVA Preferred Shares.

“NOVA Preferred Shares” means the Cumulative Redeemable First Preferred Shares, Series 1 of NOVA.

“NOVA Series 1 Preferred Shares” means the outstanding Cumulative Redeemable First Preferred Shares, Series 1 of NOVA.

“NOVA Shareholder Rights Plan” means the Shareholder Rights Plan of NOVA, as set out in the Shareholder Rights Plan Agreement dated as of May 6, 1994 between NOVA and The R-M Trust Company (now CIBC-Mellon Trust Company).

“NOVA Shareholders” means NOVA Common Shareholders and NOVA Preferred Shareholders.

“NOVA Shares” means the NOVA Common Shares and NOVA Preferred Shares.

“NOVA Special Resolution” means the special resolution of NOVA Common Shareholders and NOVA Preferred Shareholders approving the Arrangement to be considered at the NOVA Meeting, the full text of which is reproduced in Appendix A to this Joint Circular.

“NOVA Stock Option Plan” means the NOVA Corporation Employee Incentive Stock Option Plan, (1982), as amended.

“NOVA Stock Options” means the stock options granted by NOVA pursuant to the NOVA Stock Option Plan.

“NOVA Transfer Agent” means CIBC Mellon Trust Company, 600 The Dome Tower, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

“NYSE” means the New York Stock Exchange.

“paid-up capital” means “paid-up capital” as that expression is defined in subsection 89(1) of the ITA.

“Plan of Arrangement” means the plan of arrangement dated May 19, 1998 attached as part of Appendix B, including any amendments or variation thereto made in accordance with such plan or the Arrangement Agreement.

“Registrar” means the Registrar of Corporations appointed pursuant to section 253 of the ABCA.

“SEC” means the Securities and Exchange Commission of the United States.

“Securities Act of 1933” means the United States Securities Act of 1933, as amended.

“Securities Exchange Act of 1934” means the United States Securities Exchange Act of 1934, as amended.

“Special Resolution(s)” means the TransCanada Special Resolution and the NOVA Special Resolution, or both, as applicable.

“Tax Ruling” means the advance income tax rulings issued by Revenue Canada, as may be amended.

“TransCanada” means TransCanada PipeLines Limited, a corporation incorporated under the CBCA.

“TransCanada Common Shareholders” means the holders of TransCanada Common Shares.

“TransCanada Common Shares” means the common shares in the capital of TransCanada.

“TransCanada Meeting” means the annual and special meeting of TransCanada Common Shareholders (or any adjournment thereof) to be held to consider, among other things, the annual and special business of

TransCanada and, the special meeting to be held in conjunction therewith as required by the Interim Order, to consider and if deemed advisable, to approve the Arrangement.

“TransCanada Optionholders” means the holders of TransCanada Stock Options as of the Effective Date.

“TransCanada Preferred Shareholders” means the holders of the TransCanada Preferred Shares.

“TransCanada Preferred Shares” means the \$2.80 Cumulative Redeemable First Preferred Shares, the Cumulative Redeemable First Preferred Shares, Series O and Series P and the Cumulative Redeemable Retractable First Preferred Shares, Series Q and Series R of TransCanada.

“TransCanada Shareholder Rights Plan” means the Shareholder Rights Plan of TransCanada as set out in the Shareholder Rights Plan Agreement dated as of December 2, 1994 and amended and restated as of April 7, 1995 between TransCanada and Montreal Trust Company of Canada.

“TransCanada Special Resolution” means the special resolution of TransCanada Common Shareholders approving the Arrangement to be considered at the TransCanada Meeting, the full text of which is reproduced in Appendix A to this Joint Circular.

“TransCanada Stock Option Plan” means the Key Employee Stock Incentive Plan and the Key Employee Stock Incentive Plan (1995).

“TransCanada Stock Options” means the stock options granted by TransCanada pursuant to TransCanada Stock Option Plan.

“TransCanada Transfer Agent” means Montreal Trust Company of Canada, 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8.

“TSE” means The Toronto Stock Exchange.

“VSE” means the Vancouver Stock Exchange.

“WSE” means the Winnipeg Stock Exchange.

JOINT MANAGEMENT INFORMATION CIRCULAR

THE ARRANGEMENT

Capitalized terms not otherwise defined in this Joint Circular have the meanings ascribed thereto in the "Glossary of Terms" contained herein.

General

NOVA and TransCanada have agreed, subject to the satisfaction of certain conditions precedent, to a merger of equals by way of the Arrangement pursuant to which they will merge, and then split off the commodity chemicals business formerly carried on by NOVA as a separate public company. After the Effective Date, NOVA will conduct the commodity chemicals business and TransCanada, its subsidiaries and affiliates will conduct the energy services businesses. For ease of reference, NOVA is referred to in this Joint Circular as "NOVA Chemicals" when reference is made to NOVA at any time after the Effective Date (except in Appendices G and I). Also for ease of reference, TransCanada is referred to in this Joint Circular as "EnergyCo." when reference is made to TransCanada at a time after the Effective Date. NOVA Common Shareholders and TransCanada Common Shareholders will, upon the Arrangement becoming effective, become holders of common shares of both EnergyCo. and NOVA Chemicals. NOVA Preferred Shareholders will become holders of EnergyCo. Preferred Shares.

The Arrangement will be effected by way of a court approved Plan of Arrangement pursuant to the Arrangement Agreement. NOVA Common Shareholders together with NOVA Preferred Shareholders are being asked to approve the NOVA Special Resolution in respect of the Arrangement. TransCanada Common Shareholders are being asked to approve the TransCanada Special Resolution in respect of the Arrangement.

Background to the Arrangement

The North American energy services industry has recently undergone significant changes as companies position themselves in an increasingly competitive market.

On November 11, 1997, NOVA announced that it was proceeding with an internal corporate restructuring. The objective of the restructuring was to create separate public companies, representing the distinct businesses of energy services and commodity chemicals, respectively, in order to permit each to pursue independent, focused business strategies to enhance shareholder value.

Prior to NOVA's restructuring announcement, TransCanada had internally reviewed potential strategic transactions with other energy companies, including NOVA, in the normal course of pursuing its business. After reviewing NOVA's restructuring announcement, Mr. George Watson, President and Chief Executive Officer of TransCanada, approached Mr. Ted Newall, Vice Chairman and Chief Executive Officer of NOVA on November 12, 1997, to discuss a merger of equals of the two companies, and thereafter additional representatives of NOVA began meeting with representatives of TransCanada. The merger of equals proposal was believed by NOVA to be consistent with NOVA's plans to strengthen its energy services business, provide an independent focus for the commodity chemicals business, and provide greater opportunities to increase shareholder value. As a result, the merger of equals proposed by TransCanada was viewed by NOVA's management as a preferred transaction that was consistent with the objectives of its original restructuring plan.

Effective December 1, 1997, the two companies entered into a confidentiality agreement pursuant to which the parties agreed to permit each other access to certain confidential information that would be relevant to a possible merger of the two companies.

Between December 1, 1997 and January 24, 1998, the boards of directors of each of NOVA and TransCanada held a number of meetings to consider the Arrangement and to receive the advice of their respective managements, and financial, accounting and legal advisors. Each of the boards of directors of NOVA and TransCanada also retained independent legal counsel to advise them in respect of the Arrangement. Members of management of each of NOVA and TransCanada met on numerous occasions during this period to negotiate the details of the Arrangement. *Ad hoc* committees of each of the boards of directors were also formed to consider and advise upon the ongoing corporate governance matters raised by the Arrangement.

On Saturday, January 24, 1998, NOVA and TransCanada entered into the Arrangement Agreement. The Arrangement was announced in a joint press release issued prior to the opening of the financial markets on Monday, January 26, 1998.

The merger of TransCanada and NOVA and the subsequent split off of the chemicals business from the energy services businesses is expected to create: (i) the fourth largest energy services company in North America with approximately \$16.8 billion in annual revenues, \$21.4 billion in assets and an improved competitive position in North America and globally, and (ii) the fifth largest publicly traded commodity chemicals company in North America with approximately \$3.4 billion in annual revenues and \$3.8 billion in assets.

The Effect of the Arrangement on Shareholdings

Share Exchange

Under the Arrangement, the following share exchanges will occur: (i) each NOVA Common Share will be exchanged for 0.52 of a TransCanada Common Share; (ii) each NOVA Preferred Share will be exchanged for 0.5 of an EnergyCo. Preferred Share; and (iii) each TransCanada Common Share (including TransCanada Common Shares exchanged for NOVA Common Shares pursuant to (i) above) will be exchanged for 0.2 of a NOVA Chemicals Common Share and one EnergyCo. Common Share. The foregoing reflects the Consolidation. No fractional shares will be issued. Shareholders will receive cash in lieu of fractional shares. All outstanding TransCanada Preferred Shares will remain preferred shares of EnergyCo. without any amendment to their terms.

The effect of the Arrangement on the holdings of NOVA Shareholders and TransCanada Common Shareholders is illustrated below based on a shareholding immediately prior to the Arrangement of 100 shares. See “Procedures for Exchange of Securities”.

<u>Holdings Immediately Prior to the Arrangement</u>	<u>Holdings Immediately After the Arrangement</u>
100 NOVA Common Shares	52 EnergyCo. Common Shares and 10 NOVA Chemicals Common Shares ⁽¹⁾⁽²⁾
100 TransCanada Common Shares	100 EnergyCo. Common Shares and 20 NOVA Chemicals Common Shares ⁽²⁾
100 NOVA Preferred Shares	50 EnergyCo. Preferred Shares ⁽³⁾

Notes:

- (1) A holder of 100 NOVA Common Shares would be entitled to 10.4 NOVA Chemicals Common Shares but will receive cash in lieu of the 0.4 NOVA Chemicals Common Shares fractional amount.
- (2) No fractional NOVA Chemicals Common Shares or EnergyCo. Common Shares will be issued. In lieu of fractional shares, NOVA Common Shareholders and TransCanada Common Shareholders will receive cash. See “Procedures for Exchange of Securities — Fractional Shares”.
- (3) EnergyCo. Preferred Shares will have substantially the same terms as the NOVA Preferred Shares except that, the redemption amount attributable to EnergyCo. Preferred Shares shall be \$50 rather than the \$25 redemption amount attributable to the NOVA Preferred Shares and the dividend amount per share will be adjusted proportionately. No fractional EnergyCo. Preferred Shares will be issued. In lieu of fractional shares, NOVA Preferred Shareholders will receive cash equal to the proportion such fraction represents of the \$50 redemption amount plus accumulated but undeclared dividends on such fractional portion to the Effective Date as if such shares had been issued May 1, 1998.

Ownership of EnergyCo. Common Shares and NOVA Chemicals Common Shares

Immediately after the Arrangement, based on the outstanding number of securities as at April 30, 1998, the NOVA Common Shareholders and the TransCanada Common Shareholders will hold the following approximate percentages of the outstanding EnergyCo. Common Shares and NOVA Chemicals Common Shares.

<u>Shareholders Immediately Prior to the Arrangement</u>	<u>Holdings Immediately After the Arrangement</u>	
	<u>EnergyCo. Common Shares</u>	<u>NOVA Chemicals Common Shares</u>
NOVA Common Shareholders	51%	51%
TransCanada Common Shareholders	49%	49%

Regular Dividends

NOVA

On May 19, 1998, NOVA declared its second quarter dividend of \$0.10 per NOVA Common Share, payable to holders of record on June 29, 1998. It is expected that such dividend will be paid on July 3, 1998. The NOVA Dividend Reinvestment and Share Purchase Plan will be suspended for the purposes of this dividend payment and will be terminated on the Effective Date. See “NOVA Dividend Reinvestment and Share Purchase Plan”.

Holders of NOVA Preferred Shares will receive EnergyCo. Preferred Shares under the Arrangement. A dividend of \$0.64375 per EnergyCo. Preferred Share in respect of the period from the date of issue to July 31, 1998 will be payable upon declaration by EnergyCo. on August 15, 1998. After giving effect to the Arrangement, such dividends will be equal to the dividends that would otherwise have been payable in respect of the NOVA Preferred Shares from May 1, 1998 to July 31, 1998.

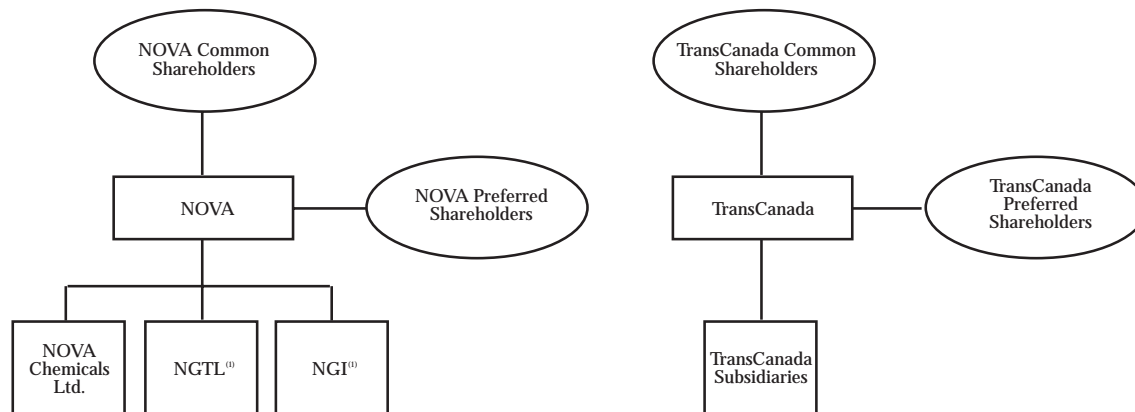
TransCanada

On May 19, 1998, TransCanada declared its second quarter dividend of \$0.31 per TransCanada Common Share, payable to holders of record on June 29, 1998. It is expected that such dividend will be paid on June 30, 1998. NOVA Shareholders will have the opportunity to participate in the EnergyCo. Dividend Reinvestment and Share Purchase Plan in respect of their EnergyCo. Common Shares and EnergyCo. Preferred Shares after the Effective Date. See Appendix M “TransCanada Dividend Reinvestment and Share Purchase Plan”.

Schematic Representations of the Arrangement Process

The following schematic representations have been simplified to illustrate the Arrangement process and are for illustrative purposes only.

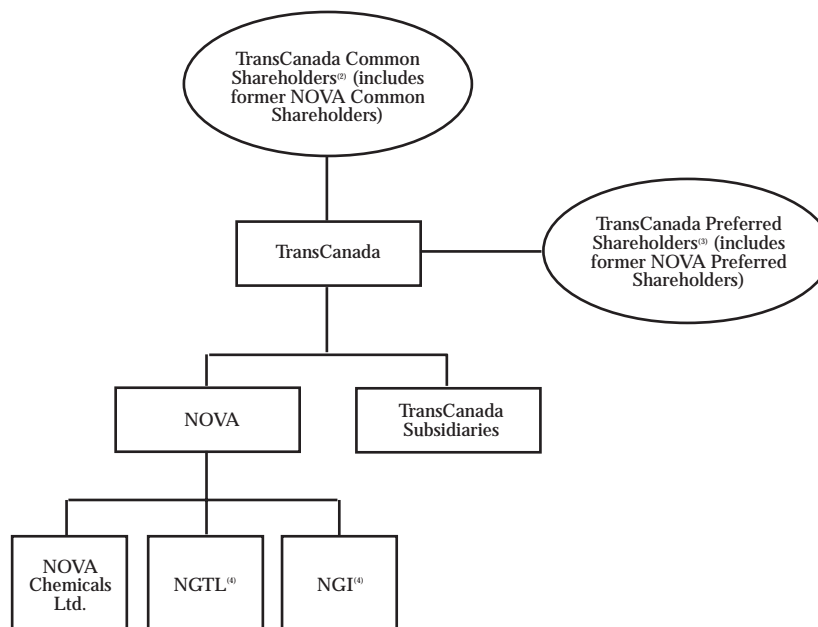
I. NOVA and TransCanada Before the Arrangement



Note:

- (1) NGTL and NGI will be indirect subsidiaries of NOVA.

II. NOVA and TransCanada as Merged Pursuant to the Arrangement⁽¹⁾

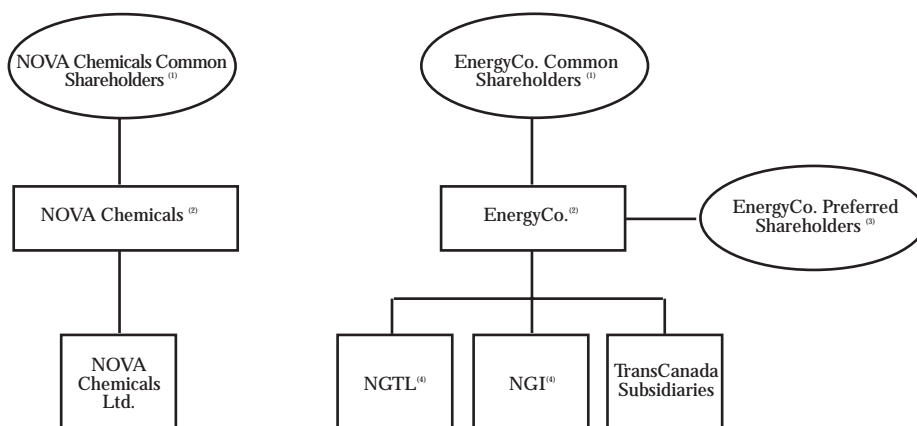


Notes:

- (1) At this step under the Plan of Arrangement, TransCanada will indirectly hold NOVA's entire interest in its energy services and chemicals businesses. At the conclusion of the Plan of Arrangement, there will be a separation of the aggregated energy services businesses of TransCanada and NOVA under EnergyCo., from the chemicals business of NOVA under NOVA Chemicals, as illustrated in Schematic III.
- (2) Each NOVA Common Share is exchanged for 0.52 of a TransCanada Common Share, hereafter referred to as EnergyCo. Common Shares.

- (3) Each NOVA Preferred Share is exchanged for 0.5 of a TransCanada Preferred Share, Series S, hereafter referred to as EnergyCo. Preferred Shares.
- (4) NGTL and NGI will be indirect subsidiaries of NOVA.

III. Split off of NOVA Chemicals from EnergyCo. Pursuant to the Arrangement — Post Arrangement Structure



Notes:

- (1) Formerly TransCanada Common Shareholders and NOVA Common Shareholders.
- (2) For ease of reference, NOVA, after the Effective Date, is referred to as “NOVA Chemicals” in this Joint Circular (except in Appendices G and I). Also, for ease of reference, TransCanada, after the Effective Date, is referred to as “EnergyCo.”, in this Joint Circular.
- (3) After the Arrangement, the holders of EnergyCo. preferred shares will consist of the TransCanada Preferred Shareholders and the former NOVA Preferred Shareholders.
- (4) NGTL and NGI will be indirect subsidiaries of EnergyCo.

BENEFITS OF THE ARRANGEMENT

NOVA and TransCanada believe that the Arrangement will result in an enhancement of shareholder value for the reasons set out below.

Energy Services

The Arrangement brings together two of Canada’s largest companies with complementary energy services businesses, corporate objectives and growth strategies. TransCanada and NOVA believe that the companies’ management, technical, operating and financial expertise will enhance EnergyCo.’s strength and depth in the energy services industry. Benefits are anticipated to be realized from the following:

Cost Synergies

Management of both companies believe that their similarities and shared competencies in natural gas transmission, gas gathering and processing, liquids processing and transportation, energy marketing and international energy services, should allow EnergyCo. to capture cost synergies from the Arrangement. The companies estimate that aggregate annual operating cost savings for the regulated and non-regulated businesses could amount to approximately \$100 million, and annual capital cost savings could amount to approximately \$50 million. It is anticipated that these savings could be fully realized within approximately three years.

The operating cost savings are anticipated to be realized primarily in areas such as corporate governance and common head office services. The capital cost savings are expected to be achieved through enhanced purchasing power, inventory efficiencies, and the ability to manage procurement and capital projects on a larger scale. That portion of cost savings realized in the regulated businesses will be shared between EnergyCo.’s shareholders and customers in accordance with regulatory requirements and existing incentive settlement

agreements. The existing incentive agreements were approved by the AEUB in the case of NGTL and by the NEB in the case of TransCanada and provide for the sharing of certain cost savings between the regulated businesses and their customers based on approved formulae. For more information on the existing incentive agreements, refer to the NOVA Annual Information Form attached in Appendix G and the TransCanada Annual Information Form attached in Appendix H.

Revenue Enhancement

Management of NOVA and TransCanada believe that EnergyCo., with an expanded asset position and financial strength greater than either company possessed individually, should have a platform for revenue enhancement in all major facets of the energy services businesses. Specifically, management of the companies believe that opportunities for increases in revenues should arise in the following areas:

- (a) Energy Transmission — The coordination of the natural gas transmission systems of NOVA and TransCanada is expected to enable the energy transmission businesses to provide more cost effective, competitive and flexible transportation services from the field to most major North American markets. In addition, the Arrangement is expected to permit alignment of both companies' pipeline capacity with a view to enabling the energy transmission businesses to be more responsive to customers' transportation needs. If successfully accomplished, these factors should serve to further enhance the economics and competitiveness of the Western Canadian Sedimentary Basin and should ultimately result in revenue enhancement for the energy transmission businesses of EnergyCo.;
- (b) Energy Marketing — Revenue enhancement in energy marketing is also expected as a result of the greater financial resources of EnergyCo. TransCanada intends to extend its commodity marketing expertise to the combined energy processing interests of EnergyCo. to further enhance EnergyCo.'s growth opportunities;
- (c) Energy Processing — The Arrangement will increase the scope of the energy processing businesses of NOVA and TransCanada principally through the combination of substantially complementary asset positions in Western Canada; and
- (d) International — The combination of the international investments of NOVA and TransCanada will result in a substantial and well diversified portfolio of assets, particularly in strategic geographic regions such as Latin America, where the two companies currently own complementary investments. The increased profile and financial resources available in the international segment are expected to enhance growth due to the number and size of projects which EnergyCo. should be able to pursue or develop, as well as to allow EnergyCo. to hold a larger interest in such projects.

Financial Resources

It is anticipated that EnergyCo. will have substantial financial resources, as indicated by the following:

- (a) Assets, Revenues and Equity — As at December 31, 1997, the unaudited pro forma assets of EnergyCo. were \$21.4 billion and shareholders' equity was \$6.4 billion. The unaudited pro forma revenues for the year ended December 31, 1997 were \$16.8 billion;
- (b) Credit Ratings — Subsequent to the Arrangement announcement, Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Services ("S&P") reaffirmed TransCanada's and NGTL's key senior unsecured debt ratings, all with a "stable" outlook with the exception of Moody's, which placed all of NGTL's ratings under review for possible upgrade. In Canada, all TransCanada and NGTL senior unsecured debt ratings remain under review by CBRS Inc. ("CBRS") and Dominion Bond Rating Service Limited ("DBRS").

Pursuant to the Plan of Arrangement, NOVA Preferred Shares will be exchanged on the basis of one NOVA Preferred Share for 0.5 of an EnergyCo. Preferred Share bearing substantially the same terms and conditions (except that the redemption amount of each EnergyCo. Preferred Share will be \$50 per share rather than the \$25 per share amount applicable to the NOVA Preferred Shares, and the dividend amount per share will be adjusted proportionately). The EnergyCo. Preferred Shares, which

will rank *pari passu* with the existing TransCanada Preferred Shares, have been assigned indicative ratings of P-2 and Pfd-2 by CBRS and DBRS respectively, representing an upgrade from the current NOVA Preferred Share ratings. Ratings of the TransCanada Preferred Shares remain under review at CBRS;

- (c) Dividends — It is anticipated that EnergyCo. will initially pay annual dividends on EnergyCo. Common Shares in an amount equal to \$1.12 per share commencing with a quarterly payment in respect of the third quarter of 1998. However, there can be no assurance that such dividends will be declared. The declaration and payment of dividends will be at the discretion of the board of directors of EnergyCo. which will consider earnings, capital requirements, the financial condition of EnergyCo. and other relevant factors. Holders of EnergyCo. Common Shares issued pursuant to the Arrangement will also be entitled to any dividends declared on NOVA Chemicals Common Shares also held. See “The Companies After the Arrangement — NOVA Chemicals — Dividends”; and
- (d) Liquidity for Holders — TransCanada and NOVA believe that the larger market capitalization of EnergyCo. created by the Arrangement should result in greater trading liquidity in the EnergyCo. Common Shares. It is also anticipated that this increased market capitalization will lead to broader investor interest, particularly from non-Canadian investors.

NOVA Chemicals

As part of the Arrangement, NOVA Chemicals will be split off from EnergyCo. TransCanada and NOVA believe that, as a separate, publicly traded company, NOVA Chemicals will be better positioned to further develop and implement its highly focused, commodity chemicals corporate strategy. NOVA Chemicals is also expected to be more easily analyzed and compared to its publicly-traded chemical company peers as a stand-alone entity.

NOVA Chemicals is expected to have a strong financial position with the resources to complete announced projects as well as to pursue other growth opportunities consistent with its business strategy. As at December 31, 1997, on an unaudited pro forma basis, NOVA Chemicals’ assets were \$3.8 billion, common shareholders’ equity was \$1.7 billion and revenues for the year ended December 31, 1997 were \$3.4 billion.

RECOMMENDATIONS, REASONS FOR AND APPROVALS RELATING TO THE ARRANGEMENT

Recommendation of NOVA’s Board of Directors; Reasons for the Arrangement

The board of directors of NOVA has unanimously determined, based on the considerations noted below, that the terms of the Arrangement are in the best interests of NOVA and are fair to NOVA Shareholders, and unanimously recommends that NOVA Shareholders vote in favour of the NOVA Special Resolution. The directors of NOVA have indicated that they intend to vote all NOVA Common Shares and NOVA Preferred Shares then held by them in favour of the NOVA Special Resolution. In reaching its conclusion, the board of directors considered, among other things, the following:

- (a) management’s review of, and advice with respect to, the financial condition, results of operations, business plans and prospects of each of NOVA and TransCanada and the prospects of EnergyCo. and NOVA Chemicals;
- (b) based on the common share exchange ratio of 0.52 provided for in the Plan of Arrangement and the weighted average trading price of \$32.00 per TransCanada Common Share on the TSE for the five days ended January 23, 1998, the value of the TransCanada Common Shares to be issued to NOVA Common Shareholders equaled \$16.64, as compared to the weighted average trading price of \$14.59 per NOVA Common Share on the TSE for the five days ended January 23, 1998;
- (c) the belief of NOVA management that consolidation in the energy services industry through a merger would create shareholder value and provide various benefits in light of current industry, economic, market and regulatory conditions. See “Benefits of the Arrangement”;
- (d) the belief of NOVA management that the split off of the chemicals business from the energy services businesses would be beneficial to NOVA Shareholders and would more definitively focus the business strategies of NOVA Chemicals and EnergyCo.;

- (e) the benefits of the Arrangement provide NOVA Common Shareholders the opportunity to realize immediate and future value believed to be greater than that available under the corporate reorganization and split transaction announced by NOVA on November 11, 1997;
- (f) that NOVA Preferred Shareholders, in becoming EnergyCo. Preferred Shareholders, would benefit from having: (i) a larger capital base; (ii) greater stability in earnings as shareholders in EnergyCo.; and (iii) an upgrade to the credit ratings indicatively assigned to the EnergyCo. Preferred Shares;
- (g) the opinion of RBC Dominion Securities Inc. that the Arrangement was fair from a financial point of view to holders of NOVA Common Shares and NOVA Preferred Shares, as of the date of such written opinion, and based upon and subject to the matters set forth therein. See “Opinions of Financial Advisors” and Appendix F — Fairness Opinions — Opinion of RBC Dominion Securities Inc.;
- (h) the prior advice of Lawrence & Company Inc. and BT Wolfensohn, a division of BT Securities Corporation, in respect of various financial matters;
- (i) an accounting opinion of Ernst & Young, which confirmed the appropriateness of the pooling of interests method of accounting for the Arrangement under Canadian GAAP based on the assumptions described in such opinion;
- (j) that the Arrangement must be approved by a special resolution passed by not less than two-thirds of the votes cast at the NOVA Meeting by NOVA Shareholders, and by the Court which, NOVA is advised, will consider, among other things, the fairness of the Arrangement to the NOVA Shareholders; and
- (k) the fact that the Arrangement includes provisions which will permit NOVA Shareholders who are opposed to the Arrangement to, upon compliance with certain conditions, dissent from the approval of the NOVA Special Resolution in accordance with the Interim Order and be paid the fair value of their NOVA Common Shares or NOVA Preferred Shares as provided therein.

Recommendation of TransCanada’s Board of Directors; Reasons for the Arrangement

The board of directors of TransCanada has unanimously determined, based on the considerations noted below, that the terms of the Arrangement are in the best interests of TransCanada and are fair to TransCanada Common Shareholders, and unanimously recommends that TransCanada Common Shareholders vote in favour of the TransCanada Special Resolution. The directors of TransCanada have indicated that they intend to vote all TransCanada Common Shares then held by them in favour of the TransCanada Special Resolution. In reaching its conclusion, the board of directors considered, among other things, the following:

- (a) management’s review of, and advice with respect to, the financial condition, results of operations, business plans and prospects of each of TransCanada and NOVA and the prospects of EnergyCo. and NOVA Chemicals, and the advice of Merrill Lynch, Pierce, Fenner & Smith Incorporated in respect of NOVA’s chemicals business;
- (b) the belief of TransCanada management that consolidation in the energy services industry through a merger would increase shareholder value and provide various benefits in light of current industry, economic, market and regulatory conditions. See “The Arrangement — Benefits of the Arrangement”;
- (c) the belief of TransCanada management that the split off of the chemicals business from the energy services businesses would be beneficial to TransCanada Common Shareholders and would more definitively focus the business strategies of NOVA Chemicals and EnergyCo.;
- (d) the opinion of Nesbitt Burns Inc. that the Arrangement was fair from a financial point of view to shareholders of TransCanada and the opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated that the Exchange Ratio was fair from a financial point of view to the holders of TransCanada Common Shares as of the date of such written opinions, and based upon the assumptions made, matters considered and limits of review set forth therein. See “Opinions of Financial Advisors” and Appendix F — Fairness Opinions — Opinion of Nesbitt Burns Inc.; Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated;

- (e) an accounting opinion of KPMG which confirmed the appropriateness of the pooling of interests method of accounting for the Arrangement under Canadian GAAP based on assumptions described in such opinion;
- (f) that the Arrangement must be approved by a special resolution passed by not less than two-thirds of the votes cast at the TransCanada Meeting by holders of TransCanada Common Shares, and by the Court which, TransCanada is advised, will consider, among other things, the fairness of the Arrangement to the TransCanada Common Shareholders; and
- (g) the fact that the Arrangement includes provisions which will permit holders of TransCanada Common Shares who are opposed to the Arrangement to, upon compliance with certain conditions, dissent from the approval of the TransCanada Special Resolution in accordance with the Interim Order and be paid the fair value of their TransCanada Common Shares as provided therein.

Opinions of Financial Advisors

Opinion of RBC Dominion Securities Inc.

The board of directors of NOVA retained RBC Dominion Securities Inc. on December 4, 1997 as its financial advisor in connection with the Arrangement. With respect to such engagement, NOVA requested RBC Dominion Securities Inc. to render an opinion as to whether or not the Arrangement is fair, from a financial point of view, to the NOVA Shareholders.

In connection with the NOVA board of directors' consideration of the Arrangement, RBC Dominion Securities Inc. delivered its written opinion, to the effect that, as of January 24, 1998, and based on its review and assumptions and subject to the limitations summarized therein, the Arrangement is fair, from a financial point of view, to the NOVA Shareholders.

On May 19, 1998, RBC Dominion Securities Inc. re-confirmed its opinion to the board of directors of NOVA. The full text of the opinion of RBC Dominion Securities Inc. dated May 19, 1998 (the "RBCDS Opinion"), which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached and contained in Appendix F — Fairness Opinions — Opinion of RBC Dominion Securities Inc. NOVA Shareholders are urged to read the RBCDS Opinion carefully in its entirety. This summary of the RBCDS Opinion is qualified in its entirety by reference to the full text of such opinion. The RBCDS Opinion and the January 24, 1998 version thereof were prepared at the request and for the information of the board of directors of NOVA and do not constitute a recommendation to any holder of NOVA Shares as to how any such shareholders should vote with respect to the Arrangement.

In arriving at its opinion, RBC Dominion Securities Inc. reviewed, among other things: (i) the Arrangement Agreement and Plan of Arrangement; (ii) certain publicly available business and financial information with respect to each of TransCanada and NOVA; (iii) budgets and financial forecasts prepared by management; and (iv) financial and stock market data relating to TransCanada, NOVA and other selected relevant publicly traded companies. RBC Dominion Securities Inc. also met with the management, auditors and legal counsel of both companies, and with the financial advisors to TransCanada. In addition, RBC Dominion Securities Inc. reviewed certain publicly available business and financial information with respect to the energy services and chemicals industries, publicly available financial terms of certain other business combinations, and such other information as RBC Dominion Securities Inc. considered relevant under the circumstances of the Arrangement.

RBC Dominion Securities Inc. will receive fees for their services in connection with the Arrangement, portions of which are contingent upon the consummation of the Arrangement. RBC Dominion Securities Inc. has, in the past, provided and may, in the future, in the ordinary course of its business, perform financial advisory or investment banking and other related services for NOVA, TransCanada or any of their respective associates or affiliates and RBC Dominion Securities Inc. has and will receive customary fees for such services. In the ordinary course of business, RBC Dominion Securities Inc. or its affiliates may trade in the debt and equity securities of both NOVA and TransCanada and the debt securities of their subsidiaries for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Opinions of Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated

The board of directors of TransCanada retained Nesbitt Burns Inc. on December 1, 1997 and Merrill Lynch, Pierce, Fenner & Smith Incorporated on January 5, 1998 to provide financial and strategic advice in connection with the Arrangement. In the opinion of Nesbitt Burns Inc. as at January 24, 1998, the date of their written opinion, and based upon the assumptions made, matters considered and limits of review set forth in their written opinion, the Arrangement is fair from a financial point of view to the TransCanada Common Shareholders. In the opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated, as at January 24, 1998, the date of its written opinion, and based upon the assumptions made, matters considered and limits of review set forth in its written opinion, the Exchange Ratio is fair from a financial point of view to the TransCanada Common Shareholders.

On May 19, 1998, each of Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, re-confirmed their opinions to the board of directors of TransCanada. The full text of the written opinions of each of Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated dated May 19, 1998, each of which sets forth the assumptions made, matters considered and limitations on the review undertaken, are attached to this Joint Circular and contained in Appendix F, respectively. The summaries of each of the Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated opinions set forth in this Joint Circular are qualified in their entirety by reference to the full text of each such opinion. The opinions of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Nesbitt Burns Inc. are for the use and benefit of the board of directors of TransCanada and do not address the merits of the underlying decision by TransCanada to engage in the Arrangement and do not constitute a recommendation to any shareholders of TransCanada as to how such shareholders should vote on the Arrangement or any matter related thereto.

In arriving at their opinions, Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated each reviewed, with respect to TransCanada and NOVA, certain publicly available business and financial information, financial forecasts, financial and stock market data, the financial terms of certain other business combinations and other information and met with management of both companies.

Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated will receive fees for their services in connection with the Arrangement, portions of each of which are contingent upon the consummation of the Arrangement. In the past, Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated have each provided financial advisory and financing services to TransCanada and NOVA, and in the future, may provide such services to TransCanada, NOVA, EnergyCo. and NOVA Chemicals. Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated have and may receive customary fees for such services. In the ordinary course of business, each of Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or their affiliates may actively trade in the debt and equity securities of both NOVA and TransCanada, and the debt securities of their subsidiaries for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

The Arrangement Agreement

NOVA and TransCanada have agreed to the Arrangement and have entered into the Arrangement Agreement as of January 24, 1998 in this respect. On May 19, 1998, the Arrangement Agreement and the Plan of Arrangement were amended, in certain technical respects, in order to give greater effect to the intent of the parties. Under the Arrangement Agreement, each party has agreed, through its respective board of directors, to unanimously recommend that its shareholders approve the Arrangement and to use all reasonable efforts to secure all required approvals. Certain terms of the Arrangement Agreement are summarized below. The summary below is qualified in its entirety by the text of the Arrangement Agreement which is contained in Appendix B to this Joint Circular.

In the Arrangement Agreement, each of NOVA and TransCanada provided mutual representations and warranties regarding certain customary commercial matters, including corporate, legal and other matters relating to their respective affairs. Each of NOVA and TransCanada also agreed that until the Effective Date, it would (and would cause each of its subsidiaries to) carry on business in the ordinary course and use its reasonable best efforts to preserve intact its business and goodwill.

Pursuant to the Arrangement Agreement, until the Effective Date, each party has agreed, subject to certain exceptions, not to solicit offers relating to the acquisition or disposition of its common shares or any sale of all or a significant part of its assets or any reorganization or other similar transaction involving such party or any of its subsidiaries (subject to limited exceptions relating to each of the respective board of directors' fiduciary obligations).

NOVA and TransCanada agreed that in connection with the Arrangement, the assets and liabilities of NOVA will be allocated between its energy services businesses and its chemicals business. The parties agreed to take such steps as necessary to ensure that EnergyCo. would own directly or indirectly all rights and assets primarily used and associated with NOVA's energy services businesses as disclosed between the parties. EnergyCo. is to assume all of the liabilities relating to such businesses, whether known or unknown, contingent or otherwise and has agreed to indemnify NOVA Chemicals in respect of the liabilities of NOVA's energy services businesses. The parties also agreed that NOVA Chemicals would own, directly or indirectly, all rights and assets primarily used and associated with NOVA's chemicals business (which, for greater certainty, includes the investments in Methanex and NGC) and remain liable for all of the liabilities relating to the chemicals business, whether known or unknown, contingent or otherwise. NOVA Chemicals has agreed to indemnify EnergyCo. in respect of the liabilities of NOVA's chemical business. Any assets or liabilities which are not otherwise allocated or cannot reasonably be attributed to either business are to be allocated between EnergyCo. and NOVA Chemicals on the basis of their respective pro forma book values, being 85% for EnergyCo. and 15% for NOVA Chemicals of such assets and liabilities.

TransCanada also agreed that it would use commercially reasonable efforts to release NOVA Chemicals or its subsidiaries from guarantees that NOVA has provided with respect to its energy services businesses. NOVA has agreed to use commercially reasonable efforts to release its energy services business subsidiaries from guarantees, if any, that such subsidiaries may have provided in respect of NOVA's chemicals business. Under the Arrangement Agreement, NOVA and TransCanada have also agreed, subject to the priorities set out therein, to jointly indemnify officers and directors of NOVA and TransCanada, in certain circumstances.

Each of NOVA and TransCanada currently has in place a shareholder rights plan. NOVA and TransCanada have covenanted and represented that their respective boards of directors will take the necessary action to ensure that the respective shareholder rights plans will not be triggered by the Arrangement. In approving the NOVA Special Resolution, NOVA Shareholders will be taking such action. See "The Companies After the Arrangement — NOVA Chemicals — NOVA Chemicals Shareholder Rights Plan".

The obligations of each party to complete the transactions contemplated in the Arrangement Agreement are subject to the fulfilment, or waiver by one or both of NOVA and TransCanada, as the case may be, on or before the Effective Date of certain conditions, including the following: (i) receipt of certain regulatory approvals required for the completion of the Arrangement; (ii) approval of the respective Special Resolutions as required by the Court; (iii) receipt of the Final Order in form and substance satisfactory to the parties; (iv) receipt of a satisfactory Tax Ruling; (v) reaffirmation by the auditors of each party of opinions relating to the accounting treatment of the Arrangement; (vi) holders of not more than 5% of the common shares of either company exercising rights of dissent; (vii) the Arrangement Agreement not having been terminated; (viii) each party performing each of its obligations and each representation and warranty being true except for such breaches which individually or in the aggregate would not materially adversely affect the other party or materially impede the completion of the Arrangement; and (ix) there being no change which will have a material adverse effect for either party (other than changes which affect the industry of the parties generally).

Each party has agreed that it would immediately pay the other party \$175 million as liquidated damages if: (i) the board of directors of the applicable party has withdrawn or changed its recommendation in respect of the Arrangement in a manner adverse to the other party; (ii) a *bona fide* proposal superior to the Arrangement, determined in accordance with the Arrangement Agreement, is publicly announced and shareholders of the target company do not approve the Arrangement or the Arrangement is not submitted to shareholders for approval; or (iii) a party breaches its representations or covenants, which breach individually or in the aggregate would have a material adverse effect on the other party or materially impede the Arrangement (each a "Damages Event").

The Arrangement Agreement may be terminated, subject to certain conditions, by a party in certain circumstances, including: (i) the occurrence of a Damages Event, provided that in the case of the board of directors of the other party modifying or withdrawing its recommendation of the Arrangement to its shareholders, its shareholders do not approve its Special Resolution or such Special Resolution is not submitted to its shareholders; and (ii) if the conditions precedent in favour of that party are not satisfied.

Arrangement Steps

The Arrangement is to be effected by a number of inter-related steps, none of which will be effective unless and until all are effective. A complete description of the steps required to effect the Arrangement is set forth in the Plan of Arrangement annexed as Exhibit A to the Amending Agreement. See Appendix B. In connection with the entering into of the Arrangement Agreement, the parties effected certain pre-arrangement transactions which crystallized the values of the energy services businesses of NOVA. In connection with the closing of the Arrangement, certain additional transactions will be entered into to prepare for the split off of the chemicals business of NOVA as contemplated in the Arrangement.

The following are the principal steps required to effect the Arrangement:

1. Each NOVA Common Share will be directly transferred to ArrangeCo., a wholly-owned subsidiary of TransCanada. ArrangeCo. will issue shares to TransCanada and, in exchange, TransCanada will issue TransCanada Common Shares to the NOVA Common Shareholders. The NOVA Common Shareholders will receive 0.52 of a TransCanada Common Share for each NOVA Common Share held at the Effective Time;
2. Each NOVA Preferred Share will be transferred to TransCanada in exchange for EnergyCo. Preferred Shares having substantially similar terms and conditions, except that the redemption amount attributable to the EnergyCo. Preferred Shares will be \$50 per share instead of the \$25 per share redemption amount currently applicable to the NOVA Preferred Shares and the dividend amount per share will be adjusted proportionately. Correspondingly, the NOVA Preferred Shareholders will receive 0.5 of an EnergyCo. Preferred Share for each NOVA Preferred Share held at the Effective Time;
3. The NOVA Preferred Shares then held by TransCanada will be transferred to ArrangeCo. in exchange for additional common shares of ArrangeCo. Then, ArrangeCo. will transfer the NOVA Preferred Shares to NOVA for cancellation in exchange for the issuance of additional NOVA Common Shares;
4. ArrangeCo. will be wound-up under the provisions of the CBCA and all right, title and interest in the NOVA Common Shares will be transferred to TransCanada. TransCanada will momentarily hold all of the outstanding NOVA Common Shares;
5. NOVA will undertake a number of transactions in conjunction with TransCanada, the effect of which will be to indirectly transfer to EnergyCo. the shares of those subsidiaries of NOVA which conduct NOVA's energy services businesses. TransCanada will subscribe for NOVA Common Shares for cash for the purposes of, among other things, apportioning certain costs of the Arrangement between TransCanada and NOVA;
6. NOVA's corporate articles will be amended to reflect the Consolidation;
7. TransCanada's corporate articles will be amended to create a new class of shares, the EnergyCo. Common Shares, with attributes identical, in all material respects, to the existing TransCanada Common Shares; and
8. TransCanada Common Shares will be cancelled in exchange for EnergyCo. Common Shares and NOVA Chemicals Common Shares on the basis of one EnergyCo. Common Share and 0.2 of a NOVA Chemicals Common Share for each TransCanada Common Share then held. No certificates representing fractional NOVA Chemicals Common Shares or EnergyCo. Common Shares will be issued. In lieu thereof, each person entitled to a fractional interest in a NOVA Chemicals Common Share or EnergyCo. Common Share will receive cash.

Procedures for the exchange of NOVA Common Shares and NOVA Preferred Shares and details regarding the distribution of NOVA Chemicals Common Shares are set out in "Procedures for Exchange of Securities".

KEY APPROVALS

Court Approval

The Arrangement involving the merger of NOVA and TransCanada under the ABCA and the CBCA, respectively, requires approval by both the Court and the shareholders as specified in the Interim Order. Prior to the mailing of this Joint Circular, NOVA and TransCanada obtained the Interim Order providing for the calling and holding of the NOVA Meeting and the TransCanada Meeting and other procedural matters as such Meetings pertain to the Special Resolutions. A copy of the Interim Order is attached as Appendix C. The Notices of Petition of NOVA and TransCanada for the Final Order appear at the front of this Joint Circular.

Subject to the approval of the Arrangement by the NOVA Shareholders and the holding of the meeting of the TransCanada Common Shareholders, the hearing in respect of the Final Order is scheduled to take place on June 30, 1998 at 0900 hrs. (Mountain Daylight Savings Time) in the Court at the Court House, 611 - 4th Street S.W., Calgary, Alberta, Canada. All NOVA Shareholders, TransCanada Common Shareholders and other interested parties who wish to participate in or be represented or to present evidence or arguments at the hearing in respect of the Final Order must file and serve a notice of appearance as set out in the Notice of Petition for the Final Order and satisfy any other requirements. At the hearing of the application in respect of the Final Order, the Court will consider, among other things, the fairness of the Arrangement. The Court may approve the Arrangement as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court deems fit. The Final Order will constitute the basis for an exemption from certain requirements under the *Securities Act of 1933*, as amended, of the United States with respect to the securities of EnergyCo. and NOVA Chemicals issued pursuant to the Arrangement and the Court will be so advised.

Assuming the Final Order is granted and the other conditions to the Arrangement Agreement are satisfied or waived, it is anticipated that the Arrangement will become effective on or about 1800 hrs. (Mountain Daylight Savings Time) on the 2nd day of July, 1998.

Shareholders Approvals

Pursuant to the Interim Order, the Court has directed that the NOVA Common Shareholders and NOVA Preferred Shareholders, voting together, be asked to approve the NOVA Special Resolution at the NOVA Meeting and the TransCanada Common Shareholders be asked to approve the TransCanada Special Resolution at the TransCanada Meeting. Pursuant to the Interim Order, the Court has directed that the respective Meetings as they pertain to the Special Resolutions be held as follows:

NOVA Meeting: The NOVA Meeting is scheduled to be held at 1030 hrs. (Mountain Daylight Savings Time) on June 29, 1998, at the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta, Canada.

TransCanada Meeting: The TransCanada Meeting is scheduled to be held at 1330 hrs. (Mountain Daylight Savings Time) on June 29, 1998, at The Westin Calgary, 320 - 4th Avenue S.W., Calgary, Alberta, Canada.

Each Special Resolution must be approved by at least two-thirds of the votes cast at the respective Meetings, subject to the further order of the Court. At the NOVA Meeting, each NOVA Common Shareholder and each NOVA Preferred Shareholder will be entitled to vote on the basis of one vote per share for the purpose of voting upon the NOVA Special Resolution. NOVA Preferred Shareholders will not be entitled to vote on annual meeting matters or other special business unrelated to the NOVA Special Resolution. At the TransCanada Meeting, each TransCanada Common Shareholder will be entitled to vote on the TransCanada Special Resolution on the basis of one vote per common share.

Regulatory Approvals

In addition to the approval of NOVA Shareholders, TransCanada Common Shareholders and the Court, it is a condition precedent to implementation of the Arrangement that certain regulatory approvals be obtained. Accordingly, the following approvals have been sought:

AEUB

The *Public Utilities Board Act* (Alberta) provides that a union between owners of public utilities is subject to the consent of the AEUB and has no effect until the order authorizing the union is published in The Alberta Gazette. By virtue of certain provisions of the *Gas Utilities Act* (Alberta), the AEUB must also approve a union between the owners of gas utilities. Each of NOVA and TransCanada and various of their respective affiliates may be an owner of a gas utility for the purposes of these provisions. NOVA and TransCanada and affiliates of NOVA and TransCanada, have applied to the AEUB for the necessary approvals. NOVA has also applied to the AEUB, as required under the *Gas Utilities Act* (Alberta), for approval: (i) to transfer all of its interest in NGTL to a wholly-owned subsidiary of NOVA, which will become a wholly-owned subsidiary of TransCanada pursuant to the Arrangement; and (ii) of the merger and consolidation of the property, franchises, privileges and rights of NGTL pursuant to the merger. The evidentiary portion of the AEUB process has concluded and final submission by all parties and intervenors have been submitted. NOVA and TransCanada expect the AEUB to issue its decision shortly. The order of the AEUB approving these matters was received by NOVA and TransCanada on May 19, 1998.

NEB

The NEB, which regulates certain of the activities of TransCanada's Canadian Mainline operations, has reviewed the Arrangement and has determined that no further action on the part of the NEB pursuant to the *National Energy Board Act* is required.

Competition Act

The Arrangement is a "notifiable transaction" for the purposes of Part IX of the *Competition Act* (Canada). On February 16, 1998, NOVA and TransCanada completed the submission of the required short-form pre-merger notification filing to the Competition Director in respect of the Arrangement. On March 5, 1998 TransCanada and NOVA jointly filed a further detailed competition analysis of the Arrangement with the Competition Director. Since that date, TransCanada and NOVA have responded to information requests issued on behalf of the Competition Director.

On May 15, 1998 the Competition Director advised NOVA and TransCanada that a review of the Arrangement had been completed and that the Competition Director would not challenge the Arrangement before the Competition Tribunal.

Hart-Scott-Rodino

Under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976* (United States) (the "HSR Act") and the regulations promulgated thereunder by the United States Federal Trade Commission (the "Federal Trade Commission"), the Arrangement may not be consummated until notifications have been filed and certain information has been furnished to the Federal Trade Commission and the Antitrust Division of the United States Department of Justice (the "Antitrust Division") and the applicable waiting period has expired or been terminated. Filings were made on March 6, 1998 and the applicable HSR Act waiting period expired on April 5, 1998.

At any time before or after the consummation of the Arrangement, and notwithstanding the expiry of the waiting period under the HSR Act, the Federal Trade Commission, the Antitrust Division or other interested persons could take action under the U.S. antitrust laws to seek to enjoin, modify or dissolve the Arrangement if it would be likely to substantially lessen competition in any line of commerce in any section of the United States or otherwise result in violation of its antitrust laws. Each of NOVA and TransCanada believe that the

Arrangement should not violate anti-trust laws. Nevertheless, there can be no assurance that a challenge of the Arrangement will not be made or, if such a challenge is made, the result thereof.

FERC

The *Federal Power Act* ("FPA") of the United States provides that no public utility or power marketer shall merge or consolidate facilities or operations which are subject to the jurisdiction of FERC without first securing approval of that agency. A joint application of NOVA and TransCanada was filed with the FERC on February 11, 1998 seeking approval for the Arrangement insofar as the application relates to the indirect percentage interest of NOVA in the electric public utilities or power marketers owned by NGC and the percentage interest TransCanada subsidiaries hold in an electric public utility and power marketers in the United States.

On April 6, 1998, FERC issued an order formally approving the Arrangement.

Other Conditions Precedent

The Arrangement is subject to certain other conditions being satisfied including: (i) the issuance of the Tax Ruling by Revenue Canada in respect of certain Canadian federal income tax consequences of the Arrangement; and (ii) the reaffirmation at the Effective Date of the opinions of each of the auditors of NOVA and TransCanada regarding the expected use of the pooling of interest method under Canadian generally accepted accounting principles to account for the Arrangement. See "The Arrangement Agreement." Revenue Canada has issued the Tax Ruling dated May 14, 1998.

PROCEDURES FOR EXCHANGE OF SECURITIES

Deposit of NOVA Shares

Enclosed with this Joint Circular is a letter of transmittal. A white letter of transmittal relates to NOVA Common Shares and a green letter of transmittal relates to NOVA Preferred Shares. When duly completed and returned by NOVA Shareholders together with a certificate(s) for NOVA Common Shares or NOVA Preferred Shares, as the case may be, the letters of transmittal will enable each NOVA Shareholder to receive certificates representing the appropriate number of EnergyCo. Common Shares for each NOVA Common Share and certificates representing the appropriate number of EnergyCo. Preferred Shares for each NOVA Preferred Share, to which such holder is entitled pursuant to the Arrangement.

NOVA Shareholders are encouraged to deliver the relevant duly completed letter of transmittal together with the relevant share certificate(s) by registered mail to the Depository prior to 1700 hrs. (Mountain Daylight Savings Time) June 26, 1998. If the Arrangement proceeds, the EnergyCo. Common Share certificate(s) issuable to a former holder of NOVA Common Shares or EnergyCo. Preferred Share certificate(s) issuable to a former holder of NOVA Preferred Shares who has complied with the procedures set out above, will, as soon as practicable after July 9, 1998, be: (i) forwarded to the holder at the address specified in the letter of transmittal by insured first class mail or (ii) made available at the offices of the Depository for pickup by the holder, if requested by the holder in the letter of transmittal. Any use of the mails to transmit a certificate(s) for NOVA Common Shares or NOVA Preferred Shares and a related letter of transmittal is at the risk of the NOVA Shareholder. If these documents are mailed, it is recommended that registered mail, with return receipt requested, properly insured, be used.

If the Arrangement proceeds, NOVA Common Shares (as currently constituted) and NOVA Preferred Shares will cease to be publicly traded after the Effective Date. The NOVA Chemicals Common Shares (see "Distribution of NOVA Chemicals Common Shares"), the EnergyCo. Common Shares and the EnergyCo. Preferred Shares are expected to commence trading on the exchanges on which they are to be listed immediately after the Effective Date. After the Effective Date, NOVA Common Share certificates and NOVA Preferred Share certificates will only represent an entitlement to receive certificates evidencing EnergyCo. Common Shares and EnergyCo. Preferred Shares, as applicable, issued under the Arrangement upon surrender of the relevant certificate(s) and a duly completed letter of transmittal to the Depository.

NOVA Shareholders who do not forward the relevant duly completed letter of transmittal and the relevant share certificate(s) prior to June 26, 1998, must, if the Arrangement proceeds, submit such letter of transmittal and certificate(s) prior to the sixth anniversary of the Effective Date to avoid losing their entitlement to the EnergyCo. Common Shares or EnergyCo. Preferred Shares to be issued under the Arrangement.

If the Arrangement does not proceed, all certificates representing NOVA Common Shares or NOVA Preferred Shares transmitted with a related letter of transmittal will be returned to NOVA Shareholders.

Where a certificate(s) for NOVA Common Shares or NOVA Preferred Shares has been destroyed, lost or mislaid, the registered holder of that certificate(s) should immediately contact Montreal Trust Company of Canada regarding the issuance of a replacement certificate(s) upon the holder satisfying such requirements as may be imposed by NOVA in connection with issuance of the replacement certificate(s).

Distribution of NOVA Chemicals Common Shares

It is currently contemplated that all TransCanada Common Shareholders of record on July 7, 1998 (or such other date as to which shareholders will receive advanced notice), including all former NOVA Common Shareholders who will become TransCanada Common Shareholders pursuant to the Arrangement, will be sent certificates representing NOVA Chemicals Common Shares to which they became entitled at the Effective Time. Only transfers of TransCanada Common Shares effected on or before the Effective Time will be recorded on the register of TransCanada on or prior to such record date. NOVA Common Shareholders of record at the Effective Time who have not sold such shares prior to that time (and those persons who become beneficial owners of NOVA Common Shares on or before the Effective Time and who become shareholders of record of NOVA on or prior to such record date noted above), will without further action on their part be registered as shareholders of record of TransCanada for the purposes of the distribution of certificates representing the NOVA Chemicals Common Shares. Purchasers of EnergyCo. Common Shares and NOVA Chemicals Common Shares after the Effective Time will not become holders of record for the purposes of the distribution of NOVA Chemicals Common Shares.

EnergyCo. Common Shares

Certificates representing TransCanada Common Shares will represent EnergyCo. Common Shares upon the Arrangement becoming effective. No exchange or deposit of TransCanada Common Share certificates will be necessary.

Fractional Shares

No fractional EnergyCo. Common Shares, NOVA Chemicals Common Shares or EnergyCo. Preferred Shares will be issued. In lieu of fractional EnergyCo. Common Shares or fractional NOVA Chemicals Common Shares that a shareholder may be entitled to, such shareholder shall be paid by cheque an amount equal to the market value of such fractional shares based on the weighted average trading price of the relevant shares on the TSE for the first three trading days after the Effective Date. In lieu of fractional EnergyCo. Preferred Shares, NOVA Preferred Shareholders will be paid by cheque an amount equal to the proportion such fraction represents of the \$50 redemption amount attributable to EnergyCo. Preferred Shares, together with accumulated but undeclared dividends on such fractional portion to the Effective Date as if such shares had been issued May 1, 1998.

EFFECTIVE DATE

Subject to the approval of the matters detailed in the respective Special Resolutions, the full texts of which are attached in Appendix A to this Joint Circular, by the NOVA Shareholders and the TransCanada Common Shareholders, and provided that the conditions specified in the Arrangement Agreement have been satisfied or waived, the parties will proceed to file the Articles of Arrangement. The Effective Date of the Arrangement is expected to be on or about July 2, 1998.

ACCOUNTING TREATMENT

The respective boards of directors of each of NOVA and TransCanada have received accounting opinions from each of their auditors concurring with managements' intention to account for the Arrangement using the pooling of interests method under Canadian GAAP. Under the pooling of interests method, the assets and liabilities of EnergyCo. and NOVA Chemicals will be reflected in the respective financial statements at the values recorded in TransCanada's and NOVA's financial statements. Consequently, there will be no additional depreciation or amortization expense as a result of the Arrangement.

STOCK EXCHANGE LISTINGS

Each of the VSE, ASE, WSE, TSE and ME have conditionally approved the continued listing of the EnergyCo. Common Shares and the additional listing of EnergyCo. Preferred Shares and each of the ASE, TSE and ME have conditionally approved the continued listing of NOVA Chemicals Common Shares including in each case the shares to be issued in connection with the Arrangement, subject to EnergyCo. and NOVA Chemicals fulfilling all of the requirements of such stock exchanges. The NYSE has confirmed that, subject to satisfaction of applicable listing requirements, the EnergyCo. Common Shares and the NOVA Chemicals Common Shares will be listed on the NYSE, upon official notice of issuance.

TREATMENT OF OUTSTANDING STOCK OPTIONS

Each of NOVA and TransCanada currently has in place an employee stock option plan, and has granted options thereunder. Both stock option plans contain anti-dilutive and other provisions, the effect of which is to authorize each of the boards of directors of NOVA and TransCanada to take certain steps to ensure that the rights of optionholders are not adversely affected by the Arrangement.

Pursuant to the Arrangement Agreement, NOVA and TransCanada have agreed that stock options granted by each company would be exchanged and adjusted as of the Effective Time, on a tax-deferred basis, based upon the principle that the accrued benefit inherent in such options would be preserved, without augmenting such benefit.

Outstanding NOVA Options

NOVA and TransCanada have agreed that all options outstanding under the NOVA Stock Option Plan on the Effective Date will be canceled and replaced with: (i) replacement options issued under that plan, and (ii) replacement options issued under the TransCanada Stock Option Plan.

The NOVA Stock Option Plan requires the board of directors to adjust the NOVA Stock Options in the event of a transaction such as the Arrangement, to prevent substantial dilution or enlargement of the rights of holders of NOVA Stock Options. In accordance with the NOVA Stock Option Plan, and with the benefit of advice from external advisors, the board of directors of NOVA has approved adjustment formulae with respect to NOVA Stock Options that have the effect of dividing such existing options into replacement options in EnergyCo. and NOVA Chemicals on the basis of an equal division of the optionholder's existing inherent benefit. The adjustments preserve, without augmenting, the accrued benefit inherent in the existing NOVA Stock Options at the Effective Time (ie. in-the-money value), maintain the aggregate exercise cost to the optionholder and preserve the ratio of the option exercise price to fair market value of the underlying shares. The fair market value of the underlying shares for the purpose of such adjustment will be determined based on the weighted average trading price of NOVA Common Shares on the TSE in the 10 trading days immediately prior to and including the Effective Date and the weighted average trading prices of EnergyCo. Common Shares and NOVA Chemicals Common Shares on the TSE in the 10 trading days immediately after the Effective Date (including "when issued" trading). The actual adjustment formulae adopted are set out in Appendix L to the Joint Circular.

This approach, by providing equal weighting, divides the value of existing NOVA Stock Options in a manner that is different from the Exchange Ratio, was adopted to: (i) more precisely preserve the option value component of the NOVA Stock Options; (ii) give effect to the expectations of optionholders in respect of participation in NOVA's existing businesses at the time the options were granted; (iii) conform with the treatment that optionholders would have received if NOVA had proceeded with its previously announced split

transaction; and (iv) retain neutral incentives pending completion of the Arrangement by providing equal weighting to employee participation in the energy services and chemicals businesses.

The foregoing replacement and adjustment will be effective only on the Effective Time. The replacement and adjustment will occur whether the NOVA Optionholder remains as a NOVA Chemicals employee, becomes an EnergyCo. employee or is terminated. However, after the Effective Date, no new options in NOVA Chemicals will be granted to persons who become employees of EnergyCo. and no new options in EnergyCo. will be granted to employees who remain with or become employees of NOVA Chemicals.

Each of the boards of directors of NOVA and of TransCanada, in approving the adjustments, has recognized the existing vesting schedule and expiry dates inherent with respect to the outstanding NOVA Stock Options. The board of directors of NOVA has also exercised the discretion permitted within the NOVA Stock Option Plan, and the board of directors of TransCanada has exercised its discretion permitted within the TransCanada Stock Option Plan, to permit NOVA Optionholders who do not continue as employees of the granting company to continue to hold such options until the time at which such options expire under the terms of the option plan of the company in which the NOVA Optionholder is then employed. In all other respects the material terms and conditions of the options to be issued under the NOVA Stock Option Plan and the TransCanada Stock Option Plan as part of the adjustment will be the same as the terms and conditions of the options previously issued by NOVA and TransCanada.

As a result of the Arrangement and the adjustments pursuant to the anti-dilution provisions of the NOVA Stock Option Plan, the NOVA Common Shares available for option under the NOVA Stock Option Plan will automatically be increased by the number of additional shares that are subject to replacement options resulting from the exchange of NOVA Stock Options described above. The exact number of the shares reserved will depend on the trading prices of the various shares underlying the adjustment formulae in the 10 day period immediately before and after the Effective Date.

Under the terms of the NOVA Stock Option Plan, in the event of a transaction like the Arrangement, the board of directors of NOVA has the authority to determine, in its sole discretion, the method of adjusting existing options and has approved the adjustment described above. If the board of directors of NOVA, or after the Arrangement, the board of directors of NOVA Chemicals, as the case may be, determines that the adjustments described above produce results with respect to any NOVA Stock Option which do not preserve the accrued benefit inherent in such options or augment such inherent benefit, the relevant board of directors alone or in conjunction with the board of directors of TransCanada, as applicable, subject to applicable prior stock exchange approval, may make further adjustments to such options, including making adjustments to vary the exercise price or vary the number of shares subject to option, or utilize an alternative approach, if necessary to preserve such accrued benefit.

A copy of the NOVA Stock Option Plan is available from the Corporate Secretary of NOVA at NOVA Corporation, P.O. Box 2535, Postal Station M, Calgary, Alberta, T2P 2N6.

Outstanding TransCanada Options

NOVA and TransCanada have agreed that all options outstanding under the TransCanada Stock Option Plan will be canceled and replaced with replacement options. The number of options granted and the exercise price of the replacement TransCanada Stock Options will be adjusted, on a tax-deferred basis, to reflect the merger of TransCanada and NOVA and the split off of the chemicals business to shareholders.

The TransCanada Stock Option Plan requires the board of directors, in the event of a transaction such as the Arrangement, to determine, in a fair and equitable manner, the treatment of all unexercised options granted under the TransCanada Stock Option Plan. In accordance with the TransCanada Stock Option Plan, and with the benefit of advice from external advisors, the board of directors of TransCanada has approved adjustment formulae that adjust the exercise price of the replacement options and the number of shares under such options in a manner that preserves, without augmenting, the accrued benefit inherent in the existing TransCanada Stock Options at the Effective Time (ie. in-the-money value); that maintains the aggregate exercise cost to the TransCanada Optionholder; and that preserves the ratio of the option exercise price to fair market value of the underlying shares. The fair market value of the underlying shares for the purpose of such adjustment will be determined based on the weighted average trading price of TransCanada Common Shares on the TSE in the 10 trading days immediately prior to and including the Effective Date and the weighted average trading price of

EnergyCo. Common Shares on the TSE in the 10 trading days immediately after the Effective Date. The actual adjustment formulae adopted are set out in Appendix L to the Joint Circular.

The board of directors of TransCanada has also adjusted the TransCanada Stock Options in accordance with the authority granted to the board under such plan to reduce the vesting period for such options from five years to three years in order to match the vesting schedule in the NOVA Stock Option Plan. It is currently expected that future options will also be granted with a three year vesting schedule. The board of directors of TransCanada also has exercised its discretion to permit NOVA Optionholders to continue to hold EnergyCo. Options received as a result of the exchange of options due to the Arrangement until their expiry provided that they remain employed by NOVA Chemicals, EnergyCo. or any of their respective affiliates. In all other respects the material terms and conditions of the outstanding options issued under the TransCanada Stock Option Plan will be unamended.

The foregoing replacement and adjustment will be effective only at the Effective Time. EnergyCo. will not grant EnergyCo. Stock Options to TransCanada employees who become employees of NOVA Chemicals. The replacement and adjustment to the outstanding TransCanada Stock Options will occur whether a TransCanada Optionholder remains with EnergyCo., becomes a NOVA Chemicals employee or is terminated.

As a result of the Arrangement and the adjustments pursuant to the anti-dilution provisions of the TransCanada Stock Option Plan, the TransCanada Common Shares available for option will automatically be increased by the number of additional shares in respect of which options will be granted by TransCanada as a result of the exchange of NOVA Stock Options and the adjustments to the TransCanada Stock Options described above. The exact number of the shares reserved will depend on the trading prices of the various shares underlying the adjustment formulae in the 10 trading day period immediately before and after the Effective Date.

Under the terms of the TransCanada Stock Option Plan, in the event of a transaction like the Arrangement, the board of directors of TransCanada has the authority to determine in its sole discretion the method of treating and adjusting existing options and has approved the replacement and adjustment described above. If the board of directors of TransCanada or, after the Arrangement, the board of directors of EnergyCo., as the case may be, determines that the adjustments described above produce results with respect to any TransCanada Stock Option which do not preserve the accrued benefit inherent in such options or augment such inherent benefit, subject to applicable prior stock exchange approval, it may make further adjustments to such options, including making adjustments to vary the exercise price or vary the number of shares subject to option, or utilize an alternative approach if necessary to preserve such accrued benefit.

A copy of the TransCanada Stock Option Plan is available from the Corporate Secretary of TransCanada at TransCanada PipeLines Tower, 111 - 5th Avenue S.W., Calgary, Alberta, T2P 3Y6.

EMPLOYEE MATTERS

As at the Effective Time, employees of TransCanada will, except in limited circumstances, continue their employment with EnergyCo. The subsidiaries of NOVA which become subsidiaries of EnergyCo. will continue to employ their employees. NOVA corporate employees, except in limited circumstances, will be offered employment with either NOVA Chemicals or EnergyCo.

Compensation and benefits of persons continuing with NOVA Chemicals will be unchanged by the merger. NOVA energy services subsidiaries and NOVA corporate employees who become employees of EnergyCo. ("New EnergyCo. Employees") will receive similar compensation and benefits to those they currently receive, but no less favourable in the aggregate, for a period of not less than two years following the Effective Date. Additionally, the New EnergyCo. Employees will be maintained in positions similar to those held at NOVA for a period of not less than two years following the Effective Date. However, any EnergyCo. or NOVA Chemicals employee terminated within the first two years after the Effective Date, for other than legal cause, will be provided with a severance and termination package, no less favourable in the aggregate than the one established by NOVA prior to the Effective Date. During this two year period, EnergyCo. will seek to redesign its compensation and benefits programs in order to provide all of EnergyCo.'s employees with a competitive compensation and benefits program.

Subject to applicable pension regulatory approval, the EnergyCo. registered pension plan will be amended as of the Effective Date to include the New EnergyCo. Employees as participants. As members of the EnergyCo. registered pension plan, the New EnergyCo. Employees will receive pension benefit entitlements similar, but no less favourable in the aggregate, to those previously held under the NOVA pension plan, for a period of not less than two years following the Effective Date. All NOVA prior service (as was recognized under the NOVA pension plan) and accrued pension benefits will be recognized under the EnergyCo. registered pension plan. EnergyCo.'s registered pension plan will also assume all pension benefit liabilities relating to retired persons and deferred pensioners formerly employed by NOVA in the energy services businesses and NOVA corporate. EnergyCo.'s registered pension plan will receive a transfer of assets from NOVA's pension plan proportionate to the liabilities borne by EnergyCo. in order to enable it to pay the pension obligations due including the proportionate share of any pension surplus attributable to the liabilities assumed for all New EnergyCo. Employees, retired persons and deferred pensioners formerly employed by NOVA in the energy services business and NOVA corporate. NOVA's pension plan will retain all pension benefit liabilities for retired persons and deferred pensioners formerly employed in the chemicals business.

EnergyCo. will assume responsibility for all supplemental pension obligations for New EnergyCo. Employees and former NOVA energy services and former NOVA corporate employees. NOVA will retain responsibility for all supplemental pension obligations for NOVA Chemicals employees, former employees of NOVA's chemicals business which include retired persons and deferred pensioners. NOVA will assume responsibility for supplemental pension obligations for NOVA corporate employees who become employed by NOVA Chemicals after the Effective Date.

EnergyCo. will assume responsibility for all non-pension post retirement benefits for New EnergyCo. Employees, former NOVA energy services and former NOVA corporate employees. NOVA will assume responsibility for all non-pension post retirement benefits for NOVA Chemicals employees, former employees of NOVA's chemicals business and NOVA corporate employees who become employed by NOVA Chemicals after the Effective Date.

ELIGIBILITY FOR INVESTMENT

In the opinion of Bennett Jones Verchere, counsel to TransCanada, and Osler, Hoskin & Harcourt, counsel to NOVA, subject to compliance with the prudent investment standards and general investment provisions of the following statutes (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies or goals and, in certain circumstances, the filing of such policies and goals, EnergyCo. Common Shares, EnergyCo. Preferred Shares and NOVA Chemicals Common Shares to be issued on the Effective Date are not, at the date hereof, precluded as investments under the following statutes:

- | | |
|--|--|
| <i>Insurance Companies Act (Canada)</i> | <i>Alberta Heritage Savings Trust Fund Act</i> |
| <i>Trust and Loan Companies Act (Canada)</i> | (Alberta) |
| <i>Pension Benefits Standards Act, 1985</i> | <i>Insurance Act (Alberta)</i> |
| (Canada) | <i>Loan and Trust Corporations Act (Alberta)</i> |
| <i>Pension Benefits Act (Ontario)</i> | <i>Employment Pension Plans Act (Alberta)</i> |
| <i>Supplemental Pension Plans Act (Québec)</i> | <i>Financial Institutions Act (British Columbia)</i> |
| <i>an Act respecting insurance (Québec) (in</i> | <i>Pension Benefits Standards Act</i> |
| <i>respect of insurers, as defined therein,</i> | (British Columbia) |
| <i>incorporated under the laws of the</i> | <i>The Insurance Act (Manitoba)</i> |
| <i>Province of Québec, other than a</i> | <i>The Pension Benefits Act (Manitoba)</i> |
| <i>guarantee fund corporation)</i> | <i>The Trustee Act (Manitoba)</i> |
| <i>an Act respecting trust companies and savings</i> | <i>The Pension Benefits Act, 1992</i> |
| <i>companies (Québec) (for a trust company</i> | (Saskatchewan) |
| <i>investing its own funds and deposits it</i> | <i>Pension Benefits Act (New Brunswick)</i> |
| <i>receives or a savings company, as defined</i> | |
| <i>therein, which invests its own funds)</i> | |

Qualified Investments. In the opinion of such counsel, had the Arrangement been effective on the date hereof, EnergyCo. Common Shares, EnergyCo. Preferred Shares and NOVA Chemicals Common Shares, when

listed on a prescribed stock exchange (which currently includes the TSE, ME, ASE, WSE and VSE), would also be qualified investments under the ITA for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans and will not constitute foreign property, as that term is defined in the ITA, for such plans.

RESALE OF ENERGYCO. COMMON SHARES, ENERGYCO. PREFERRED SHARES AND NOVA CHEMICALS COMMON SHARES RECEIVED IN THE ARRANGEMENT

Canada. NOVA and TransCanada have applied for and expect to receive rulings or orders of certain provincial securities regulatory authorities in Canada to permit the issuance to TransCanada Common Shareholders (including the NOVA Common Shareholders who became TransCanada Common Shareholders under the Arrangement) of the EnergyCo. Common Shares and NOVA Chemicals Common Shares and the issuance of EnergyCo. Preferred Shares to holders of NOVA Preferred Shares in such provinces. EnergyCo. Common Shares, NOVA Chemicals Common Shares and EnergyCo. Preferred Shares issued under the Arrangement may be resold without restriction by a shareholder other than a “control person”, provided that no unusual effort is made to prepare the market for any such resale or to create a demand for the securities which are the subject of any such resale and no extraordinary commission or consideration is paid in respect thereof. Applicable Canadian securities legislation provides a rebuttable presumption that a person or company is a control person in relation to an issuer where the person or company alone or in combination with others holds more than 20% of the outstanding voting securities of the issuer. Neither TransCanada nor NOVA anticipate that any shareholder will be classified as a control person, solely as a result of the Arrangement. Upon the completion of the Arrangement, each of EnergyCo. and NOVA Chemicals will continue to be a reporting issuer in Canada.

United States. The EnergyCo. Common Shares, EnergyCo. Preferred Shares and NOVA Chemicals Common Shares received pursuant to the Arrangement may be resold without restriction by shareholders who were not an “affiliate” of TransCanada or NOVA before the Arrangement and who are not an “affiliate” of EnergyCo., in the case of the EnergyCo. Common Shares and EnergyCo. Preferred Shares, or of NOVA Chemicals, in the case of the NOVA Chemicals Common Shares, after the Arrangement. An “affiliate” is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified. The term “control” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. Securityholders who were affiliates of either TransCanada or NOVA before the Arrangement are subject to resale restrictions under the *Securities Act of 1933*. In addition to the case of EnergyCo. Common Shares and EnergyCo. Preferred Shares, securityholders who are affiliates of EnergyCo. after the Arrangement and, in the case of NOVA Chemicals Common Shares, securityholders who are affiliates of NOVA Chemicals after the Arrangement will be subject to resale restrictions under the *Securities Act of 1933*. Upon the completion of the Arrangement, each of EnergyCo. and NOVA Chemicals will continue to have securities registered under the *Securities Exchange Act of 1934* and to be required to file reports with the Securities and Exchange Commission.

COSTS OF THE ARRANGEMENT

The combined estimated third party fees, costs and expenses of NOVA and TransCanada in connection with the Arrangement including, without limitation, financial advisors’ fees, regulatory filing fees, legal and accounting fees, soliciting dealer fees and printing and mailing costs are approximately \$50 million. The transfer of the wholly-owned subsidiary of NOVA which will own NOVA’s energy services businesses to TransCanada as part of the Arrangement will result in a capital gain to NOVA which NOVA and TransCanada estimate will result in income taxes payable of approximately \$180 million.

The foregoing total costs of approximately \$230 million will be charged to retained earnings as reflected in the unaudited pro forma consolidated financial statements attached hereto as Appendices J and K. In accordance with the Arrangement Agreement, the costs will be paid by the party incurring the expense but will be reimbursed between NOVA and TransCanada based on an allocation of approximately \$195 million to EnergyCo. and approximately \$35 million to NOVA Chemicals.

In addition to the foregoing costs of the Arrangement referred to above, NOVA Chemicals and EnergyCo. may incur restructuring charges in relation to the Arrangement. The magnitude and nature of the charges to be taken by EnergyCo. and NOVA Chemicals are not known at this time but may relate to items such as employee termination expenses, relocation costs and re-evaluation of certain recorded assets and liabilities after closing of the Arrangement. NOVA Chemicals and EnergyCo. expect to record these restructuring charges in 1998.

THE COMPANIES AFTER THE ARRANGEMENT

ENERGYCO.

Business Strategy

In recognition of the increasingly dynamic and competitive North American and global energy services sector, EnergyCo.'s strategy will be to further develop and evolve its principal lines of business. Management of each of TransCanada and NOVA believe that the following factors will provide the foundation for future growth:

1. the extensive competencies now resident within the energy services businesses of NOVA and TransCanada;
2. the extensive asset position within, or connected to the Western Canadian Sedimentary Basin, that will result from the Arrangement; and
3. the combination of the existing energy assets and expertise of TransCanada and NOVA in Latin America, the Asia-Pacific region and other international regions.

EnergyCo.'s development strategy relating to its fundamental businesses will be to provide competitive, coordinated and innovative services to hydrocarbon producers and energy consumers across these segments.

Business Activities

EnergyCo. is expected to be North America's fourth largest energy services company with extensive operations in four principal lines of business: energy transmission, energy marketing, energy processing and international energy services.

Energy Transmission

EnergyCo.'s energy transmission businesses will include the operations of NGTL in Alberta, TransCanada's Canadian Mainline operations and other significant transmission operations and investments in Canada and the United States. EnergyCo. is expected to be the largest volume carrier of natural gas in North America. The energy transmission businesses will link the Western Canadian Sedimentary Basin to markets in both Canada and the United States.

The table below summarizes the energy transmission operations, investments and development projects which EnergyCo. will carry on after the Arrangement.

<u>Pipeline System</u>	<u>Interest</u>	<u>Length</u>	<u>Description</u>
Operating			
NGTL	100%	22,200 km	Transported 4.5 Tcf of gas in 1997, and interconnects with, among others, the Canadian Mainline and ANG Pipeline
Canadian Mainline	100%	14,492 km	Connects to NGTL at the Alberta/Saskatchewan border. Transported 2.5 Tcf of gas in 1997, approximately 90% of which originated from the NGTL system
Great Lakes	50%	3,226 km	Connects with Canadian Mainline at Manitoba/United States border and transports gas to eastern Canada and midwestern and northeastern United States

Pipeline System	Interest	Length	Description
Northern Border	30%	1,560 km	Connects with Foothills (Sask.) and transports gas to United States midwest markets
Iroquois	29%	604 km	Connects with Canadian Mainline in Ontario and transports gas to United States northeast
Tuscarora	50%	369 km	Connects with PG&E Gas Transmission — Northwest and transports gas from Oregon to markets in northern California and Nevada
Foothills Pipe Lines	50%		Responsible for Canadian segment of Alaska Natural Gas Transmission System (“ANGTS”), owns 51% of each of Foothills (Alta.), Foothills (South B.C.) and Foothills (Sask.)
Foothills (Alta.)	74.5% ⁽¹⁾	502 km	Alberta ANGTS prebuild transporting gas to Foothills (South B.C.) and Foothills (Sask.)
Foothills (South B.C.) . . .	74.5% ⁽¹⁾	166 km	Connects with Foothills (Alta.) and transports gas to PG&E Gas Transmission — Northwest at the British Columbia/Idaho border
Foothills (Sask.)	69.5% ⁽¹⁾	259 km	Connects with Foothills (Alta.) at the Alberta/Saskatchewan border and transports gas to Northern Border pipeline
TQM	50%	355 km	Connects with Canadian Mainline at Montréal and transports gas to Québec City; being extended to the Québec/New Hampshire border to connect with the Portland pipeline system under construction
ANG Pipeline	100%	177 km	Transports gas from Alberta/British Columbia border to PG&E Gas Transmission — Northwest at the British Columbia/Idaho border
Express Pipeline	50%	2,760 km	Transports crude oil from Hardisty, Alberta to Wood River, Illinois
Under Construction			
Portland	20%	470 km	To connect with TQM at the Québec/New Hampshire border and transport gas to New England region for service commencing in November 1998
Development Project			
Millennium	21%	684 km	A US\$680 million project to connect with the Canadian Mainline in Lake Erie to transport gas to the north-eastern United States

Note:

(1) Interest includes interest held through Foothills Pipe Lines Ltd. plus interests held through either NOVA or TransCanada.

(See “EnergyCo. North American Pipeline System Map”)

The Canadian Mainline, the Foothills pipelines, TQM and ANG Pipeline are regulated by the NEB, and the Foothills pipelines are also regulated by the Northern Pipeline Agency. NGTL is regulated by the AEUB. EnergyCo.’s United States natural gas pipeline operations are all regulated by FERC. Each of the Canadian Mainline, TQM and NGTL have negotiated incentive tolling arrangements with their customers which provide financial incentives to these pipelines to realize operating efficiencies. In the case of the Canadian Mainline, there are also incentives to maximize discretionary revenue, and in the case of NGTL, to realize capital cost efficiencies.

Alliance Pipeline has proposed the construction of a natural gas pipeline that would transport gas from northeastern British Columbia and Alberta to the Chicago market area. Alliance Pipeline is currently engaged in

obtaining the requisite regulatory and environmental approvals. If constructed as contemplated, the Alliance Pipeline may increase competition with respect to access by EnergyCo.'s customers to gas reserves and may have an impact on the future development of EnergyCo.'s pipeline systems.

In April 1998, TransCanada, NOVA and NGTL reached an accord ("Accord") with the Canadian Association of Petroleum Producers and the Small Explorers and Producers Association of Canada. Under the Accord, the parties endorsed three guiding principles: support for competition and greater customer choice; the need to construct competitive incremental pipeline capacity from the Western Canadian Sedimentary Basin by both new competitors and existing pipelines in a timely, safe and cost effective manner; and the need to effect regulatory change to allow all pipelines equal opportunity to compete.

The Accord has given TransCanada and NGTL a mechanism through which they can advance their own regulatory reform initiatives. The parties have agreed to negotiate a new regulatory framework proposal by December 31, 1998. Development and implementation of a new regulatory framework would require the involvement of all stakeholders and regulatory approval.

If constructed as contemplated, Alliance Pipeline's Alberta facilities will duplicate certain of NGTL's facilities and may result in under-utilization of certain of NGTL's facilities for a period of six or more years before sufficient incremental supply develops. The Accord provides, subject to certain conditions, that if during the first five years from the initial coming into service of the Alliance Pipeline, any under-utilization of the NGTL system results, the cost of such under-utilized capacity will be included in NGTL's cost of service.

Insufficient customer commitment to TransCanada's proposed Viking Voyageur pipeline project has caused TransCanada and its partner to consider alternative means of serving natural gas markets in the upper midwest United States. The level of support for the proposed Viking Voyageur pipeline is attributed primarily to the fact that Alliance Pipeline was able to secure Western Canadian Sedimentary Basin gas supply before Viking Voyageur. While concerns over the short-term availability of Western Canadian Sedimentary Basin gas supply exist, both TransCanada and NGTL remain confident of the basin's performance with respect to long-term deliverability growth.

Selected pro forma energy transmission financial information for the year ended December 31, 1997:

- Revenues \$ 3.7 billion
- Net income applicable to common shares \$548.9 million

See Appendix J — EnergyCo. Unaudited Pro Forma Consolidated Financial Statements. For more detailed information relating to the energy transmission business of EnergyCo., see Appendix G — Information Relating to NOVA and Appendix H — Information Relating to TransCanada.

Energy Marketing

EnergyCo. will continue to be one of the largest natural gas marketers in North America and will also market crude oil, refined products, natural gas liquids and electricity to customers across North America. On a pro forma basis, EnergyCo. was the tenth largest natural gas and energy marketer in North America in 1997. The assets of this business will be composed primarily of existing TransCanada assets. The energy marketing business of NOVA held through its interest in Pan-Alberta Gas Ltd. is being offered for sale and NOVA's 26% indirect equity investment in NGC will be held by NOVA Chemicals after the Arrangement. Accordingly, the information below includes data only from TransCanada's energy marketing businesses. For the year ended December 31, 1997, the marketing volume information for TransCanada's energy marketing businesses was:

- 1.8 Tcf of natural gas
- 110.7 MMBbbls of crude oil
- 80.6 MMBbbls of refined products
- 18 MMBbbls of natural gas liquids
- 1,654 gigawatt hours of electricity

Selected TransCanada energy marketing financial information for the year ended December 31, 1997:

- Revenues \$11.1 billion
- Net income applicable to common shares \$ 7.6 million

See Appendix J — EnergyCo. Unaudited Pro Forma Consolidated Financial Statements. For more detailed information relating to the energy marketing business of EnergyCo., see Appendix H — Information Relating to TransCanada.

Energy Processing

EnergyCo. will own and operate natural gas and natural gas liquids gathering systems, natural gas processing and liquids extraction plants, specialty chemicals facilities and power generation facilities in North America. These interests will include: (i) extraction straddle plants in Alberta; (ii) gas processing, gas gathering and extraction facilities in Western Canada and Louisiana; and (iii) specialty chemicals facilities of ANGUS Chemical Company in Louisiana and Germany, and of Cancarb Limited in Medicine Hat, Alberta.

The following chart summarizes facilities and operations of the energy processing business:

<u>Name and Description of Facility</u>	<u>% Interest</u>	<u>EnergyCo.'s Share of Capacity or Production</u>
Straddle Plants		
Cochrane Extraction Plant	100%	30,000 bbls/day of NGLs and 47,000 bbls/day of ethane
Empress II Extraction Plant	75%	20,000 bbls/day of NGLs and 28,500 bbls/day of ethane
Empress V	50% ⁽¹⁾	5,000 bbls/day of NGLs and 9,000 bbls/day of ethane
Natural gas and natural gas liquids extraction, gathering, processing and storage		
Four Louisiana-based natural gas processing plants	up to 100%	2.2 bcf/day
Riverside fractionation plant	100%	53,000 bbls/day
The Cajun and Sabine connecting pipelines and gas liquids storage	100%	storage capacity exceeds 2 million bbls
16 gas processing plants and related gas gathering facilities in Western Canada	up to 100%	approximately 950 mmcf/day
Younger gas processing facility at Taylor, British Columbia	43.3% ⁽¹⁾	approximately 325 mmcf/day
Redwater gas liquids storage and fractionation facility and gathering system	100% ⁽¹⁾	storage capacity — 4.5 million bbls/day fractionation capacity — 65,000 bbls/day
West Stoddart gas processing plant and associated pipelines	100% ⁽¹⁾	processing capacity — 160 mmcf/day
Central Foothills Gas Gathering System	100% ⁽¹⁾	120 mmcf/day
Gas liquids and olefins recovery system and associated pipelines at Suncor Energy Inc.'s Fort McMurray oil sands facility	100% ⁽¹⁾	10,000 bbls/day liquids extraction
Specialty Chemicals		
ANGUS Chemical Company	100%	
Cancarb Limited	100%	

Name and Description of Facility	% Interest	EnergyCo.'s Share of Capacity or Production
Power Generation		
Nipigon (capacity 38 megawatts), Kapusking (capacity 40 megawatts), North Bay (capacity 40 megawatts) and Tunis (capacity 42.6 megawatts) facilities	39.8% ⁽²⁾	
Ocean State Power facilities (500 megawatts) .	40%	

Note:

- (1) Projects under development or construction
- (2) Held through interest in TransCanada Power, L.P., a limited partnership.

Selected pro forma energy processing financial information for the year ended December 31, 1997:

- Revenues \$719.4 million
- Net income applicable to common shares \$ 69.4 million

See Appendix J — EnergyCo. Unaudited Pro Forma Consolidated Financial Statements. For more detailed information relating to the energy processing business of EnergyCo. see Appendix G — Information Related to NOVA and Appendix H — Information Related to TransCanada.

International

EnergyCo. will hold a diverse portfolio of international energy services interests. The EnergyCo. international holdings will include the following:

Project	Interest	Description
Latin America		
Oleoducto Central S.A. (OCENSA)	17.5%	US\$2.2 billion oil pipeline in Colombia
TransGas de Occidente S.A. (TransGas)	34%	US\$320 million natural gas pipeline in Colombia
CentrOriente	40%	Operating and gas management services to Colombia's natural gas company ECOGAS
Gasoducto GasAndes S.A.	56.5% ⁽¹⁾	US\$325 million natural gas pipeline transporting gas from Argentina to Santiago, Chile
Sociedad Electrica Santiago S.A.	15%	370 megawatt power generation facility in Santiago, Chile
Transportadora de Gas del Norte S.A. . . (TGN)	19%	4,860 km natural gas pipeline in northern Argentina
Arcan Ingenieria y Construcciones S.A. (ARCAN)	100%	Pipeline engineering firm which provides pipeline consulting management services primarily in the southern cone of South America
Gas Pacifico ⁽²⁾	30%	US\$400 million integrated natural gas project, including a US\$320 million pipeline from Argentina to Concepcion, Chile and related gas marketing and gas distribution businesses
Energia Mayakan S. de R.L. de C.V. ⁽²⁾	62.5%	US\$266 million, 700 km natural gas pipeline being constructed in the Yucatan Peninsula of Mexico
Metrogas S.A.	10%	Local gas distribution system in Santiago, Chile

Project	Interest	Description
Asia-Pacific		
East Australian Pipeline Limited (EAPL)	25.5%	1,935 km natural gas pipeline and operation of a 1,400 km ethane pipeline in eastern Australia
PT Paiton Energy Company ⁽²⁾	10%	Two 615 megawatt coal-fired power plants in Indonesia, anticipated to be completed by 1999
OGP Technical Services Sdn. Bhd.	40%	Provides project management and engineering consulting services in Southeast Asia
Africa		
Songo Songo ⁽³⁾	approx. 49% ⁽⁴⁾	US \$320 million natural gas pipeline in Tanzania

Notes:

- (1) Expected to be reduced to 46.5% in 1998 as a result of the exercise of certain options granted to other Gasoducto GasAndes S.A. shareholders.
- (2) Projects under construction.
- (3) Project in advanced stages of development.
- (4) Estimated interest after financial close.

In addition to the foregoing, the international business will have marketing offices in Singapore, South America and the Barbados, as well as business development offices in: Caracas, Venezuela; Mexico City, Mexico; Singapore; Bogota, Colombia; Jakarta, Indonesia; Bangkok, Thailand; Kuala Lumpur, Malaysia; London, England and Perth, Australia.

Selected pro forma financial information for EnergyCo.'s International business for the year ended December 31, 1997:

- Revenues \$71.9 million
- Net loss applicable to common shares \$3.7 million

See Appendix J — EnergyCo. Unaudited Pro Forma Consolidated Financial Statements. For more detailed information relating to the international business of EnergyCo., see Appendix G — Information Relating to NOVA and Appendix H — Information Relating to TransCanada.

Directors

Pursuant to the Plan of Arrangement, the directors of EnergyCo. will be the individuals referred to below, who shall hold office until the first meeting of shareholders of EnergyCo. or until their respective successors have been duly elected or appointed. EnergyCo. will have an audit committee and such other committees as determined by the board of directors of EnergyCo. from time to time.

Directors of EnergyCo.; Name and Municipality of Residence	Major Position with NOVA or TransCanada and Significant Affiliates	Principal Occupation	Director of NOVA or TransCanada Since	Common Shares Held as of April 30, 1998 ⁽⁴⁾
Ronald B. Coleman Calgary, Alberta	Director, NOVA	President of R. B. Coleman Consulting Co. Ltd. and Chairman of Dominion Equity Resource Fund Inc. (oil and gas activities). He also is a director of a number of other companies.	June 1987	32,647 NOVA nil TransCanada
Sir J. Graham Day Hantsport, Nova Scotia	Director, NOVA	Prior to his retirement in 1993, Sir J. Graham Day was Chairman of the Board of Cadbury Schweppes plc (manufacturer of beverages and confectionery), and of Powergen plc (electrical power generation). He is Chancellor of Dalhousie University and is also a director of a number of other companies.	October 1990	38,148 NOVA nil TransCanada

Directors of Energy Co.; Name and Municipality of Residence	Major Position with NOVA or TransCanada and Significant Affiliates	Principal Occupation	Director of NOVA or TransCanada Since	Common Shares Held as of April 30, 1998⁽⁴⁾
Wendy Dobson Uxbridge, Ontario	Director, TransCanada	Professor, Faculty of Management and Director, Centre for International Business, University of Toronto, Toronto, Ontario. She is also a director of a number of other companies.	April 1992	nil NOVA 3,000 TransCanada
Richard F. Haskayne, O.C., F.C.A. ⁽¹⁾ Calgary, Alberta	Chairman of the Board, NOVA, and NGTL	Chairman of the Board, NOVA, NGTL, TransAlta Corporation and MacMillan Bloedel Limited and a director of a number of other companies.	May 1991	260,902 NOVA nil TransCanada
Kerry L. Hawkins Winnipeg, Manitoba	Director, TransCanada	President of Cargill Limited, Winnipeg, Manitoba (grain handlers and merchants, transporters and processors of agricultural products). He is also a director of a number of other companies.	April 1996	nil NOVA 1,940 TransCanada
J. Joseph Healy Edmonton, Alberta	Director, NOVA	President and Chief Executive Officer of HEMCO Corp. (real estate development and holdings). He was President of Healy Motors Limited (automotive retailing and leasing) until February 1996.	April 1977	39,363 NOVA nil TransCanada
Harley N. Hotchkiss, O.C. Calgary, Alberta	Director, NOVA	President of Spartan Resources Ltd. and invests directly and through private companies in oil and gas, real estate, agriculture and professional sports. He is also the Chairman of the National Hockey League Board of Governors and a director of a number of other companies.	May 1979	41,380 NOVA nil TransCanada
The Hon. Donald S. Macdonald, P.C., C.C. Toronto, Ontario	Director, TransCanada	Counsel to McCarthy Tétrault, Barristers and Solicitors, Toronto, Ontario. He is also a director of a number of other companies.	October 1991	nil NOVA 1,476 TransCanada
J. M. (Jack) MacLeod Calgary, Alberta	Director, NOVA	Prior to February 1993, he was President and Chief Executive Officer of Shell Canada Limited (integrated petroleum and petrochemicals company). He is also a director of a number of other companies.	February 1993	28,967 NOVA nil TransCanada
Gerald J. Maier ⁽²⁾ Calgary, Alberta	Chairman of the Board, TransCanada	Chairman of the Board, TransCanada. Prior to April 1994, Mr. Maier was Chairman and Chief Executive Officer of TransCanada. Prior to April 1993 he was Chairman, President and Chief Executive Officer of TransCanada. He is a director of a number of other companies.	December 1983	nil NOVA 527,087 TransCanada
Harold P. Milavsky F.C.A., Calgary, Alberta	Director, NOVA	Chairman, Quantico Capital Corp., (principal investments and acquisitions, merchant banking and investment advisory services). Prior to July 1994, he was Chairman of the Executive Committee and a director of Trizec Corporation Ltd. and prior to April 1993, he was Chairman of the Board of Trizec Corporation Ltd. He serves on the boards of a number of other companies.	April 1988	19,770 NOVA nil TransCanada
James R. Paul Houston, Texas	Director, TransCanada	Chairman, James and Associates Houston, Texas (retail investments). Prior to November 1997, Mr. Paul was Chairman, Worldwide Cellular Inc. Prior to 1994, Mr. Paul was President and Chief Executive Officer of The Coastal Corporation.	April 1996	nil NOVA 2,000 TransCanada

<u>Directors of EnergyCo.; Name and Municipality of Residence</u>	<u>Major Position with NOVA or TransCanada and Significant Affiliates</u>	<u>Principal Occupation</u>	<u>Director of NOVA or TransCanada Since</u>	<u>Common Shares Held as of April 30, 1998⁽⁴⁾</u>
Cedric E. Ritchie O.C., Don Mills, Ontario	Director, NOVA	Retired Chairman of the Board of The Bank of Nova Scotia ("BNS"), a Canadian chartered bank. He was Chairman of the board of BNS from January 1993 until January 1995 and prior to January 1993 he was Chairman of the Board and Chief Executive Officer of BNS. He also serves as a director of a number of other companies.	February 1992	33,302 NOVA nil TransCanada
Harry G. Schaefer ⁽³⁾ Calgary, Alberta	Director, TransCanada	President of H. G. Schaefer & Associates, Calgary, Alberta (business advisory service company). Prior to May 1996, Mr. Schaefer was Chairman of the Board of TransAlta Utilities Corporation (generation and sale of electric energy). Prior to May 1993, Mr. Schaefer was also Chief Financial Officer of TransAlta Utilities Corporation. He is also a director of a number of other companies.	April 1987	nil NOVA 15,891 TransCanada
Allan Richard Taylor North York, Ontario	Director, TransCanada	Former Chairman and Chief Executive Officer of Royal Bank of Canada ("Royal Bank") Toronto, Ontario, a Canadian chartered bank. Prior to January 1995, Mr. Taylor was Chairman of Royal Bank and prior to November 1994, he was Chairman and Chief Executive Officer of Royal Bank.	December 1983	nil NOVA 5,000 TransCanada
Joseph D. Thompson Edmonton, Alberta	Director, TransCanada	Chairman, PCL Construction Group Inc., Edmonton, Alberta (general construction contractors). Prior to July 1997, Mr. Thompson was Chairman, President and Chief Executive Officer of PCL Construction Group Inc. Prior to October 1993, Mr. Thompson was Vice-Chairman, President and Chief Executive Officer.	April 1995	10,000 NOVA 4,343 TransCanada
George W. Watson Calgary, Alberta	President and Chief Executive Officer, TransCanada	Prior to April 1994, Mr. Watson was President of TransCanada and prior to April 1993, he was Chief Financial Officer of TransCanada.	August 1993	nil NOVA 183,279 TransCanada
Anne Wexler Washington, D.C.	Director, NOVA	Chairman and Chief Executive Officer of The Wexler Group. She also serves on the Boards of a number of U.S. companies and served as senior advisor on the Clinton-Gore Transition Team, was Assistant to President Carter for Public Liaison and prior to that appointment, was Deputy Under Secretary of Commerce.	December 1994	24,112 NOVA nil TransCanada

Notes:

- (1) To be Chairman of the board of directors of EnergyCo.
- (2) To be Chairman Emeritus of the board of directors of EnergyCo.
- (3) To be Vice Chairman of the board of directors of EnergyCo.
- (4) Includes options exercisable at that date. Common shareholdings will be dealt with in accordance with the Arrangement. Options will be dealt with as described under "Treatment of Outstanding Stock Options".

The directors' compensation will be determined by the board of directors of EnergyCo. or a committee thereof and will be competitive with directors' compensation of similarly sized companies.

Management

NOVA and TransCanada have agreed that, unless and until otherwise decided by the board of directors of EnergyCo., the individuals named below will be appointed to serve in the capacity appointed. The table below shows the name, position to be held with EnergyCo. and principal occupations within the last five years of each person who is to be an executive officer of EnergyCo.

<u>Name</u>	<u>Position to be held with EnergyCo.</u>	<u>Principal Occupations and Positions During last Five Years</u>
OFFICE OF THE CHIEF EXECUTIVE OFFICER		
George W. Watson	President and Chief Executive Officer	President and Chief Executive Officer, TransCanada. Prior to April 1994, Mr. Watson was President of TransCanada and prior to April 1993, he was Chief Financial Officer of TransCanada.
Bruce W. Simpson	Executive Vice President	Senior Vice President, NOVA and President and Chief Operating Officer of NGTL.
Walentin Mirosh	Senior Vice President, Business Development and Corporate Strategy	President, Alberta Natural Gas Company Ltd Prior to April 1996, Mr. Mirosh was Executive Vice President, Operations of Alberta Natural Gas Company Ltd and from May 1993 to May 1995, he was Senior Vice President, Law of Alberta Natural Gas Company Ltd.
OTHER EXECUTIVE OFFICERS		
Randall J. Findlay	Senior Vice President, and President of the Mid-Stream Assets and NGLs business unit	President, Novagas Canada Ltd. Prior to April 1996 Executive Vice President, Operations and Business Development of Novagas Clearinghouse Ltd. Prior to April 1995, President and Chief Executive Officer of High Bullen Resources Ltd. Prior to January 1995, President and Chief Executive Officer of Sogepet Ltd. Prior to July 1994, he was in a private consulting practice. Prior to July 1993 he was Senior Vice President, Exploration and Production for Encor Inc.
Stephen J.J. Letwin	Senior Vice President, Corporate Services and Chief Financial Officer	Senior Vice President and Chief Financial Officer of TransCanada since April, 1998. President of TransCanada Energy Management Inc. (now known as TransCanada Energy USA Inc.) since November 1996. From August 1993 to October 1995, Mr. Letwin was Senior Vice President, Finance, Chief Financial Officer and Corporate Secretary of Numac Energy Inc. Prior to August 1993, he was Senior Vice President, Chief Financial Officer and Corporate Secretary of Westcoast Petroleum Ltd.
Garry P. Mihaichuk	Senior Vice President and President of the International business unit	Senior Vice President, TransCanada and President and Chief Executive Officer of TransCanada International Ltd. Prior to July 1996, Mr. Mihaichuk was Senior Vice President of Amoco Corporation and Chairman of Amoco Orient Company. Prior to 1994, he was Vice President of Amoco Production Company.
Brian F. Olson	Senior Vice President, Human Resources	Executive Vice President, Strategic Planning, NOVA Gas International. Prior to December, 1996, President and Chief Executive Officer, Novagas Clearinghouse Ltd. Prior to July, 1995, President and Chief Executive Officer, Pan-Alberta Gas Ltd. Prior to February, 1995, Vice President NOVA Gas Services Ltd. Prior to 1994, Senior Vice President, Human Resources, NOVA.
Robert J. C. Reid	Senior Vice President and President of the Transmission business unit	Senior Vice President, TransCanada and President, the Canadian Mainline.
G. Lawrence Spackman	Senior Vice President and President of Marketing, Trading and Power	President, TransCanada Gas Services and TransCanada Power, divisions of TransCanada Energy Ltd. Prior to June 1995, Mr. Spackman was President of Northridge Gas Marketing Inc.

Name	Position to be held with EnergyCo.	Principal Occupations and Positions During last Five Years
Ronald J. Turner	Senior Vice President and President of the Alberta transmission business unit	Vice President, Value Process West, NOVA Chemicals Ltd. and Executive Vice President, NGTL. Prior to December, 1997, Vice President, Facilities Provision, NGTL. Prior to July 1994, Vice President, Engineering, NGTL. Prior to May 1994, Vice President, Engineering, Alberta Gas Transmission Division, NOVA. Prior to December 1993, Vice President, Malaysian Operations, Novacorp International Consulting Inc.
Robert A.M. Young, Q.C.	Senior Vice President, Legal Services and Chief Compliance Officer	Senior Vice President, Law and Chief Compliance Officer of TransCanada.

Messrs. Watson, Simpson and Mirosh will constitute the Office of the Chief Executive Officer of EnergyCo. The Office of the Chief Executive Officer of EnergyCo. will be created to provide for the effective co-ordination of EnergyCo.'s businesses, business strategies and corporate development.

Corporate Governance of EnergyCo.

Both the boards of directors and the management of each of NOVA and TransCanada recognize the inherent value of having appropriate structures and procedures in place to ensure that the board of directors of EnergyCo. can function independently of management. Accordingly, both boards of directors and the management of each of NOVA and TransCanada intend to recommend to the board of directors of EnergyCo. the adoption of a number of policies which are aimed at ensuring the effectiveness of its corporate governance practices. In adopting a corporate governance policy, it is expected that the board of directors of EnergyCo. will consider the corporate governance policies of TransCanada described in the TransCanada Annual Report for the year ended December 31, 1997 as well as the corporate governance policies of NOVA described in the NOVA Management Information Circular dated May 19, 1998.

Principal Holders of Securities

To the knowledge of the senior management and directors of TransCanada, there are no shareholders of TransCanada who would, had the Arrangement occurred on the date hereof, beneficially own, directly or indirectly, or exercise control or direction over, in excess of 10% of the EnergyCo. Common Shares. To the knowledge of NOVA, there are no shareholders of NOVA who would, had the Arrangement occurred on the date hereof, beneficially own, directly or indirectly, or exercise control or direction over, in excess of 10% of the EnergyCo. Common Shares.

Auditors, Transfer Agent and Registrar

The auditors of EnergyCo. will be KPMG, Chartered Accountants, Calgary, Alberta. The transfer agents and registrars of the EnergyCo. Common Shares and the EnergyCo. Preferred Shares will be Montreal Trust Company of Canada, with offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax and Bank of Montreal Trust Company, at its office in New York, New York.

Dividends

It is anticipated that EnergyCo. will initially pay annual dividends on EnergyCo. Common Shares in an amount equal to \$1.12 per share commencing with a quarterly payment in respect of the third quarter of 1998. However, there can be no assurance that such dividends will be declared. The declaration and payment of dividends will be at the discretion of the board of directors of EnergyCo. which will consider earnings, capital requirements, the financial condition of EnergyCo. and other relevant factors.

When paying dividends to shareholders not resident in Canada, EnergyCo. will be required under Canadian tax law to withhold and remit to the federal Government of Canada 25% non-resident withholding tax, unless this rate is reduced by a tax treaty. A tax treaty between Canada and the United States generally reduces the rate to 15% for most United States resident shareholders. Under certain circumstances, the IRC permits United States residents to claim the tax withheld as a credit against their United States federal taxes payable.

EnergyCo. Stock Option Plan

The TransCanada Stock Option Plan will continue as the EnergyCo. Stock Option Plan after the Arrangement. The primary purpose of the EnergyCo. Stock Option Plan will be to provide incentive to key employees, including EnergyCo. officers, to: (a) align their interests with those of the common shareholder; (b) contribute to growth of shareholder value; (c) produce continuous improvement in operating results; (d) remain as employees; and (e) become the owners of EnergyCo. Common Shares.

It is proposed, as separate business for TransCanada Common Shareholders from the business relating to the approval of the Arrangement, to seek approval of an increase in the number of shares available for grants of options under the TransCanada Stock Option Plan to a total of 25,000,000 common shares (inclusive of shares reserved currently and to be reserved as a result of the automatic adjustments to such current number as a result of the anti-dilution adjustments proposed for existing options) or approximately 5.5% of the number of TransCanada Common Shares to be outstanding after the Arrangement. See also the TransCanada Management Proxy Circular dated May 19, 1998 and "Treatment of Outstanding Stock Options" in this Joint Circular.

A copy of the current TransCanada Stock Option Plan may be obtained by the shareholders of NOVA or TransCanada by request to the Corporate Secretary of TransCanada at TransCanada PipeLines Tower, 111 - 5th Avenue S.W., Calgary, Alberta, T2P 3Y6.

EnergyCo. Dividend Reinvestment and Share Purchase Plan

Purpose. The TransCanada Dividend Reinvestment and Share Purchase Plan will continue, as amended, as the EnergyCo. Dividend Reinvestment and Share Purchase Plan (the "EnergyCo. DRP").

The following description of the EnergyCo. DRP does not constitute an offer to sell or a solicitation of an offer to buy any securities under the EnergyCo. DRP. In Canada and other jurisdictions outside the United States and Canada where EnergyCo. may legally offer securities under the EnergyCo. DRP, the offering is made by an offering circular, a copy of which is included in Appendix M at pages M-C-1 to M-C-6. In the United States, the offering is made only by prospectus, a copy of which is set forth in its entirety in Appendix M. The offering of securities under the EnergyCo. DRP outside the United States has not been registered under the Securities Act of 1933, as amended, and such securities may not be offered or sold in the United States, absent registration or an applicable exemption from registration under such Act.

The EnergyCo. DRP will permit eligible holders of common and/or preferred shares of EnergyCo. to purchase additional common shares of EnergyCo. by reinvesting their cash dividends and/or by making optional cash payments.

Participation. Except as described below, a registered holder of common and/or preferred shares of EnergyCo. will be eligible to join the EnergyCo. DRP at any time by completing an authorization form and sending it to Montreal Trust Company of Canada (the "Trustee"). Beneficial owners of common and/or preferred shares of EnergyCo. whose shares are not registered in their own names may participate in the EnergyCo. DRP after having their shares transferred into their own names. Once a shareholder has enrolled in the EnergyCo. DRP, participation continues automatically unless terminated in accordance with the terms of the EnergyCo. DRP.

Under the terms of the EnergyCo. DRP, shareholders may direct the Trustee to reinvest cash dividends on all of the common and/or preferred shares and to invest optional cash payments in additional common shares of EnergyCo.

A registered holder shall become a participant in the EnergyCo. DRP with regard to optional cash payments as of the first common share dividend payment date following receipt by the Trustee of a payment and a properly completed authorization form. Optional cash payments to EnergyCo. under the EnergyCo. DRP may not be less than Cdn. \$50 or U.S. \$35 per remittance and may not exceed an aggregate of Cdn. \$5,000 or U.S. \$3,500 in any quarter.

Current shareholders of TransCanada who are participants in the TransCanada Dividend Reinvestment and Share Purchase Plan will continue as members of the EnergyCo. DRP without further action on their behalf.

However, such participants will receive certificates for NOVA Chemicals Common Share entitlements derived from their TransCanada account balances as at the Effective Time.

Shareholders of NOVA who will acquire shares of EnergyCo. as a result of the Arrangement must apply to become participants in the EnergyCo. DRP. For the convenience of participants in the NOVA DRSP, NOVA and TransCanada have provided the following options in the letters of transmittal that NOVA Shareholders have received with this Joint Circular:

- (i) If NOVA Common Shareholders wish to have the NOVA Chemicals Common Shares and EnergyCo. Common Shares to which they are entitled on exchange of their NOVA Common Shares which they hold both directly and as part of the NOVA DRSP combined into one certificate for each type of security, they should check the appropriate box on the white letter of transmittal included with this Joint Circular. If such letter of transmittal is received by the Depository before 1700 hrs. (Mountain Daylight Savings Time) on June 26, 1998, one certificate for each security representing the combined amount due will be issued.
- (ii) If NOVA Shareholders wish to become enrolled in the EnergyCo. DRP in respect of their new EnergyCo. Common Shares or EnergyCo. Preferred Shares, they should check the appropriate box on the letter of transmittal to ensure that EnergyCo. will enroll them upon receipt of such letter of transmittal. If such letter of transmittal with this box checked is received by the Depository before June 26, 1998, the EnergyCo. Common Shares due in respect of NOVA Common Shares under the Arrangement will be transferred from the NOVA DRSP upon its termination to the EnergyCo. DRP without further action by the shareholder. Certificates for the NOVA Chemicals share entitlements for NOVA DRSP participants will be sent to such participants as soon as practicable.

Method of Purchase. Cash dividends payable on the common and/or preferred shares registered in a participant's EnergyCo. DRP account and all shares accumulated in an EnergyCo. DRP account, less any applicable withholding tax, will be applied automatically on each dividend payment date to the purchase of additional common shares of EnergyCo. Optional cash payments to the EnergyCo. DRP will be applied to the purchase of additional common shares of EnergyCo. on the common share dividend payment date following receipt of such payment.

A participant's account will be credited with the number of additional common shares of EnergyCo., including fractional shares computed to four decimal places, which is equal to the amounts to be invested for such participant divided by the applicable purchase price. EnergyCo. Common Shares issued pursuant to the EnergyCo. DRP will initially be registered in the name of the Trustee, as trustee for the participants and will only be certificated in respect of whole shares upon request by the participants.

Price of Additional Common Shares. The price of additional common shares purchased with optional cash payments will be 100% of the Average Market Price. For these purposes, the "Average Market Price" will be the weighted average price of all EnergyCo. Common Shares traded on the TSE on the twenty (20) trading days preceding the applicable dividend payment date. The price of additional EnergyCo. Common Shares purchased with cash dividends will be 95% of the Average Market Price.

Share Voting. Whole common shares held for a participant's account under the EnergyCo. DRP will be voted in the same manner as EnergyCo. Common Shares held in certificate form, either by proxy or by the participant in person. Shares for which instructions are not received will not be voted.

Amendment, Suspension or Termination of the Plan. EnergyCo. will reserve the right to amend, suspend or terminate the EnergyCo. DRP at any time, but such action shall have no retroactive effect which would prejudice the interests of participants. Participants will be sent written notice of any such amendment, modification, suspension or termination. If the EnergyCo. DRP is terminated by the company, participants will receive a certificate for whole EnergyCo. Common Shares being held for them, a cash payment for any fraction of a common share and the return of any uninvested optional cash payments.

Non-residents of Canada. Shareholders outside of Canada may participate in the EnergyCo. DRP if permitted by law in the jurisdiction where they reside. Dividends designated by a non-resident participant for

reinvestment under the EnergyCo. DRP will be reduced by the amount of Canadian withholding tax applicable thereto.

Use of Proceeds. The proceeds received by EnergyCo. from the issue of common shares under the EnergyCo. DRP will be used for general corporate purposes.

TransCanada Shareholder Rights Plan

The TransCanada Shareholder Rights Plan has provisions that require that it be periodically reconfirmed. Reconfirmation of the TransCanada Shareholder Rights Plan is required at the TransCanada Meeting, otherwise it expires. TransCanada Common Shareholders will be asked to renew such plan and to make certain amendments at the TransCanada Meeting.

Proposed Amendments

The significant amendments proposed to the TransCanada Shareholder Rights Plan are:

- (a) The exercise price for the rights will be increased from \$60 to \$100, reflecting the rise in the company's share price since the TransCanada Shareholder Rights Plan first came into effect.
- (b) In order for the board of directors to redeem the rights, the prior consent of the holders of common shares (or of the holders of the rights, if the rights have separated from the common shares) must be obtained at a meeting duly called and held for such purpose.
- (c) Key definitions, such as "Beneficial Owner" and "acting jointly or in concert" will be amended to conform to current practice in Canada whereby, *inter alia*, the position of portfolio managers acting for pension plans and others will be further clarified such that the ordinary course activities of these entities would not trigger the operation of the plan and the beneficial ownership of an offeror of shares deposited pursuant to a "lock-up agreement" will be clarified; and
- (d) The power of the board of directors to interpret the TransCanada Shareholder Rights Plan will be further restricted.

Summary of TransCanada Shareholder Rights Plan

The following is a summary of the principal terms of the TransCanada Shareholder Rights Plan as proposed to be amended which is qualified in its entirety by reference to the text of the TransCanada Shareholder Rights Plan. Copies of the complete TransCanada Rights Plan, as proposed to be amended, are available from the TransCanada Corporate Secretary, TransCanada PipeLines Tower, 111 - 5th Avenue S.W., Calgary, Alberta, T2P 3Y6.

Effective Date. The TransCanada Shareholder Rights Plan was effective on December 2, 1994 (the "Plan Effective Date"). The amendment to the TransCanada Shareholder Rights Plan which will continue as the rights plan for EnergyCo., amended as proposed at the TransCanada Meeting, will take effect on approval by the TransCanada Common Shareholders.

Term. To December 2, 2004, subject to reconfirmation and approval by the shareholders as part of the TransCanada Special Resolution at the annual meeting and to reconfirmation by the shareholders at the 2001 annual meeting of EnergyCo.

Issue of Rights. On the Plan Effective Date, one right was issued and attached to each TransCanada Common Share outstanding and to any TransCanada Common Share issued thereafter. On the Effective Date, such rights will become attached to each EnergyCo. Common Share issued upon the Arrangement. One new right will be attached to each EnergyCo. Common Share issued thereafter.

Rights Exercise Privilege. The rights will separate from the EnergyCo. Common Shares and will be exercisable eight trading days (the “Separation Time”) after a person has acquired, or commences a take-over bid to acquire, 20% or more of the EnergyCo. Common Shares, other than by an acquisition pursuant to a take-over bid permitted by the TransCanada Shareholder Rights Plan (a “Permitted Bid”). The acquisition by any person (an “Acquiring Person”) of 20% or more of the EnergyCo. Common Shares, other than by way of a Permitted Bid or Competing Permitted Bid, is referred to as a “Flip-in Event”. Any rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Eight trading days after the occurrence of the Flip-in Event, each right (other than those held by the Acquiring Person) will permit the purchase of \$200 worth of EnergyCo. Common Shares for \$100.

The issue of the rights is not initially dilutive. Upon a Flip-in Event occurring and the rights separating from the common shares, reported earnings per share on a fully diluted or non-diluted basis may be affected. Holders of rights not exercising their rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Certificates and Transferability. Prior to the Separation Time, the rights are evidenced by a legend imprinted on certificates for the common shares issued from and after the Plan Effective Date and are not to be transferable separately from the common shares. From and after the Separation Time, the rights will be evidenced by rights certificates which will be transferable and traded separately from the EnergyCo. Common Shares.

Permitted Bid Requirements. The requirements for a Permitted Bid include the following:

- (i) the take-over bid must be made by way of a take-over bid circular;
- (ii) the take-over bid must be made to all shareholders;
- (iii) the take-over bid must be outstanding for a minimum period of 60 days and common shares tendered pursuant to the take-over bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50% of the common shares held by shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the “Independent Shareholders”), have been tendered to the take-over bid and not withdrawn; and
- (iv) if more than 50% of the common shares held by Independent Shareholders are tendered to the take-over bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of common shares for an additional 10 business days from the date of such public announcement.

The TransCanada Shareholder Rights Plan allows for a competing Permitted Bid (a “Competing Permitted Bid”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 21 days.

Waiver. The TransCanada board of directors, acting in good faith, may, until the occurrence of a Flip-in Event, waive the application of the TransCanada Shareholder Rights Plan to a particular Flip-in Event (an “Exempt Acquisition”) where the take-over bid is made by a take-over bid circular to all holders of common shares. Where the board of directors exercises the waiver power for one take-over bid, the waiver will also apply to any other take-over bid for TransCanada made by take-over bid circular to all holders of common shares prior to the expiry of any other bid for which the TransCanada Shareholder Rights Plan has been waived.

Redemption. The TransCanada board of directors, with the majority approval of shareholders (or the holders of rights if the Separation Time has occurred) at a meeting duly called for that purpose, may redeem the rights at \$0.001 per share. Rights may also be redeemed by the board of directors without such approval following completion of a Permitted Bid, Competing Permitted Bid or Exempt Acquisition.

Amendment. The TransCanada board of directors may amend the TransCanada Shareholder Rights Plan with the majority approval of shareholders (or the holders of rights, if the Separation Time has occurred) at a meeting duly called for that purpose. The board of directors without such approval may correct clerical or typographical errors and, subject to approval as noted above at the next meeting of the shareholders (or holders

of rights, as the case may be), may make amendments to the TransCanada Shareholder Rights Plan to maintain its validity due to changes in applicable legislation.

Exemptions for Investment Advisors. Investment advisors (for fully managed accounts), trust companies (acting in their capacities as trustees and administrators) statutory bodies whose business includes the management of funds and administrators of registered pension plans acquiring greater than 20% of the common shares are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a take-over bid for the company.

The TransCanada Shareholder Rights Plan will not detract from or lessen the duty of the board of directors to act honestly and in good faith with a view to the best interests of the company. The TransCanada board of directors, when a Permitted Bid is made, will continue to have the duty and power to take such actions and make such recommendations to shareholders as are considered appropriate.

NOVA CHEMICALS

Business Strategy

NOVA Chemicals will focus on the manufacturing and marketing of commodity chemicals. NOVA Chemicals' objective will be to maintain and enhance NOVA's strong competitive position by continuing to:

1. focus on access to low-cost feedstock;
2. operate low-cost world scale facilities;
3. invest in cost effective capacity increases of existing facilities;
4. develop focused and fully competitive process and product technology; and
5. position itself to aggressively pursue focused and intelligent growth opportunities through participation in joint ventures, acquisitions and other strategic initiatives.

NOVA applies this strategy in its two commodity chemicals businesses, olefins/polyolefins and styrenics. NOVA also has an equity investment in Methanex. Methanex produces methanol, another commodity chemical, using a similar focused strategy.

Business Activities

NOVA currently operates, and after the Arrangement will continue to operate, the commodity chemicals business through its subsidiary NOVA Chemicals Ltd.

The chemicals business consists of two commodity chemicals businesses: olefins/polyolefins and styrenics. The olefins/polyolefins business produces ethylene, polyethylene and a variety of chemical and energy products. The styrenics business produces styrene and styrenic polymers, which include solid polystyrene, expandable polystyrene, engineering resins and certain specialty polymers. NOVA Chemicals Ltd. operates major olefins/polyolefins production facilities at Joffre, Alberta and in the Sarnia area of Ontario, as well as styrenics production facilities at: Montreal, Quebec; Beaver Valley, Pennsylvania; Painesville, Ohio; Decatur, Alabama; and Springfield, Massachusetts.

A significant expansion of the Joffre ethylene/polyethylene complex is underway with a series of previously announced projects. These include a 2.8 billion pound-per-year ethylene facility ("EIII") to be equally owned with Union Carbide Canada Inc. and an 850 million pound-per-year polyethylene facility ("PEII") to be wholly-owned by NOVA Chemicals, both of which are scheduled for completion in mid-year 2000.

The following table summarizes NOVA Chemicals Ltd.'s facilities:

<u>Site</u>	<u>Principal Products</u>	<u>1997 Rated Capacity⁽¹⁾</u> (MMlbs/year)	<u>Principal End-Use Products</u>
Joffre, Alberta	Ethylene (EI) Ethylene (EII) Co-products	1,600 1,800 — ⁽²⁾	Polyethylene resin, ethylene glycol, ethylene dichloride, styrene, vinyl acetate
Corunna, Ontario	Ethylene Propylene Co-products	1,600 650 to 835 — ⁽²⁾	Polyethylene, styrene Polypropylene, isopropyl alcohol, propylene oxides Gasoline, fuel additives and other energy related products
Sarnia, Ontario; Channelview, Texas ⁽³⁾	Styrene	1,400	Polystyrene resin, synthetic rubber, acrylonitrile butadiene styrene resin
Joffre, Alberta	Linear low-density polyethylene (PEI)	1,200	Polyethylene bags, polyethylene films, pipe, toys, plastic containers and compounding resins
Moore Township, Ontario	High-density polyethylene, low-density polyethylene	720	Polyethylene bags, polyethylene films, pipe, large blow- moulded drums, plastic containers
St. Clair River, Ontario	Linear low-density polyethylene, high density polyethylene	600	Polyethylene bags, polyethylene films, pipe, large blow- moulded drums, plastic containers
Rockport, New Jersey ⁽⁴⁾	Wire and cable polyethylene products	25	Wire, cable and fibre optic cables insulated and/or jacketed with polyethylene
Montreal, Quebec; Springfield, Massachusetts; Decatur, Alabama	Polystyrene resins	740	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys
Beaver Valley, Pennsylvania	Polystyrene resins and styrene maleic anhydride copolymer	440	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys, automotive parts and formed packing
Painesville, Ohio	Polystyrene resins	75	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys and formed packing

Notes:

- (1) Capacity at December 31, 1997.
- (2) Joffre and Corunna co-product capacity is not rated.
- (3) NOVA Chemicals Ltd. owns a minority interest in the facility and receives styrene monomer as a result of this interest. NOVA Chemicals Ltd. also entered into a tolling arrangement for additional styrene monomer from this facility as part of the acquisition of ARCO Chemicals Company's plastics business.
- (4) NOVA Chemicals Ltd. owns 50% of NOVA-Borealis Compounds LLC which owns this facility.

NOVA Chemicals will continue to own approximately 27% of the common shares of Methanex and 26% of the common shares of NGC. Methanex is the world's largest producer and marketer of methanol with facilities located in North America, New Zealand and Chile. The market value of NOVA's investment in Methanex was approximately \$583 million at May 19, 1998. NGC is a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom. NGC conducts its operations in three business segments: natural gas and power marketing; natural gas liquids, crude oil and gas transmission; and power generation. The market value of NOVA's investment in NGC was approximately \$783 million at May 19, 1998.

Selected pro forma chemicals business financial information for the year ended December 31, 1997:

- Assets \$3.8 billion
- Revenues \$3.4 billion
- Net income applicable to common shares . . . \$225 million⁽¹⁾

Note:

(1) Excludes a \$57 million loss representing NOVA Chemicals' share of NGC's restructuring charge.

See Appendix K — NOVA Chemicals Unaudited Pro Forma Consolidated Financial Statements. For more detailed information relating to the business of NOVA Chemicals see Appendix I — Information Relating to NOVA Chemicals Ltd.

Directors

Pursuant to the Plan of Arrangement, the directors of NOVA Chemicals will be the individuals referred to below, who shall hold office until the first meeting of NOVA Chemicals Common Shareholders or until their respective successors have been duly elected or appointed. NOVA Chemicals will have an audit committee and such other committees as determined by the board of directors of NOVA Chemicals from time to time.

<u>Directors of NOVA Chemicals; Name and Municipality of Residence</u>	<u>Major Position with NOVA or TransCanada and Significant Affiliates</u>	<u>Principal Occupation</u>	<u>Director of NOVA or TransCanada Since</u>	<u>Common Shares Held as of April 30, 1998⁽³⁾</u>
Dr. F. Peter Boer Village of Golf, Florida	Director, NOVA	President and Chief Executive Officer of Tiger Scientific, Inc. (science and technology, consulting and investments). Prior to 1995, he was Executive Vice President and Chief Technical Officer of W. R. Grace & Co. He is a professor of chemical engineering in the School of Management at Yale University and serves on The Clean Air Act Advisory Committee of the Environmental Protection Agency (U.S.).	February 1991	29,598 NOVA nil TransCanada
Robert E. Dineen, Jr. New York, New York	Director, TransCanada	Partner of Shearman & Sterling, Attorneys-at-Law, New York, New York.	April 1989	nil NOVA 4,118 TransCanada
L. Yves Fortier, C.C., Q.C. Montreal, Quebec	Director, TransCanada	Chairman and a senior partner of Ogilvy Renault, Barristers and Solicitors, Montreal, Quebec. He is also a director of a number of other companies.	April 1992	nil NOVA 2,086 TransCanada
Kerry L. Hawkins Winnipeg, Manitoba	Director, TransCanada	President of Cargill Limited, Winnipeg, Manitoba (grain handlers and merchants, transporters and processors of agricultural products).	April 1996	nil NOVA 1,940 TransCanada
Jeffrey M. Lipton Calgary, Alberta	President of NOVA and President and Chief Executive Officer, NOVA Chemicals Ltd.	President of NOVA and President and Chief Executive Officer of NOVA Chemicals Ltd. From late 1993 to 1998, Mr. Lipton held various senior management positions with NOVA. Prior to December 1993, he was Vice President, Corporate Plans of E.I. du Pont de Nemours & Co. He is also a director of a number of other companies.	April 1996	936,549 NOVA nil TransCanada
Gerald J. Maier ⁽¹⁾ Calgary, Alberta	Chairman of the Board, TransCanada	Chairman of the Board, TransCanada. Prior to April 1994, Mr. Maier was Chairman and Chief Executive Officer of TransCanada. Prior to April 1993 he was Chairman, President and Chief Executive Officer of TransCanada. He is also a director of a number of other companies.	December 1983	nil NOVA 527,087 TransCanada

Directors of NOVA Chemicals; Name and Municipality of Residence	Major Position with NOVA or TransCanada and Significant Affiliates	Principal Occupation	Director of NOVA or TransCanada Since	Common Shares Held as of April 30, 1998⁽³⁾
James M. Edward (Ted) Newall O.C., ⁽²⁾ Calgary, Alberta	Vice Chairman and Chief Executive Officer, NOVA	Vice Chairman and Chief Executive Officer of NOVA. Prior to September 1, 1994, he was President and Chief Executive Officer of NOVA. He is also a director of a number of other companies and is Chair, Board of Governors, University of Calgary.	August 1991	1,815,304 NOVA nil TransCanada
Dr. Nicholas Pappas Centreville, Delaware	Director, NOVA	President and Chief Executive Officer of BioTraces, Inc. He is also a director of a number of other companies.	February 1992	33,150 NOVA nil TransCanada
Robert L. Pierce, Q.C. Calgary, Alberta	Chairman and Chief Executive Officer of Foothills Pipe Lines Ltd. and Vice Chairman of NOVA Gas International Ltd.	Chairman and Chief Executive Officer of Foothills Pipe Lines Ltd. and Vice Chairman of NOVA Gas International Ltd. He was a Senior Vice President of NOVA from December 31, 1991 to May 16, 1994. He is also a director of a number of other companies.	May 1977	379,849 NOVA nil TransCanada
Janice G. Rennie, F.C.A. Edmonton, Alberta	Director, NOVA	President of Research Technology Management Inc. Prior to April 1997, she was a business consultant and advisor; prior to 1996, she was President of Bellanca Developments; and prior to September 1994, she was Senior Vice President of Princeton Developments Ltd. (commercial real estate developer). She is also a director of a number of other companies.	April 1991	29,483 NOVA nil TransCanada
Joseph D. Thompson Edmonton, Alberta	Director, TransCanada	Chairman, PCL Construction Group Inc., Edmonton, Alberta (general construction contractors). Prior to July 1997, Mr. Thompson was Chairman, President and Chief Executive Officer of PCL Construction Group Inc. Prior to October 1993, Mr. Thompson was Vice-Chairman, President and Chief Executive Officer.	April 1995	10,000 NOVA 4,343 TransCanada
Margaret K. Witte Kirkland, Washington	Director, TransCanada	Chairman, President and Chief Executive Officer of Royal Oak Mines Inc., Kirkland, Washington (mining company).	April 1995	nil NOVA 1,108 TransCanada

Notes:

- (1) To be Vice Chairman of the board of directors of NOVA Chemicals.
- (2) To be Chairman of the board of directors of NOVA Chemicals.
- (3) Includes options exercisable at that date. Common shareholdings will be dealt with in accordance with the Arrangement. Options will be dealt with as described under "Treatment of Outstanding Stock Options".

The directors' compensation will be determined by the board of directors of NOVA Chemicals or a committee thereof and will be competitive with directors' compensation of similarly sized companies.

Management

NOVA and TransCanada have agreed that, unless and until otherwise decided by the board of directors of NOVA Chemicals, the individuals named below will be appointed to serve in the capacity appointed. The table

below shows the name, position to be held with NOVA Chemicals and principal occupations within the last five years of each person who is to be an executive officer of NOVA Chemicals.

Name	Position to be held with NOVA Chemicals	Principal Occupations and Positions During last Five Years
Jeffrey M. Lipton	President and Chief Executive Officer	President of NOVA and President and Chief Executive Officer, NOVA Chemicals Ltd. Prior to January 1998, President, NOVA and Chief Executive Officer, NOVA Chemicals Ltd.; prior to December 1994, President and Chief Operating Officer of NOVA; prior to September 1994, Senior Vice President and Chief Financial Officer, NOVA; prior to February 1994, Senior Vice President, Novacor Chemicals Inc.; prior to December 1993, Vice President, Corporate Plans of E. I. du Pont de Nemours & Co.
A. Terence Poole	Executive Vice President, Finance and Strategy	Senior Vice President and Chief Financial Officer, NOVA. Prior to September 1994, Senior Vice President, Corporate Development and Controller of NOVA; prior to September 1993, Vice President and Controller of NOVA.
Daniel W. Boivin	Senior Vice President Olefins/Polyolefins and President, Olefins/Polyolefins Division	Senior Vice President, NOVA and President of the Olefins/Polyolefins Division, NOVA Chemicals Ltd. Prior to January 1998, President and Chief Operating Officer, NOVA Chemicals Ltd. Prior to September 1994, Senior Vice President, Olefins/Polyolefins, NOVA Chemicals Ltd.; prior to December 1993, Vice President and General Manager, Plastics, DuPont Canada Inc.
Wes W. Lucas	Senior Vice President Styrenics, and Senior Vice President and General Manager, Styrenics Division	Senior Vice President, Styrenics and Senior Vice President and General Manager, Styrenics Division, NOVA Chemicals Ltd. Prior to January 1998, Vice President, Allied Signal Inc. Prior to April 1995, Manager, McKinsey & Company.
Wayne E. Lunt	Senior Vice President and Chief Financial Officer	Senior Vice President, TransCanada and President, North American Pipeline Investments. Prior to April 1996, President and Chief Executive Officer of Alberta Natural Gas Company Ltd and prior to May 1995, Senior Vice President, Chief Financial Officer and Treasurer of Alberta Natural Gas Company Ltd.
Lawrence A. MacDonald	Senior Vice President, Corporate Development	Senior Vice President, Corporate Development, NOVA Chemicals Ltd., NOVA; Vice President, Chief Information Officer and Treasurer, NOVA and prior to December 1995, Vice President and Controller, NOVA Chemicals Ltd.
Jack S. Mustoe	Senior Vice President, Legal	Senior Vice President, General Counsel and Corporate Environmental Officer, NOVA. Prior to October 1994, Senior Vice President, General Counsel and Corporate Secretary of NOVA.
Sheila H. O'Brien	Senior Vice President, Human Resources and Public Affairs	Senior Vice President, Human Resources, NOVA. Prior to January 1995, Vice President for People and Community, NGTL; prior to July 1994, Vice President for People, NGTL.
Dale H. Spiess	Senior Vice President, Polyethylene Sales and Marketing and Senior Vice President, Sales and Marketing, Olefins/Polyolefins Division	Senior Vice President, Polyethylene Sales and Marketing and Senior Vice President, Sales and Marketing, Olefins/Polyolefins Division, NOVA Chemicals Ltd. Prior to January 1998, Group Vice President, Polyolefins, Millennium Petrochemicals, Inc.

Corporate Governance of NOVA Chemicals

Both the board of directors and the management of each of NOVA and TransCanada recognize the inherent value of having appropriate structures and procedures in place to ensure that the board of directors of NOVA Chemicals can function independently of management. Accordingly, both boards of directors and the management of each of NOVA and TransCanada intend to recommend to the board of directors of NOVA Chemicals the adoption of a number of policies which are aimed at ensuring the effectiveness of its corporate governance practices. In adopting a corporate governance policy, it is expected that the board of directors of NOVA Chemicals will consider the corporate governance policies of NOVA described in the NOVA Management Information Circular dated May 19, 1998 as well as the corporate governance policies of TransCanada described in the TransCanada Annual Report for the year ended December 31, 1997.

Principal Holders of Securities

To the knowledge of NOVA, there are no persons who would, had the Arrangement occurred on the date hereof, beneficially own, directly or indirectly, or exercise control or direction over, in excess of 10% of the NOVA Chemicals Common Shares. To the knowledge of TransCanada, there are no persons who would, had the Arrangement occurred on the date hereof, beneficially own, directly or indirectly, or exercise control or direction over, in excess of 10% of the NOVA Chemicals Common Shares.

Auditors, Transfer Agent and Registrar

The auditors of NOVA Chemicals will be Ernst & Young, Chartered Accountants, Calgary, Alberta. The transfer agents and registrars of the NOVA Chemicals Common Shares will be CIBC Mellon Trust Company, with offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax and Chase Mellon Shareholder Services, at its office in New York, New York.

Dividends

It is anticipated that NOVA Chemicals will initially pay annual dividends on NOVA Chemicals Common Shares in an amount equal to \$0.40 per share, after giving effect to the Consolidation, commencing with a quarterly payment in respect of the third quarter of 1998. However, there can be no assurance that such dividends will be declared. The declaration and payment of dividends will be at the discretion of the board of directors of NOVA Chemicals which will consider earnings, capital requirements, the financial condition of NOVA Chemicals and other relevant factors.

When paying dividends to shareholders not resident in Canada, NOVA Chemicals will be required under Canadian tax law to withhold and remit to the federal government of Canada 25% non-resident withholding tax unless this rate is reduced by a tax treaty. A tax treaty between Canada and the United States generally reduces the rate of withholding to 15% for most United States resident shareholders. Under certain circumstances, the IRC permits United States residents to claim the tax withheld as a credit against their United States federal taxes payable.

NOVA Chemicals Stock Option Plan

The existing NOVA Stock Option Plan will continue as the NOVA Chemicals Stock Option Plan after the Arrangement. The primary purpose of the NOVA Chemicals Stock Option Plan will be to provide incentive to key employees, including NOVA Chemicals officers, to: (a) align their interests with those of the common shareholder; (b) contribute to growth of shareholder value; (c) produce continuous improvement in operating results; (d) remain as employees; and (e) become the owners of NOVA Chemicals Common Shares.

It is proposed, as separate business for NOVA Common Shareholders from the business relating to the approval of the Arrangement, to seek approval of an increase in the number of shares available for grants of options under the NOVA Stock Option Plan to a total of 45,000,000 common shares (pre-Consolidation) (inclusive of shares reserved currently and to be reserved as a result of the automatic adjustments to such current number as a result of the anti-dilution adjustments proposed for existing options) or approximately 10% of the number of NOVA Chemicals Common Shares to be outstanding after the Arrangement. See also the

NOVA Management Information Circular dated May 19, 1998 and “Treatment of Outstanding Stock Options” in this Joint Circular.

A copy of the current NOVA Stock Option Plan may be obtained by the shareholders of NOVA or TransCanada from the Corporate Secretary of NOVA at NOVA Corporation, P.O. Box 2535, Postal Station “M”, Calgary, Alberta, T2P 2N6.

NOVA Dividend Reinvestment and Share Purchase Plan

The board of directors of NOVA has resolved to terminate the NOVA Dividend Reinvestment and Share Purchase Plan (“NOVA DRSP”) upon and subject to the Arrangement becoming effective. Dividends on NOVA Common Shares for the second quarter of 1998 will be paid only in cash, whether or not the Arrangement becomes effective, to holders of record on June 29, 1998. In the event the Arrangement does become effective, the NOVA DRSP will terminate on and as of the Effective Date and certificates for the NOVA Chemicals and EnergyCo. Common Shares that NOVA DRSP participants become entitled to will be issued in certificate form and be sent to such participants as soon as practicable after the Effective Date. However, participants in the NOVA DRSP who elect in the relevant letter of transmittal to participate in the EnergyCo. DRP will not receive EnergyCo. Common Share certificates in respect of their NOVA DRSP account balances. Such account balances will be adjusted in accordance with the Exchange Ratio and the resultant balance of EnergyCo. Common Shares will be transferred to the EnergyCo. DRP. Certificates for the NOVA Chemicals Common Share entitlements for such participants will be sent to NOVA DRSP participants as soon as practicable. For particulars regarding how to elect to participate in the EnergyCo. DRP, see “EnergyCo. Dividend Reinvestment and Share Purchase Plan”. NOVA Chemicals will not have a dividend reinvestment plan, although it is intended that NOVA Chemicals will initially pay an annual dividend, as described elsewhere herein.

In the event the Arrangement is not approved at the NOVA Meeting or the Effective Date does not occur for any reason, the NOVA DRSP will not terminate and all subsequent NOVA dividends payable to participants of the NOVA DRSP (after the second quarter of 1998 dividend to be paid while the NOVA DRSP is suspended) will be dealt with in the usual way under the NOVA DRSP.

NOVA Chemicals Shareholder Rights Plan

In 1994, NOVA’s shareholders ratified the company’s decision to adopt a shareholder rights plan. The plan expires in May, 1999. The rights plan is designed to provide NOVA’s shareholders with sufficient time to evaluate a take-over bid for NOVA’s common shares and to give NOVA’s board of directors time to consider alternatives designed to enable NOVA shareholders to receive full and fair value for their shares. Additionally, the NOVA Shareholder Rights Plan is designed to provide NOVA shareholders with equal treatment in a take-over bid. Upon the Effective Date, the NOVA Shareholder Rights Plan will continue as the NOVA Chemicals rights plan (the “NOVA Chemicals Rights Plan”).

As part of the Special Resolution, NOVA Shareholders will be approving a technical amendment to the NOVA Shareholder Rights Plan to amend the definition of “Acquiring Person” to confirm that TransCanada and any wholly owned subsidiary of TransCanada is not an “Acquiring Person” in respect of their momentary holding of NOVA Shares under the Arrangement.

In addition, the exercise price for the rights will become \$150, reflecting the impact of the Consolidation as part of the Arrangement.

Summary of NOVA Chemicals Shareholders Rights Plan

The following is a summary of the principal terms of the NOVA Chemicals Rights Plan, including proposed amendments, which is qualified in its entirety by reference to the text of the NOVA Chemicals Rights Plan. Copies of the complete NOVA Chemicals Rights Plan as proposed to be amended are available from the Corporate Secretary of NOVA at NOVA Corporation, P.O. Box 2535, Postal Station “M”, Calgary, Alberta, T2P 2N6.

Term. The NOVA Chemicals Rights Plan will continue in effect until May, 1999.

Issue of Rights. Upon the NOVA Shareholder Rights Plan becoming effective, a right was issued and attached to each NOVA Common Share. The rights continue to be attached to the NOVA Chemicals Common Shares as NOVA Chemicals rights. A NOVA Chemicals right will attach to each NOVA Chemicals Common Share subsequently issued.

Rights Exercise Privilege. The NOVA Chemicals rights will separate from NOVA Chemicals Common Shares and will be exercisable eight trading days after a person has acquired 15% or more of, or commences or announces a take-over bid for, NOVA Chemicals outstanding common shares, other than by an acquisition pursuant to a Permitted Bid or a Competing Permitted Bid. The acquisition by an Acquiring Person of 15% or more of the NOVA Chemicals Common Shares is referred to as a “Flip-in Event”.

When a Flip-in Event occurs, each NOVA Chemicals right (except for NOVA Chemicals rights beneficially owned by an Acquiring Person or certain transferees of an Acquiring Person, which NOVA Chemicals rights shall be void pursuant to the NOVA Chemicals Rights Plan Agreement) becomes a right to purchase from NOVA Chemicals, upon exercise thereof in accordance with the terms of the NOVA Chemicals Rights Plan, that number of NOVA Chemicals Common Shares having an aggregate market price on the date of consummation or occurrence of such Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be subject to adjustment in accordance with the NOVA Chemicals Rights Plan). For example, if at the time of such event the Exercise Price is \$150 and the NOVA Chemicals Common Shares have a Market Price (as defined in the NOVA Chemicals Rights Plan) of \$50, the holder of each right would be entitled to receive \$300 in market value of NOVA Chemicals Common Shares (six common shares) for \$150, i.e. at a 50% discount.

Any NOVA Chemicals rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Any offer other than a Permitted Bid or a Competing Permitted Bid will be prohibitively expensive for the Acquiring Person. The NOVA Chemicals Rights Plan is therefore designed to require any person interested in acquiring more than 15% of the NOVA Chemicals Common Shares to do so by way of a Permitted Bid or a Competing Permitted Bid or to make an offer which the board of directors considers to represent the full value of the NOVA Chemicals Common Shares.

Certificates and Transferability. Prior to the Separation Time, the rights will be evidenced by a legend imprinted on the common share certificates of NOVA Chemicals and will not be transferable separately from the NOVA Chemicals Common Shares. The legend will be on all new certificates issued by NOVA Chemicals after the Effective Date. From and after the Separation Time, the rights will be evidenced by rights certificates and will be transferable separately from the NOVA Chemicals Common Shares.

Permitted Bid Requirements. The Permitted Bid requirements include the following:

- (i) the offer must be made by way of a take-over bid circular to all holders of NOVA Chemicals Common Shares for all of the NOVA Chemicals Common Shares;
- (ii) the offer must be outstanding for a minimum of 90 days. Should more than 50% of NOVA Chemicals Common Shares held by shareholders other than the offeror (or persons acting jointly, or in concert with the offeror) be tendered to the offer, shareholders of NOVA Chemicals are to be provided with an additional 10 clear business days during which to tender any NOVA Chemicals Common Shares not already tendered to the offer;
- (iii) the offer must provide that NOVA Chemicals Common Shares may only be taken up and paid for if more than 50% of the NOVA Chemicals Common Shares held by shareholders of NOVA Chemicals other than the offeror (or persons acting jointly, or in concert with the offeror) have been deposited or tendered and not withdrawn; and
- (iv) when the offer has been made, no further NOVA Chemicals Common Shares may be acquired by the offeror except pursuant to the Permitted Bid or as may otherwise be permitted under the NOVA Chemicals Rights Plan.

A Competing Permitted Bid will not have to be outstanding for a minimum of 90 days but will instead have to be outstanding for at least as long as the initial Permitted Bid.

Waiver. The board of directors, acting in good faith, may, until the occurrence of a Flip-in Event, waive the application of the NOVA Chemicals Rights Plan to a particular Flip-in Event (an “Exempt Acquisition”) where the take-over bid is made by a take-over bid circular to all holders of common shares. Where the board of directors exercises the waiver power for one take-over bid, the waiver will also apply to any other take-over bid for the company made by take-over bid circular to all holders of common shares prior to the expiry of any other bid for which the NOVA Chemicals Rights Plan has been waived.

Redemption. The board of directors may redeem the rights at \$0.001 per right.

Amendment. The board of directors of NOVA Chemicals may amend the NOVA Chemicals Rights Plan with the majority approval of shareholders (or the holders of rights, if the Separation Time has occurred) at a meeting duly called for that purpose. The board of directors without such approval may correct clerical or typographical errors and, subject to approval as noted above at the next meeting of the common shareholders (or holders of rights, as the case may be), may make amendments to the NOVA Chemicals Rights Plan to maintain its validity due to changes in applicable legislation.

Exemptions for Investment Advisors. Investment advisors (for fully managed accounts), trust companies (acting in their capacities as trustees and administrators) and statutory bodies whose business includes the management of funds and administrators of registered pension plans acquiring greater than 15% of the NOVA Chemicals Common Shares will be exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making a take-over bid.

The NOVA Chemicals Rights Plan will not detract from or lessen the duty of the NOVA Chemicals board of directors to act honestly and in good faith with a view to the best interest of NOVA Chemicals. When a Permitted Bid is made the board of directors of NOVA Chemicals will continue to have the duty and power to take such actions and make such recommendations to holders of NOVA Chemicals Common Shares as are considered appropriate.

INVESTMENT CONSIDERATIONS

NOVA Common Shareholders and TransCanada Common Shareholders will own shares in an energy services business and commodity chemicals business as a result of the Arrangement. In addition to the entire contents of this Joint Circular which should be carefully reviewed, shareholders should consider the following:

1. NOVA Chemicals will operate a commodity chemicals business in a competitive environment currently concentrating on ethylene, polyethylene, styrenics and methanol. Price levels for these products and NOVA Chemicals’ profitability will be significantly influenced by and will fluctuate due to various factors including global supply and demand, capacity utilization and feedstock costs. While many of NOVA Chemicals’ production facilities are among the largest in size compared to relevant business units of its competitors, several of NOVA Chemicals’ competitors are larger and have greater financial resources than NOVA Chemicals. Among NOVA Chemicals’ competitors are some of the world’s largest chemical companies and major integrated petroleum companies that have their own raw material resources.
2. Risk of substantial environmental costs and liabilities will be inherent in particular operations and products of NOVA Chemicals, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities, including uninsured liabilities, will not be incurred with respect to future operations.
3. Other risks facing NOVA Chemicals include: operating interruptions (arising from leaks, explosions, fires, mechanical failures, unscheduled down time, transportation interruptions, spills, releases and other events); potential impact on feedstock supply of new pipelines that may transport ethane out of Alberta; competitive technologies; delays in achieving productivity improvements and cost reduction targets or completing construction projects on schedule; difficulties that may be encountered in pursuing a growth strategy, such as achieving anticipated synergies or incurring possible adverse short term effects on operating results as new facilities are assimilated and integrated into NOVA Chemicals’

operations; and possible dilution and additional risks associated with debt or equity financings to fund growth initiatives.

4. Other risks facing EnergyCo. include: operating interruptions (arising from leaks, explosions, fires, mechanical failures, unscheduled down time, transportation interruptions, spills, releases and other events); competitive technologies; delays in achieving productivity improvements and cost reduction targets or completing construction projects on schedule; difficulties that may be encountered in pursuing a growth strategy, such as achieving anticipated synergies or incurring possible adverse short term effects on operating results as new facilities are assimilated and integrated into current operations; and possible dilution and additional risks associated with debt or equity financings to fund growth initiatives.
5. A significant portion of EnergyCo.'s business will continue to be regulated and will depend on applicable tariff rate structure as well as efficiency of capital use. Substantial changes are occurring in the natural gas marketplace including increased competition in natural gas transmission. EnergyCo.'s future profitability will be affected by how well it adapts to this changing environment.
6. If the Alliance Pipeline is constructed as contemplated, EnergyCo. may be in competition with the Alliance Pipeline for access to customers and gas reserves which may result in underutilization of certain of EnergyCo.'s pipeline systems for a period of six or more years before sufficient incremental gas supply develops.

CAPITALIZATION OF ENERGYCO. AND NOVA CHEMICALS

Pro Forma Capitalization of EnergyCo. and NOVA Chemicals

The following table and notes set forth the capitalization of NOVA and TransCanada as at December 31, 1997 and March 31, 1998, and the pro forma capitalization of each of EnergyCo. and NOVA Chemicals as at December 31, 1997. This table should be read in conjunction with the NOVA, NOVA Chemicals Ltd. and TransCanada consolidated financial statements (including the notes thereto) attached to this Joint Circular in Appendix G, I and Appendix H, respectively, and each of the EnergyCo. and NOVA Chemicals Pro Forma Unaudited Consolidated Financial Statements (including the notes thereto) attached to this Joint Circular in Appendix J and Appendix K, respectively.

	<u>NOVA</u>	<u>TransCanada</u>	<u>NOVA</u>	<u>TransCanada</u>	<u>EnergyCo.</u>	<u>NOVA</u>
	<u>(March 31, 1998)</u>		<u>(December 31, 1997)</u>		<u>(December 31, 1997)</u>	<u>Chemicals</u>
	(unaudited)		(audited)	(in millions of dollars)	(unaudited pro forma)	
Bank Loans ⁽¹⁾	490	—	353	—	102.0	—
Long-Term Debt ⁽²⁾	4,624	6,557.5	4,610	6,302.9	9,844.9	1,068
Non-Recourse Debt of Joint Ventures ⁽²⁾	233	1,318.5	237	1,033.8	1,270.8	—
Junior Subordinated Debentures	—	224.0	—	223.9	223.9	—
Non-Controlling Interests	—	194.8	—	96.1	96.1	—
Shareholders' Equity						
Preferred Securities	—	277.4	—	280.0	280.0	—
Preferred Shares	200	512.6	200	512.6	712.6	—
Common Shares	2,507	1,694.4	2,486	1,660.5	3,395.5	751
Contributed Surplus	—	263.1	—	263.1	263.1	—
Retained Earnings and Cumulative Translation Adjustment	1,372	1,584.1	1,350	1,558.7	1,713.7	965
Total Capitalization	<u>9,426</u>	<u>12,626.4</u>	<u>9,236</u>	<u>11,931.6</u>	<u>17,902.6</u>	<u>2,784</u>

Notes:

- (1) Net of cash available for repayment.
- (2) Includes current portion.

Since December 31, 1997, there have been no material changes to the share and loan capital of NOVA and TransCanada.

Share Capital of EnergyCo.

The authorized share capital of EnergyCo. will be that of TransCanada except that two new series of first preferred shares, the EnergyCo. Preferred Shares and the EnergyCo. Cumulative Redeemable First Preferred Shares, Series T, will be created in connection with the Arrangement. The authorized capital consists of an unlimited number of common shares, 552,968 \$2.80 cumulative, redeemable first preferred shares and an unlimited number of first preferred shares, issuable in series, and an unlimited number of second preferred shares, issuable in series. Based upon the number of NOVA Common Shares and TransCanada Common Shares outstanding on April 30, 1998, it is expected that there will be approximately 459,135,000 EnergyCo. Common Shares outstanding upon completion of the Arrangement on the Effective Date. No TransCanada second preferred shares are issued and outstanding and none will be outstanding upon completion of the Arrangement. As at April 30, 1998, there were 10,252,968 first preferred shares of TransCanada outstanding in five series, which will remain outstanding after the Arrangement. Pursuant to the Arrangement, EnergyCo. will issue 4,000,000 EnergyCo. Preferred Shares which will be convertible, under certain circumstances, into 4,000,000 EnergyCo. Cumulative Redeemable First Preferred Shares, Series T.

EnergyCo. Common Shares

The rights, privileges, restrictions and conditions attaching to the EnergyCo. Common Shares will be identical to the rights, privileges, restrictions and conditions attaching to the TransCanada Common Shares. The EnergyCo. Common Shares will carry one vote per share. Subject to the prior rights of holders of preferred shares of EnergyCo. (which after the Arrangement will include the holders of EnergyCo. Preferred Shares), the holders of EnergyCo. Common Shares will share rateably in any dividends or distributions to the shareholders of EnergyCo.

EnergyCo. Preferred Shares

The first preferred shares of EnergyCo. are issuable in series. The first preferred shares of each series rank on a parity with the first preferred shares of every other series and have preference over the second preferred shares and the EnergyCo. Common Shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of EnergyCo. The directors of EnergyCo. are empowered to fix the number of first preferred shares and the rights to be attached to the first preferred shares of each series, including the amount of dividends and any conversion, voting and redemption rights. Subject to the foregoing and to applicable law, the holders of first preferred shares as a class will not be entitled to receive notice of, attend or vote at meetings of the shareholders of EnergyCo. The terms of the EnergyCo. Preferred Shares to be issued pursuant to the Arrangement and the EnergyCo. Cumulative Redeemable First Preferred Shares, Series T issuable, under certain circumstances, upon conversion of such EnergyCo. Preferred Shares are summarized below. The following summary is qualified in its entirety by the terms of the EnergyCo. Preferred Shares and the EnergyCo. Cumulative Redeemable First Preferred Shares, Series T as set out in full in Schedule B to the Plan of Arrangement.

Principal Characteristics of Series S First Preferred Shares:

Issue:	Cumulative Redeemable First Preferred Shares, Series S.
Price and Yield:	\$50.00 per share to yield initially 5.15% per annum.
Dividends:	<p>Until April 30, 2002, fixed cumulative preferred cash dividends at an annual rate of \$2.575 per Series S First Preferred Share will accrue from the date of issue until July 31, 1998 and quarterly thereafter. If declared, dividends will be payable in arrears on the fifteenth day of February, May, August and November in each year. The first dividend, if declared, will be payable on August 15, 1998 and will be equal to \$0.64375 per Series S Preferred Share, regardless of the date of issue.</p> <p>From May 1, 2002, floating adjustable cumulative preferred cash dividends will be payable, if declared, on the fifteenth day of each calendar month commencing on June 15, 2002, with the annual floating dividend rate for the first month equal to 85% of the average of the prime rates of two major Canadian Banks, designated from time to time by EnergyCo. ("Prime").</p> <p>The dividend rate will float in relation to changes in Prime and will be adjusted upwards or downwards on a monthly basis whenever the calculated trading price of the Series S First Preferred Shares is \$49.75 or less or \$50.25 or more respectively. The maximum monthly adjustment for changes related to the calculated trading price will be $\pm 4.00\%$ of Prime. However, the annual floating dividend rate applicable in a month will in no event be less than 50% of Prime or greater than Prime.</p>
Redemption:	<p>The Series S First Preferred Shares will not be redeemable prior to May 1, 2002. The Series S First Preferred Shares will be redeemable on such date and on May 1 in every fifth year thereafter, in whole but not in part, for cash, at EnergyCo.'s option, at \$50.00 per share, together with accrued and unpaid dividends up to but excluding the date of redemption. At any other time subsequent to May 1, 2002 the Series S First Preferred Shares will be redeemable, in whole but not in part, for cash, at EnergyCo.'s option, at \$51.00 per share, together with accrued and unpaid dividends up to but excluding the date of redemption.</p>
Conversion into Series T First Preferred Shares:	<p>Holders of Series S First Preferred Shares will, subject to certain automatic conversion provisions and restrictions on conversion, and unless the Series S First Preferred Shares have been called for redemption, have the right to convert on May 1, 2002, and on May 1 in every fifth year thereafter, their Series S First Preferred Shares into an equal number of Series T First Preferred Shares.</p>

Principal Characteristics of Series T First Preferred Shares:

- Dividends:** Fixed cumulative preferred cash dividends will be payable, if declared, quarterly in arrears on the fifteenth day of February, May, August and November in each year. The initial dividend, if declared, will be payable on August 15, 2002.
- At least 45 days and not more than 60 days prior to the start of the initial dividend period beginning on May 1, 2002 and ending on April 30, 2007, and at least 45 days and not more than 60 days prior to the first day of each subsequent five year dividend period (the initial five year dividend period and each subsequent five year dividend period being referred to as a “Fixed Dividend Rate Period”), EnergyCo. shall set, and provide written notice of, a Selected Percentage Rate for the ensuing Fixed Dividend Rate Period. Such Selected Percentage Rate shall not be less than 80% of the yield on Government of Canada non-callable bonds issued at 100% of principal, with five years to maturity, all as determined on the 21st day preceding the first day of the applicable Fixed Dividend Rate Period.
- Redemption:** The Series T First Preferred Shares are not redeemable prior to May 1, 2007. The Series T First Preferred Shares will be redeemable on May 1, 2007 and on May 1 in every fifth year thereafter, in whole but not in part, for cash, at EnergyCo.’s option, at \$50.00 per share, together with accrued and unpaid dividends up to but excluding the date of redemption.
- Conversion into Series S First Preferred Shares:** Holders of Series T First Preferred Shares will, subject to certain automatic conversion provisions and restrictions on conversion, and unless the Series T First Preferred Shares have been called for redemption, have the right to convert on May 1, 2007, and on May 1 in every fifth year thereafter, their Series T First Preferred Shares into an equal number of Series S First Preferred Shares.

Other Characteristics of Series S and Series T First Preferred Shares:

- Priority:** The First Preferred Shares rank in priority to the EnergyCo. Common Shares with respect to the payment of dividends and with respect to the distribution of assets or return of capital in the event of the liquidation, dissolution or winding-up of EnergyCo. Each series of First Preferred Shares ranks in such respect on a parity with every other series of First Preferred Shares.
- Voting Rights:** The holders of Series S First Preferred Shares and Series T First Preferred Shares will not be entitled (except as otherwise provided by law) to receive notice of, attend or vote at, any meeting of the shareholders of EnergyCo. unless EnergyCo. shall have failed to pay in full six quarterly or 18 monthly dividends, as the case may be (and for such purposes the failure to pay a quarterly dividend shall be considered as a failure to pay three monthly dividends), on the Series S First Preferred Shares or Series T First Preferred Shares, whether or not consecutive.

Preferred Shares Dividend and Asset Coverages

The following coverage ratios are calculated as at December 31, 1997 and March 31, 1998 (in the case of net tangible asset coverages) or for the twelve month periods then ended (in the case of dividend coverages), based on EnergyCo. unaudited pro forma consolidated financial information, adjusted to reflect the issuance of EnergyCo. Preferred Shares, with respect to coverages as at or for the twelve month period ended December 31, 1997 and TransCanada unaudited consolidated financial information with respect to coverages as at or for the twelve month period ended March 31, 1998.

	<u>Pro forma EnergyCo. December 31, 1997</u>	<u>TransCanada March 31, 1998</u>
Dividend Coverage	15.2 times	13.0 times
Net Tangible Asset Coverage:		
Before deduction of recorded deferred income taxes	9.1 times	8.7 times
After deduction of recorded deferred income taxes	8.8 times	8.2 times

EnergyCo. Preferred Share Ratings

The EnergyCo. Preferred Shares have been indicatively rated P-2 by Canadian Bond Rating Service Inc. (“CBRS”). This rating is within the second highest of the five standard categories used by CBRS for preferred shares. According to the CBRS rating system, preferred shares rated P-2 are high-grade preferred share issues where both asset and earnings protection are well-assured, but not as strong as in the P-1 rating group. The EnergyCo. Preferred Shares have been indicatively rated Pfd-2 by Dominion Bond Rating Service Limited (“DBRS”), the second highest of the five standard categories used by DBRS for preferred shares. According to the DBRS rating system, companies whose preferred shares are rated Pfd-2 are good credits with strong earnings and balance sheet characteristics.

None of the foregoing ratings should be construed as a recommendation to buy, sell or hold securities in as much as such ratings do not comment as to market, price or suitability for a particular investor. Any one of the foregoing ratings may be revised or withdrawn at any time by the respective rating organization.

Share Capital of NOVA Chemicals

The authorized share capital of NOVA Chemicals will be unchanged by the Arrangement except that the existing authorized series (but not the class) of NOVA Preferred Shares will be deleted from the corporate articles of NOVA Chemicals as a result of the Arrangement. The authorized capital consists of an unlimited number of NOVA Chemicals Common Shares, an unlimited number of first preferred shares, issuable in series, and an unlimited number of second preferred shares, issuable in series. Based upon the number of NOVA Common Shares and TransCanada Common Shares outstanding on April 30, 1998, and assuming the Arrangement becomes effective, it is expected that after the Consolidation there will be approximately 91,830,000 NOVA Chemicals Common Shares issued and outstanding immediately after the completion of the Arrangement on the Effective Date. The existing issued and outstanding NOVA Series 1 Preferred Shares will be cancelled as part of the Arrangement, so that no NOVA Chemicals preferred shares will be issued and outstanding immediately after the Effective Date.

NOVA Chemicals Common Shares

NOVA Common Shares will continue, subject to the Consolidation, as the common shares of NOVA Chemicals and, as such, the rights, privileges, restrictions and conditions attaching to the NOVA Chemicals Common Shares are identical to the rights, privileges, restrictions and conditions attaching to the NOVA Common Shares. The NOVA Chemicals Common Shares carry one vote per share. Subject to the prior rights of holders of NOVA Chemicals Preferred Shares upon issuance if any, the holders of NOVA Chemicals Common Shares share rateably in any dividends or distributions to the shareholders of NOVA Chemicals.

NOVA Chemicals Preferred Shares

The first preferred shares of NOVA Chemicals are issuable in series. The first preferred shares of each series rank on a parity with the first preferred shares of every other series and have preference over the second preferred shares and the NOVA Chemicals Common Shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of NOVA Chemicals. The directors of NOVA Chemicals are empowered to fix the number of first preferred shares and the rights to be attached to the first preferred shares of each series, including the amount of dividends and any conversion, voting and redemption rights. Subject to the foregoing and to applicable law, the holders of first preferred shares as a class are not entitled to receive notice of, attend or vote at meetings of the shareholders of NOVA Chemicals.

CERTAIN INCOME TAX CONSIDERATIONS

Canadian Federal Income Tax Considerations

In the opinion of Osler, Hoskin & Harcourt, counsel for NOVA, and Bennett Jones Verchere, counsel for TransCanada, the following is a summary of the principal Canadian federal income tax considerations generally applicable to holders of NOVA Common Shares, NOVA Preferred Shares, TransCanada Common Shares, NOVA Chemicals Common Shares and EnergyCo. Common Shares who, for the purposes of the ITA, hold (or will hold) their respective shares as capital property and deal at arm's length with NOVA or TransCanada, as the case may be. NOVA Common Shares, NOVA Preferred Shares, TransCanada Common Shares, NOVA Chemicals Common Shares and EnergyCo. Common Shares will each generally be considered to be capital property to a shareholder thereof provided that the shareholder does not hold any such shares in the course of carrying on a business of buying and selling shares and has not acquired such shares in a transaction considered to be an adventure in the nature of trade. Certain shareholders who are resident in Canada and who might not otherwise be considered to hold such shares as capital property may be entitled to have them treated as capital property by making the election provided by subsection 39(4) of the ITA. This summary is not applicable to a holder which is a "financial institution" as defined in the ITA for the purposes of the mark-to-market rules.

This summary is based on the current provisions of the ITA, the regulations thereunder (the "Regulations"), the current provisions of the Canada-United States Income Tax Convention (the "Tax Treaty") and counsels' understanding of the current administrative practices of Revenue Canada, Customs, Excise and Taxation ("Revenue Canada"). This summary also takes into account the amendments to the ITA and Regulations publicly announced by the Minister of Finance prior to the date hereof (the "Proposed Amendments") and assumes that all such Proposed Amendments will be enacted in their present form. However, no assurances can be given that the Proposed Amendments will be enacted in the form proposed, or at all. Except for the foregoing, this summary does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations described herein. A federal advance income tax ruling has been issued by Revenue Canada confirming certain of the tax consequences described below.

A shareholder who acquired or was deemed to have acquired NOVA Common Shares or TransCanada Common Shares prior to 1972, or acquired or is deemed to have acquired such shares in one or more non-arm's length transactions from a person who held such shares at any time prior to 1972, should consult the holder's tax advisors as to the impact of certain transitional rules on the following description of the Canadian federal income tax consequences to the shareholders. The transitional rules are not considered below.

This summary is of a general nature only and it is not intended to be, and should not be construed to be, legal, business or tax advice to any particular shareholder. Accordingly, holders of NOVA Common Shares, NOVA Preferred Shares and TransCanada Common Shares should consult their own tax advisors as to the tax consequences to them of the Arrangement in their particular circumstances.

Shareholders Resident in Canada

The following portion of the summary is applicable only to holders of NOVA Common Shares, NOVA Preferred Shares and TransCanada Common Shares who are resident or deemed to be resident in Canada for the purposes of the ITA and any relevant bilateral tax treaty.

a) Shareholders Participating in the Arrangement

Exchange of NOVA Common Shares for TransCanada Common Shares

On the transfer of a shareholder's NOVA Common Shares to ArrangeCo., a wholly owned subsidiary of TransCanada, in exchange for TransCanada Common Shares, such shareholder will be considered to have disposed of the NOVA Common Shares for proceeds of disposition equal to the fair market value at the Effective Time of the TransCanada Common Shares received by the shareholder. Subject to the rules discussed below concerning capital losses, a holder of NOVA Common Shares will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the NOVA Common Shares, net

of any reasonable costs associated with the disposition, exceed (or are less than) the shareholder's adjusted cost base of the NOVA Common Shares.

Where the transfer of a shareholder's NOVA Common Shares to ArrangeCo. results in a capital loss to the shareholder and the shareholder is a corporation, trust or partnership, the Proposed Amendments would, in certain circumstances, defer the shareholder's recognition of the capital loss. The deferral would apply if, at the end of the period that ends thirty days after the disposition of the NOVA Common Shares, the transferor shareholder or a person "affiliated" (as defined in the Proposed Amendments) with that shareholder owns any NOVA Chemicals Common Shares. The deferred capital loss will generally be recognized upon the happening of one of the events specified in the Proposed Amendments, which would include a disposition of the identical property such that neither the transferor shareholder nor a person "affiliated" with that shareholder owns any NOVA Chemicals Common Shares during a 30 day period as specified in the Proposed Amendments.

Where the transfer of a shareholder's NOVA Common Shares to ArrangeCo. results in a capital loss to the shareholder and the shareholder is an individual, the Proposed Amendments would deem the amount of any capital loss arising from the transfer to be nil where at the end of the period that begins thirty days before and ends thirty days after the disposition, the shareholder or a person "affiliated" with the shareholder owns, or has the right to own, any NOVA Chemicals Common Shares. In such a case, the amount of the capital loss that is realized by the shareholder would be added to the holder's adjusted cost base of the NOVA Chemicals Common Shares.

The general tax treatment of capital gains and losses is discussed below under the heading "Capital Gains and Losses".

The cost of the TransCanada Common Shares acquired by a holder of NOVA Common Shares on a disposition of the NOVA Common Shares to ArrangeCo. will be the fair market value of such NOVA Common Shares at the Effective Time. The cost of the TransCanada Common Shares acquired by the holder of NOVA Common Shares on the disposition to ArrangeCo. will be averaged with the adjusted cost base of any other TransCanada Common Shares held by the holder of NOVA Common Shares immediately before that time, for the purposes of determining the holder's adjusted cost base of the holder's TransCanada Common Shares.

Exchange of NOVA Preferred Shares for EnergyCo. Preferred Shares

On the transfer of a shareholder's NOVA Preferred Shares to TransCanada in exchange for EnergyCo. Preferred Shares, the holder will generally be deemed: (i) to have disposed of the NOVA Preferred Shares for proceeds of disposition equal to the holder's adjusted cost base of the NOVA Preferred Shares immediately before the exchange; and (ii) to have acquired the EnergyCo. Preferred Shares at a cost equal to the same amount. A NOVA Preferred Shareholder may choose to recognize a capital gain or capital loss on the exchange by reporting the amount of capital gain or capital loss, otherwise determined, in the holder's income tax return for the taxation year in which the exchange occurs. Holders who receive cash in respect of a NOVA Preferred Share in circumstances where they would otherwise have received a fractional EnergyCo. Preferred Share may choose to include the cash received as proceeds of a partial disposition of the NOVA Preferred Shares, thereby giving rise to a capital gain or loss, or to not report such a gain or loss and reduce the adjusted cost base of the EnergyCo. Preferred Shares received by them by the amount of such cash.

Where a NOVA Preferred Shareholder that is a corporation, trust, or partnership elects to report a capital loss on the exchange of the NOVA Preferred Shares with TransCanada, the Proposed Amendments provide that the amount of any capital loss would, in certain circumstances, be deferred until the happening of certain events specified in the Proposed Amendments since the EnergyCo. Preferred Shares received by the shareholder on the exchange would be deemed to be property identical to the exchanged property. Notwithstanding the foregoing, counsel for NOVA and TransCanada believe, based on publicly available correspondence issued by the Department of Finance, that the Department is planning to introduce further proposed amendments to the ITA to clarify that a capital loss would not be deferred in the circumstances described above.

The general tax treatment of capital gains and losses is discussed below under the heading “Capital Gains and Losses”.

Exchange of TransCanada Common Shares

On the transfer of a shareholder’s TransCanada Common Shares to TransCanada in exchange for EnergyCo. Common Shares and NOVA Chemicals Common Shares the shareholder will be deemed:

- (i) to have acquired the NOVA Chemicals Common Shares at a cost equal to the fair market value of the NOVA Chemicals Common Shares at the Effective Time;
- (ii) to have acquired the EnergyCo. Common Shares at a cost equal to the amount, if any, by which the shareholder’s adjusted cost base of the TransCanada Common Shares exceeds the cost to the shareholder of the NOVA Chemicals Common Shares acquired on the exchange and the amount of cash received in lieu of fractional EnergyCo. Common Shares; and
- (iii) to have disposed of the holder’s TransCanada Common Shares for aggregate proceeds of disposition equal to the aggregate cost to the holder of the NOVA Chemicals Common Shares and EnergyCo. Common Shares received on the exchange and the amount of cash received in lieu of fractional EnergyCo. Common Shares.

A holder of TransCanada Common Shares will realize a capital gain equal to the amount by which the proceeds of disposition of the TransCanada Common Shares, net of any reasonable costs associated with the disposition, exceed the holder’s adjusted cost base of such shares. The tax treatment of capital gains is discussed below under the heading “Capital Gains and Losses”.

The cancellation, redemption or acquisition by NOVA Chemicals of interests in fractional shares of NOVA Chemicals arising on the exchange of TransCanada Common Shares will be deemed to give rise to a dividend (a “deemed dividend”) to a holder of NOVA Chemicals Common Shares at the time of such cancellation, redemption or acquisition equal to the excess of the amount paid by NOVA Chemicals on the cancellation, redemption or acquisition over the paid-up capital of that fractional share interest. (NOVA Chemicals will advise holders of the relevant paid-up capital number in due course.) The tax treatment of deemed dividends is discussed below under the heading “Dissenting Shareholders”.

A holder of NOVA Chemicals Common Shares may also realize a capital gain (or a capital loss) equal to the amount by which the amount paid by NOVA Chemicals on the cancellation, redemption or acquisition of the fractional share interest, less the amount of any deemed dividend not included in the proceeds of disposition of the share pursuant to subsection 55(2) of the ITA, exceeds (or is less than) the adjusted cost base to the holder of the fractional share interest and any reasonable costs of the disposition. The tax treatment of capital gains and losses is discussed below under the heading “Capital Gains and Losses”. In the event a capital loss arises, reference should also be made to the specific rules of the ITA which may defer or deny such loss which are discussed above under “Exchange of NOVA Common Shares for TransCanada Common Shares”.

Capital Gains and Losses

A shareholder’s taxable capital gain (or allowable capital loss) from the disposition of NOVA Common Shares, NOVA Preferred Shares or TransCanada Common Shares will be equal to three-quarters of the amount of the shareholder’s capital gain (or capital loss) in respect of such disposition. The shareholder must include any such taxable capital gain in income for the taxation year of disposition, and may, subject to the detailed provisions of the ITA, deduct any such allowable capital loss from taxable capital gains in the year in which such allowable capital loss is realized. Subject to the detailed rules contained in the ITA, any remaining allowable capital loss may generally be applied to reduce net taxable capital gains realized by the holder in the three preceding and in all subsequent taxation years.

If the holder of a share is a corporation, the amount of any capital loss arising from a disposition or deemed disposition of a share may be reduced by the amount of dividends received or deemed to have been received by it on such share to the extent and under circumstances prescribed by the ITA. Similar rules may

apply where a corporation is a member of a partnership or a beneficiary of a trust that owns shares or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns shares.

Capital gains realized by an individual may be subject to alternative minimum tax under the ITA, depending on the individual's circumstances.

Additional Refundable Tax

A shareholder that is a "Canadian-controlled private corporation" (as defined in the ITA) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including amounts in respect of interest and taxable capital gains (but not dividends or deemed dividends deductible in computing taxable income).

b) Dissenting Shareholders

In general, a shareholder who receives a payment from NOVA or TransCanada equal to fair value of the shareholder's NOVA Common Shares, NOVA Preferred Shares or TransCanada Common Shares, as the case may be, as a result of the exercise of a right of dissent will be deemed to have received a taxable dividend equal to the amount by which the payment (other than an amount in respect of interest awarded by a court) exceeds the paid-up capital of such shares, except to the extent that, in the case of a corporation, such deemed dividend is included in the proceeds of disposition of the shares pursuant to subsection 55(2) of the ITA. The paid-up capital of the NOVA Common Shares is estimated by NOVA to be approximately \$4.73 per share, the paid up capital of the NOVA Preferred Shares is estimated by NOVA to be approximately \$25.00 per share, and the paid-up capital of the TransCanada Common Shares is estimated by TransCanada to be approximately \$7.80 per share.

Deemed dividends received by a shareholder who dissents from the Arrangement will be included in computing the shareholder's income for purposes of the ITA. The gross-up and dividend tax credit rules normally applicable to taxable dividends paid by taxable Canadian corporations will apply to deemed dividends received by individuals and deemed dividends received by corporations will normally be deductible in computing taxable income. Certain corporations may be liable to pay a 33 $\frac{1}{3}$ % refundable tax under Part IV of the ITA on such deemed dividends and in certain cases all or part of a deemed dividend received by a corporation may be treated as a capital gain on the disposition of capital property pursuant to subsection 55(2) of the ITA. Corporate shareholders should consult their own tax advisors for advice with respect to the potential application of these provisions.

A dissenting shareholder will also be considered to have disposed of his or her NOVA Common Shares, NOVA Preferred Shares or TransCanada Common Shares, as the case may be, for proceeds of disposition equal to the amount paid to the shareholder less an amount in respect of interest awarded by a court and the amount of any deemed dividend not included in the proceeds of disposition of the shares pursuant to subsection 55(2) of the ITA, thereby giving rise to a capital gain or capital loss to the shareholder calculated in accordance with the provisions of the ITA.

The treatment of capital gains and losses is discussed above under "*Capital Gains and Losses*". In particular, for dissenting shareholders that are corporations, and certain trusts and partnerships, any capital loss otherwise determined will be reduced by dividends received on such shares, including any such deemed dividend, to the extent and under the circumstances described in the ITA.

Interest awarded to a dissenting shareholder by a court will be included in the dissenting shareholder's income for purposes of the ITA.

Shareholders Not Resident in Canada

The following portion of the summary is applicable only to holders of NOVA Common Shares, NOVA Preferred Shares and TransCanada Common Shares who are not and will not be resident nor deemed to be resident in Canada for the purposes of the ITA or any relevant bilateral tax treaty at any time while they hold such shares, who do not use or hold and are not deemed to use or hold their NOVA Common Shares, NOVA

Preferred Shares or TransCanada Common Shares in carrying on a business in Canada, and in the case of a holder who carries on an insurance business in Canada and elsewhere, whose shares are not “designated insurance property” as defined in the Proposed Amendments and are not effectively connected with an insurance business carried on in Canada at any time (a “Non-Resident Shareholder”).

a) *Non-Resident Shareholders Participating in the Arrangement*

Non-Resident Shareholders who participate in the Arrangement will not be subject to tax under the ITA in respect of any capital gains realized on: (i) the transfer of NOVA Common Shares to ArrangeCo., (ii) the exchange of NOVA Preferred Shares for EnergyCo. Preferred Shares, (iii) the exchange of TransCanada Common Shares for NOVA Chemicals Common Shares and EnergyCo. Common Shares, and, if applicable, cash received in lieu of fractional interests in EnergyCo. Common Shares, or (iv) receipt of cash in lieu of fractional interests in NOVA Chemicals Common Shares (however, see discussion regarding deemed dividends below) provided such shares are not “taxable Canadian property” to such holder at the time of disposition. Generally, NOVA Common Shares, NOVA Preferred Shares and TransCanada Common Shares will not be “taxable Canadian property” to a Non-Resident Shareholder provided that such shares are listed on a prescribed stock exchange (which currently includes the TSE), and the holder, persons with whom such holder does not deal at arm’s length, or the holder together with all such persons, has not owned (or had under option) 25% or more of the issued shares of any class or series of the capital stock of the company at any time within five years preceding the date in question, and the shares were not acquired in a transaction which deemed them to be “taxable Canadian property”.

Non-resident Shareholders will be subject to withholding tax under the ITA in respect of deemed dividends arising from the disposition of fractional interests in NOVA Chemicals Common Shares as described above. The applicable withholding rate is 25% in respect of such amounts, although such rate may be reduced under the provisions of an applicable tax treaty. For example, under the Tax Treaty, the rate is generally reduced to 15% as described below.

b) *Dissenting Non-Resident Shareholders*

Non-Resident Shareholders who dissent from the Arrangement will be subject to the same income tax considerations as those above with respect to dissenting shareholders resident in Canada, except that such Non-Resident Shareholders will not be subject to tax under the ITA in respect of capital gains realized on the disposition of NOVA Common Shares, NOVA Preferred Shares or TransCanada Common Shares provided such Shares are not “taxable Canadian property” to such holder at the time of disposition. Dissenting Non-Resident Shareholders will be subject to withholding tax under the ITA in respect of deemed dividends and interest arising from the disposition of their shares as described above. The applicable withholding rate is 25% in respect of such amounts, although such rate may be reduced under the provisions of an applicable tax treaty. For example, under the Tax Treaty, the rate is generally reduced to 15% for dividends and 10% for interest paid to a person who is the beneficial owner of such shares and who is resident in the United States for the purposes of the Tax Treaty.

United States Federal Income Tax Considerations

In the opinion of Baker & McKenzie, counsel for NOVA, and Fried, Frank, Harris, Shriver & Jacobson, counsel for TransCanada (collectively, “U.S. Counsel”), the following is a summary of certain of the anticipated United States federal income tax consequences of the consummation of the Arrangement to the beneficial owners of NOVA Common Shares and NOVA Preferred Shares (collectively the “U.S. NOVA Shareholders”) and TransCanada Common Shares (collectively the “U.S. TransCanada Shareholders”) who are U.S. Shareholders (as defined below). This discussion is for general information only and does not purport to consider all aspects of United States federal income taxation that might be relevant to the U.S. Shareholders. The discussion is based on current provisions of the IRC, existing regulations (final, temporary and proposed) promulgated thereunder and administrative and judicial interpretations thereof, all of which are subject to change or differing interpretation, possibly with retroactive effect. For these purposes, a “U.S. Shareholder” is (i) an individual who is a citizen or resident of the United States, (ii) a corporation, partnership or other entity organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) a trust if a

court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust, or (iv) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source.

The discussion herein applies to the U.S. Shareholders which hold the NOVA Common Shares and NOVA Preferred Shares and TransCanada Common Shares as capital assets within the meaning of section 1221 of the IRC, and does not address U.S. Shareholders subject to special tax treatment under United States federal income tax laws, including without limitation, U.S. Shareholders who received NOVA Common Shares and TransCanada Common Shares pursuant to the exercise of employee stock options or otherwise as compensation, or which are insurance companies, financial institutions, certain U.S. expatriates, tax-exempt organizations, broker-dealers and persons which hold such shares as part of a hedging, integrated, straddle, wash sale or conversion transaction. Further, the discussion herein does not address the tax consequences to U.S. Shareholders under any United States state, local, gift or estate tax laws.

There is no direct authority addressing the proper treatment of the Arrangement for United States federal income tax purposes. Neither NOVA nor TransCanada has applied for a ruling from the Internal Revenue Service (“IRS”) regarding the characterization of the Arrangement or the consequences of the consummation of the Arrangement for United States federal income tax purposes. There can be no assurance that the IRS would not challenge the characterization of the Arrangement or the consequences of the consummation of the Arrangement to U.S. Shareholders (each as described herein) and that, if challenged, a court would not agree with the IRS. U.S. Counsel has advised, and the remainder of the discussion herein assumes, that for United States federal income tax purposes (i) the U.S. Shareholders’ receipt of EnergyCo. Common Shares in exchange for TransCanada Common Shares (including TransCanada Common Shares received by U.S. NOVA Shareholders in exchange for their NOVA Common Shares) pursuant to the Arrangement will be disregarded, and EnergyCo. Common Shares received by U.S. Shareholders will be treated for all such purposes as a continuation of their interests in TransCanada, and (ii) although the matter is not free from doubt, the other steps required to effect the Arrangement should generally be characterized in accordance with their form.

Because individual circumstances may differ, U.S. Shareholders should consult their own tax advisors to determine, in light of their particular circumstances, the applicability of the rules discussed below and the particular tax effects to them of the transactions discussed herein, including the application and effect of United States federal, state, local and other tax laws.

a) Tax Consequences to U.S. NOVA Shareholders

Exchange of NOVA Common Shares for TransCanada Common Shares

Upon the exchange by a U.S. NOVA Shareholder of NOVA Common Shares for TransCanada Common Shares, such U.S. NOVA Shareholder generally will recognize capital gain or loss equal to the difference, if any, between (1) the fair market value of the consideration received for the NOVA Common Shares surrendered in the exchange and (2) the U.S. NOVA Shareholder’s adjusted tax basis in such NOVA Common Shares. For this purpose, the fair market value of the consideration received for each NOVA Common Share surrendered in the exchange generally will equal the fair market value of 0.52 of a TransCanada Common Share on the Effective Date (without giving effect to the distribution of NOVA Chemicals Common Shares discussed below).

As described below, the United States federal income tax rate applicable to any capital gain recognized by a U.S. NOVA Shareholder will depend on the U.S. NOVA Shareholder’s holding period with respect to the NOVA Common Shares surrendered in the exchange. A U.S. NOVA Shareholder who participates in the Arrangement generally will have a tax basis in the TransCanada Common Shares received in the exchange equal to the fair market value of such shares on the Effective Date (as described above). The holding period for the TransCanada Common Shares will begin on the day after the Effective Date.

Receipt of EnergyCo. Common Shares and NOVA Chemicals Common Shares

Pursuant to the Arrangement, the TransCanada Common Shares received by the U.S. NOVA Shareholders in exchange for their NOVA Common Shares (as described above) will be further exchanged for EnergyCo. Common Shares and NOVA Chemicals Common Shares, with the following consequences:

- (i) The receipt of EnergyCo. Common Shares in exchange for TransCanada Common Shares will be ignored for United States federal income tax purposes, and the EnergyCo. Common Shares received by such shareholders will be treated as a continuation of their interests in TransCanada. Accordingly, such U.S. NOVA Shareholders will not recognize any gain or loss as a result of the exchange of TransCanada Common Shares for EnergyCo. Common Shares (except to the extent cash is received in lieu of fractional EnergyCo. Common Shares), and they will have an adjusted tax basis and holding period for the EnergyCo. Common Shares received which are the same as their adjusted tax basis and holding period for the TransCanada Common Shares surrendered, in each case as described above. A U.S. NOVA Shareholder that receives cash from EnergyCo. in lieu of a fractional EnergyCo. Common Share will be treated as having received such cash in redemption of such fractional share, and generally should recognize short-term capital gain or loss equal to the difference, if any, between (1) the amount of cash received and (2) such shareholder's tax basis in the TransCanada Common Shares exchanged and allocable to the fractional EnergyCo. Common Share.
- (ii) A U.S. NOVA Shareholder who receives a distribution of NOVA Chemicals Common Shares generally will include the fair market value of the NOVA Chemicals Common Shares on the Effective Date in gross income as ordinary dividend income to the extent of the U.S. NOVA Shareholder's *pro rata* share of the current and accumulated earnings and profits of EnergyCo. as of the end of 1998. Such U.S. NOVA Shareholders will not be entitled to claim a dividends received deduction with respect to any such dividend income.

The exact amount of EnergyCo.'s earnings and profits as of the end of 1998 depends upon a variety of factors and cannot be determined until after the end of 1998. It is anticipated, however, that the fair market value of the distributed NOVA Chemicals Common Shares should substantially exceed the current and accumulated earnings and profits of EnergyCo. as of the end of 1998. To the extent the value of the NOVA Chemicals Common Shares distributed to a U.S. NOVA Shareholder exceeds such shareholder's *pro rata* share of EnergyCo.'s earnings and profits, such shareholder will be required to apply such excess to reduce the tax basis in the EnergyCo. Common Shares received in exchange for TransCanada Common Shares. A U.S. NOVA Shareholder whose tax basis in such EnergyCo. Common Shares is thereby reduced to zero will recognize capital gain in the amount of any additional remaining value of NOVA Chemicals Common Shares received.

EnergyCo. intends to report in February of 1999 to the U.S. NOVA Shareholders the portion of the fair market value of the NOVA Chemicals Common Shares that should be treated as a dividend.

Any capital gain recognized by a U.S. NOVA Shareholder as a result of the distribution of the NOVA Chemicals Common Shares will be short-term capital gain and will be subject to United States federal income tax at the same federal income tax rate applicable to ordinary income. A U.S. NOVA Shareholder's holding period in the NOVA Chemicals Common Shares received in the distribution will begin on the day after the Effective Date and the initial tax basis for such shares generally will equal their fair market value on the Effective Date. A U.S. NOVA Shareholder that receives cash from NOVA Chemicals in lieu of a fractional NOVA Chemicals Common Share will be treated as having received such cash in redemption of such fractional share, and generally should recognize short-term capital gain or loss equal to the difference, if any, between (1) the amount of cash received and (2) the fair market value on the Effective Date of such fractional NOVA Chemicals Common Share.

Exchange of NOVA Preferred Shares for EnergyCo. Preferred Shares

The transfer by U.S. NOVA Shareholders of NOVA Preferred Shares to TransCanada in exchange for EnergyCo. Preferred Shares will be a taxable exchange. Accordingly, for United States federal income tax

purposes, each such U.S. NOVA Shareholder generally will recognize capital gain or loss equal to the difference, if any, between (1) the sum of the fair market value of the EnergyCo. Preferred Shares on the Effective Date received in the exchange and cash received in lieu of a fractional EnergyCo. Preferred Share and (2) the U.S. NOVA Shareholder's adjusted tax basis in the NOVA Preferred Shares surrendered in the exchange.

As described below, the United States federal income tax rate applicable to any capital gain recognized by a U.S. NOVA Shareholder will depend on the U.S. NOVA Shareholder's holding period with respect to the NOVA Preferred Shares surrendered in the exchange. A U.S. NOVA Shareholder generally will have a tax basis in the EnergyCo. Preferred Shares received in the exchange equal to the fair market value of such shares on the Effective Date. The holding period for the EnergyCo. Preferred Shares will begin on the day after the Effective Date.

Dissenting U.S. NOVA Shareholders

A U.S. NOVA Shareholder who exercises the right to dissent and receives cash as a result of the appraisal proceedings will be treated as having received that cash as a distribution in redemption of the NOVA Common Shares or NOVA Preferred Shares surrendered subject to the provisions and limitations of section 302 of the IRC. Any such shareholders who hold no NOVA Chemicals Common Shares, including shares constructively or indirectly owned, by reason of attribution under section 318 of the IRC, will be treated as having a complete termination of their interests within the meaning of section 302(b)(3) of the IRC. Accordingly, the cash received will be treated as a distribution in full payment in exchange for the NOVA Common Shares or NOVA Preferred Shares surrendered, and such shareholder will recognize capital gain or loss, in an amount equal to the difference between the amount of the cash received (other than the amount, if any, which is or is deemed to be interest for United States federal income tax purposes, which amount will be taxed as ordinary income) and the shareholder's adjusted tax basis in the NOVA Common Shares or NOVA Preferred Shares surrendered.

Any such U.S. NOVA Shareholder who owns NOVA Chemicals Common Shares constructively or indirectly after receipt of cash by reason of attribution under section 318 of the IRC, will also recognize capital gain or loss unless the receipt of the cash is considered to have the effect of a dividend distribution under section 302 of the IRC. In this event, the cash such shareholder receives will be treated as a dividend to the extent of the shareholder's ratable share of applicable current and accumulated earnings and profits of NOVA. A shareholder will not be entitled to claim the dividend received deduction with respect to any such dividend income. In general, the receipt of cash will not be considered to have the effect of a dividend distribution if (a) it is "substantially disproportionate" with respect to such shareholder, or (b) it is "not essentially equivalent to a dividend" with respect to such shareholder. U.S. NOVA Shareholders should consult their own tax advisors with respect to the issue of constructive or indirect ownership of NOVA Chemicals Common Shares and the possibility of satisfying the "substantially disproportionate" or "not essentially equivalent to a dividend" tests.

b) Tax Consequences to U.S. TransCanada Shareholders

U.S. TransCanada Shareholders Participating in the Arrangement

Pursuant to the Arrangement, TransCanada Common Shares will be exchanged for EnergyCo. Common Shares and NOVA Chemicals Common Shares, with the following consequences:

- (i) The receipt of EnergyCo. Common Shares in exchange for TransCanada Common Shares will be ignored for United States federal income tax purposes, and the EnergyCo. Common Shares received by U.S. TransCanada Shareholders will be treated as a continuation of their interests in TransCanada. Accordingly, such U.S. TransCanada Shareholders will not recognize any gain or loss as a result of the exchange of TransCanada Common Shares for EnergyCo. Common Shares. U.S. TransCanada Shareholders who participate in the Arrangement will have an adjusted tax basis and holding period in the EnergyCo. Common Shares received which are the same as their adjusted tax basis and holding period in the TransCanada Common Shares surrendered.

- (ii) A U.S. TransCanada Shareholder who receives a distribution of NOVA Chemicals Common Shares generally will include the fair market value of the NOVA Chemicals Common Shares on the Effective Date in gross income as ordinary dividend income to the extent of the U.S. TransCanada Shareholder's *pro rata* share of the current and accumulated earnings and profits of EnergyCo. as of the end of 1998. Such U.S. TransCanada Shareholders will not be entitled to claim a dividend received deduction with respect to any such dividend income.

The exact amount of EnergyCo.'s earnings and profits as of the end of 1998 depends upon a variety of factors and cannot be determined until after the end of 1998. It is anticipated, however, that the fair market value of the distributed NOVA Chemicals Common Shares should substantially exceed the current and accumulated earnings and profits of EnergyCo. as of the end of 1998. To the extent the value of the NOVA Chemicals Common Shares distributed to a U.S. TransCanada Shareholder exceeds such shareholder's *pro rata* share of EnergyCo.'s earnings and profits, such shareholder will be required to apply such excess to reduce the tax basis in the EnergyCo. Common Shares received in exchange for TransCanada Common Shares. A U.S. TransCanada Shareholder whose tax basis in such EnergyCo. Common Shares is thereby reduced to zero will recognize capital gain in the amount of any additional remaining value of NOVA Chemicals Common Shares received.

EnergyCo. will report in February of 1999 to the U.S. EnergyCo. Common Shareholders the portion of the fair market value of the NOVA Chemicals Common Shares that should be treated as a dividend.

As discussed below, the United States federal income tax rate applicable to any capital gain recognized by a U.S. TransCanada Shareholder as a result of the distribution of the NOVA Chemicals Common Shares will depend on the U.S. TransCanada Shareholder's holding period with respect to the EnergyCo. Common Shares (as described above). A U.S. TransCanada Shareholder's holding period in the NOVA Chemicals Common Shares received in the distribution will begin on the day after the Effective Date and the initial tax basis for such shares generally will equal their fair market value on the Effective Date. A U.S. TransCanada Shareholder that receives cash from NOVA Chemicals in lieu of a fractional NOVA Chemicals Common Share will be treated as having received such cash in redemption of such fractional share, and generally should recognize short-term capital gain or loss equal to the difference, if any, between (1) the amount of cash received and (2) the fair market value on the Effective Date of such fractional NOVA Chemicals Common Share.

Dissenting U.S. TransCanada Shareholders

A U.S. TransCanada Shareholder who exercises the right to dissent and receives cash as a result of the appraisal proceedings will be treated as having received that cash as a distribution in redemption of the TransCanada Common Shares surrendered subject to the provisions and limitations of section 302 of the IRC. Any such shareholders who hold no EnergyCo. Common Shares, including shares constructively or indirectly owned, by reason of attribution under section 318 of the IRC, will be treated as having a complete termination of their interests within the meaning of section 302(b)(3) of the IRC. Accordingly, the cash received will be treated as a distribution in full payment in exchange for the TransCanada Common Shares surrendered, and such shareholder will recognize capital gain or loss, in an amount equal to the difference between the amount of the cash received (other than the amount, if any, which is or is deemed to be interest for United States federal income tax purposes, which amount will be taxed as ordinary income) and the shareholder's adjusted tax basis in the TransCanada Common Shares surrendered.

Any such U.S. TransCanada Shareholder who owns EnergyCo. Common Shares constructively or indirectly after receipt of cash by reason of attribution under section 318 of the IRC, will also recognize capital gain or loss unless the receipt of the cash is considered to have the effect of a dividend distribution under section 302 of the IRC. In this event, the cash such shareholder receives will be treated as a dividend to the extent of the shareholder's *ratable* share of applicable current and accumulated earnings and profits of EnergyCo. A shareholder will not be entitled to claim the dividend received deduction with respect to any such dividend income. In general, the receipt of cash will not be considered to have the effect of a dividend distribution if (a) it is "substantially disproportionate" with respect to such shareholder, or (b) it is "not essentially equivalent to a dividend" with respect to such shareholder. U.S. TransCanada Shareholders should consult their own tax

advisors with respect to the issue of constructive or indirect ownership of EnergyCo. Common Shares and the possibility of satisfying the “substantially disproportionate” or “not essentially equivalent to a dividend” tests.

c) Treatment of Capital Gains and Losses

The United States federal income tax rate applicable to a capital gain recognized by a U.S. Shareholder depends on such shareholder’s holding period for the property with respect to which such gain was recognized. Under recently enacted changes to the IRC, in the case of individuals, estates and trusts, net capital gain recognized from the sale of property held more than 18 months will generally be taxed at a maximum rate of 20% and net capital gain from the sale of the property held for more than one year but no more than 18 months will generally be taxed at a maximum rate of 28%. There are limitations on the deductibility of capital losses.

NOVA SHAREHOLDERS RIGHTS OF DISSENT

The following description of the rights of registered NOVA Shareholders to dissent and be paid fair value for their shares, granted by virtue of the Interim Order, is not a comprehensive statement of the procedures to be followed by a registered NOVA Shareholder who dissents and seeks payment of the fair value of its NOVA Common Shares or NOVA Preferred Shares and is qualified in its entirety by the reference to the full text of the Interim Order and section 184 of the *Business Corporations Act (Alberta)* (the “ABCA”) which are attached to this Joint Circular in Appendices C and D, respectively. A registered NOVA Shareholder who intends to exercise a right of dissent and appraisal should carefully consider and comply with the provisions of that section, as modified by the Interim Order, and should seek independent legal advice. Failure to comply with the provisions of that section, as modified by the Interim Order, and to adhere to the procedures established therein may result in the loss of all rights thereunder.

The Court hearing the application for the Final Order has the discretion to alter the rights of dissent described herein based on the evidence presented at such hearing.

Under the Interim Order, a registered NOVA Shareholder is entitled, in addition to any other right he or she may have, to dissent and to be paid by NOVA the fair value of the NOVA Common Shares or NOVA Preferred Shares held by him or her in respect of which he or she dissents, determined as of the close of business on the last business day before the day on which the resolution from which he or she dissents was adopted. A NOVA Shareholder may dissent only with respect to all of the NOVA Shares held by him or her or on behalf of any one beneficial owner. Further, a NOVA Shareholder may only dissent in respect of NOVA Shares registered in the dissenting NOVA Shareholder’s name. The demand for appraisal must be executed by or for the holder of record, fully and correctly, as such holder’s name appears on the holder’s security certificates. If the securities are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be made in that capacity, and if the securities are owned of record by more than one person, as in a joint tenancy or a tenancy in common, the demand should be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a holder of record; however, such agent must identify the record owner or owners, and expressly disclose in such demand that the agent is acting as agent for the record owner or owners.

Persons who are beneficial owners of NOVA Common Shares or NOVA Preferred Shares registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent, should be aware that only the registered owner of such securities is entitled to dissent. A registered holder such as a broker who holds NOVA Common Shares or NOVA Preferred Shares as nominee for beneficial owners, some of whom desire appraisal, must exercise dissent rights on behalf of such beneficial owners with respect to the securities held for such beneficial owners. In such case, the demand for appraisal should set forth the number of NOVA Common Shares or NOVA Preferred Shares covered by it.

A registered NOVA Shareholder wishing to dissent must send to NOVA a written objection to the NOVA Special Resolution, which written objection must be received on or before 1700 hrs (Mountain Daylight Savings Time) on June 26, 1998 by the Corporate Secretary of NOVA in care of CIBC Mellon Trust Company at The Dome Tower, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1, or the Chairman of the NOVA Meeting before the commencement of the NOVA Meeting. An application may be made to the Court to fix the value of the dissenting NOVA Shareholder’s NOVA Common Shares or NOVA Preferred Shares after the Effective Date. If

an application to the Court is made by either NOVA or a dissenting NOVA Shareholder, NOVA must, unless the Court otherwise orders, send to each dissenting NOVA Shareholder a written offer to pay him an amount considered by the board of directors of NOVA to be the fair value of the NOVA Common Shares or NOVA Preferred Shares. The offer, unless the Court otherwise orders, will be sent to each dissenting NOVA Shareholder at least 10 days before the date on which the application is returnable, if NOVA is the applicant, or within 10 days after NOVA is served with notice of the application, if a shareholder is the applicant. The offer will be made on the same terms to each dissenting NOVA Shareholder and will be accompanied by a statement showing how the fair value was determined.

A dissenting NOVA Shareholder may make an agreement with NOVA for the purchase of his or her NOVA Common Shares or NOVA Preferred Shares in the amount of NOVA's offer (or otherwise) at any time before the Court pronounces an order fixing the fair value of the NOVA Common Shares. A dissenting NOVA Shareholder is not required to give security for costs in respect of an application and, except in special circumstances, will not be required to pay the costs of the application or appraisal. On the application, the Court will make an order fixing the fair value of the NOVA Common Shares or NOVA Preferred Shares of all dissenting NOVA Shareholders who are parties to the application, giving judgment in that amount against NOVA and in favour of each of those dissenting NOVA Shareholders and fixing the time within which NOVA must pay that amount payable to the dissenting NOVA Shareholders. The Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting NOVA Shareholder calculated from the date on which the NOVA Shareholder ceases to have any rights as a NOVA Shareholder until the date of payment.

On the Arrangement becoming effective, or upon the making of an agreement between NOVA and the dissenting NOVA Shareholder as to the payment to be made by NOVA to the dissenting NOVA Shareholder or upon the pronouncement of a Court order, whichever first occurs, the dissenting NOVA Shareholder will cease to have any rights as a shareholder other than the right to be paid the fair value of the NOVA Common Shares or NOVA Preferred Shares in the amount agreed to between NOVA and the dissenting NOVA Shareholder or in the amount of the judgment, as the case may be. Until one of these events occurs, the NOVA Shareholder may withdraw his dissent, or NOVA may rescind the NOVA Special Resolution and in either event, the dissent and appraisal proceedings in respect of that NOVA Shareholder will be discontinued.

The above is only a summary of the dissenting shareholder provisions of the ABCA and the Interim Order which are technical and complex. A NOVA Shareholder wishing to exercise a right to dissent should seek independent legal advice, as failure to comply strictly with the provisions of the Interim Order and the statute may prejudice the right of dissent.

TRANSCANADA COMMON SHAREHOLDERS RIGHTS OF DISSENT

The following description of the rights of registered TransCanada Common Shareholders to dissent and be paid fair value for their shares, granted by virtue of the Interim Order, is not a comprehensive statement of the procedures to be followed by a registered TransCanada Common Shareholder who dissents and seeks payment of the fair value of his or her TransCanada Common Shares and is qualified in its entirety by the reference to the full text of the Interim Order and section 190 of the *Canada Business Corporations Act* (the "CBCA") which are attached to this Joint Circular as Appendices C and E, respectively. A registered TransCanada Shareholder who intends to exercise a right of dissent and appraisal should carefully consider and comply with the provisions of that section, as modified by the Interim Order, and should seek independent legal advice. Failure to comply with the provisions of that section, as modified by the Interim Order, and to adhere to the procedures established therein may result in the loss of all rights thereunder.

The Court hearing the application for the Final Order has the discretion to alter the rights of dissent described herein based on the evidence presented at such hearing.

Under the Interim Order, a registered TransCanada Common Shareholder is entitled, in addition to any other right he or she may have, to dissent and to be paid by TransCanada the fair value of the TransCanada Common Shares held by him or her in respect of which he or she dissents, determined as of the close of business on the last business day before the day on which the resolution from which he or she dissents was adopted. A TransCanada Common Shareholder may dissent only with respect to all of the TransCanada Common Shares

held by him or her or on behalf of any one beneficial owner. Further, a TransCanada Common Shareholder may only dissent in respect of TransCanada Common Shares registered in the dissenting shareholder's name. The demand for appraisal must be executed by or for the holder of record, fully and correctly, as such holder's name appears on the holder's security certificates. If the securities are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be made in that capacity, and if the securities are owned of record by more than one person, as in a joint tenancy or a tenancy in common, the demand should be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a holder of record; however, such agent must identify the record owner or owners, and expressly disclose in such demand that the agent is acting as agent for the record owner or owners.

Persons who are beneficial owners of TransCanada Common Shares registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent, should be aware that only the registered owner of such securities is entitled to dissent. A registered holder such as a broker who holds TransCanada Common Shares as nominee for beneficial owners, some of whom desire appraisal, must exercise dissent rights on behalf of such beneficial owners with respect to the securities held for such beneficial owners. In such case, the demand for appraisal should set forth the number of TransCanada Common Shares covered by it.

A registered TransCanada Common Shareholder wishing to dissent must send to TransCanada a written objection to the TransCanada Special Resolution, which written objection (the "Notice of Dissent") must be received by the Secretary of TransCanada in care of Montreal Trust Company of Canada at 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, or the Chairman of the TransCanada Meeting at or before the commencement of the TransCanada Meeting. The sending of a Notice of Dissent does not deprive a registered shareholder of the right to vote on the TransCanada Special Resolution but a vote either in person or by proxy against the TransCanada Special Resolution does not constitute a Notice of Dissent. A vote in favour of the TransCanada Special Resolution will deprive the registered shareholder of further rights under section 190 of the CBCA.

Within ten (10) days after the adoption of the TransCanada Special Resolution by the TransCanada Common Shareholders (provided that a Certificate of Arrangement has been issued and is effective), TransCanada is required to notify in writing each TransCanada Shareholder who has filed a Notice of Dissent and has not voted for the TransCanada Special Resolution or withdrawn his or her objection (a "Dissenting Shareholder") that the TransCanada Special Resolution has been adopted. A Dissenting Shareholder shall, within twenty (20) days after he receives notice of adoption of the TransCanada Special Resolution or, if he does not receive such notice, within twenty (20) days after he learns that the TransCanada Special Resolution has been adopted (provided that a Certificate of Arrangement has been issued and is effective), send to TransCanada a written notice (the "Demand for Payment") containing his name and address, the number of TransCanada Common Shares in respect of which he or she dissents, and a demand for payment of the fair value of such securities. Within thirty (30) days after sending his or her Demand for Payment, the Dissenting Shareholder shall send the certificates representing the securities in respect of which he or she dissents to TransCanada or its transfer agent. TransCanada or the transfer agent shall endorse on the securities certificates notice that the holder thereof is a Dissenting Shareholder under section 190 of the CBCA and shall forthwith return the securities certificates to the Dissenting Shareholder. If a Dissenting Shareholder fails to send his securities certificates, he or she has no right to make a claim under section 190 of the CBCA.

After sending a Demand for Payment, a Dissenting Shareholder ceases to have any rights as a holder of the security in respect of which he or she has dissented other than the right to be paid the fair value of such securities as determined under section 190 of the CBCA, unless: (i) the Dissenting Shareholder withdraws his or her Demand for Payment before TransCanada makes a written offer to pay (the "Offer to Pay"); (ii) TransCanada fails to make a timely Offer to Pay to the Dissenting Shareholder and the Dissenting Shareholder withdraws his or her Demand for Payment; (iii) the directors of TransCanada revoke the TransCanada Special Resolution; (iv) the Arrangement Agreement is terminated; or (v) the application for the Final Order is refused and all appeal rights in respect of such refusal have been exhausted without success; in all of which cases the Dissenting Shareholder's rights as a shareholder are reinstated.

Not later than seven (7) days after the later of the Effective Date and the day TransCanada receives the Demand for Payment, TransCanada shall send, to each Dissenting Shareholder who has sent a Demand for

Payment, an Offer to Pay for the shares of the Dissenting Shareholder in respect of which he or she has dissented in an amount considered by the directors of TransCanada to be the fair value thereof, accompanied by a statement showing how the fair value was determined. Every Offer to Pay made to Dissenting Shareholders for shares of the same class shall be on the same terms. The amount specified in an Offer to Pay which has been accepted by a Dissenting Shareholder shall be paid by TransCanada within ten (10) days of the acceptance, but an Offer to Pay lapses if the Corporation has not received an acceptance thereof within thirty (30) days after the Offer to Pay has been made.

If an Offer to Pay is not made by TransCanada or if a Dissenting Shareholder fails to accept an Offer to Pay, TransCanada may, within fifty (50) days after the Effective Date or within such further period as a court of competent jurisdiction may allow, apply to the Court to fix a fair value for the securities of any Dissenting Shareholder. If TransCanada fails to so apply to the Court, a Dissenting Shareholder may apply to the Court for the same purpose within a further period of twenty (20) days or within such further period as the Court may allow. A Dissenting Shareholder is not required to give security for costs in any application to the Court. Applications referred to in this paragraph may be made to the Alberta Court of Queen's Bench.

On making an application to the Court, TransCanada shall give to each Dissenting Shareholder who has sent to TransCanada a Demand for Payment and has not accepted an Offer to Pay, notice of the date, place and consequences of the application and of his or her right to appear and be heard in person or by counsel. All Dissenting Shareholders whose securities have not been purchased by TransCanada shall be joined as parties to any such application to the Court to fix a fair value and shall be bound by the decision rendered by the Court in the proceedings commenced by such application. The Court is authorized to determine whether any other person is a Dissenting Shareholder who should be joined as a party to such application.

The Court will fix a fair value for the securities of all Dissenting Shareholders and may in its discretion allow a reasonable rate of interest on the amount payable to each Dissenting Shareholder from the effective date of the Arrangement until the date of payment of the amount ordered by the Court. The final order of the Court in the proceedings commenced by an application by TransCanada or a Dissenting Shareholder shall be rendered against TransCanada and in favour of each Dissenting Shareholder. The cost of any application to a Court by TransCanada or a Dissenting Shareholder are in the discretion of the Court.

The above is only a summary of the dissenting shareholder provisions of the CBCA and the Interim Order, which are technical and complex. A shareholder of TransCanada wishing to exercise a right to dissent should seek independent legal advice, as failure to comply strictly with the provisions of the Interim Order and the statute may prejudice the right of dissent.

NOVA — DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed by NOVA or NOVA Chemicals Ltd. with the various securities regulatory authorities in each of the provinces and territories of Canada and with the SEC, are specifically incorporated by reference and form an integral part of this Joint Circular:

- (i) NOVA Corporation Annual Information Form for the year ended December 31, 1997, which is attached to this Joint Circular as part of Appendix G;
- (ii) NOVA Corporation Management's Discussion and Analysis, which is attached to this Joint Circular as part of Appendix G;
- (iii) NOVA Corporation Audited Comparative Consolidated Financial Statements for the year ended December 31, 1997 and the auditors' report thereon, which are attached to this Joint Circular as part of Appendix G;
- (iv) NOVA Corporation Interim Unaudited Financial Statements for the period ended March 31, 1998 together with Management's Discussion and Analysis contained therein, which are attached to this Joint Circular as part of Appendix G;
- (v) NOVA Chemicals Ltd. Annual Information Form including audited comparative consolidated financial statements for the year ended December 31, 1997, together with the auditors' report thereon and

Management's Discussion and Analysis contained therein, which are attached to this Joint Circular as part of Appendix I; and

- (vi) NOVA Chemicals Ltd. Interim Unaudited Financial Statements for the period ended March 31, 1998 together with Management's Discussion and Analysis contained therein which are attached to this Joint Circular as part of Appendix I.

Any interim financial statements or material change reports (excluding confidential reports) filed by NOVA or NOVA Chemicals Ltd. with securities regulatory authorities in Canada or with the SEC after the date of this Joint Circular and prior to the NOVA Meeting shall be deemed to be incorporated by reference in this Joint Circular.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Joint Circular to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes that statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Joint Circular.

The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Copies of the documents incorporated herein by reference and not attached as appendices to this Joint Circular, and this Joint Circular, may be obtained on request without charge from the Corporate Secretary of NOVA at NOVA Corporation, P.O. Box 2535, Postal Station "M", Calgary, Alberta, T2P 2N6.

TRANSCANADA — DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed by TransCanada with the various securities regulatory authorities in each of the provinces and territories of Canada and with the SEC, are specifically incorporated by reference and form an integral part of this Joint Circular:

- (i) TransCanada PipeLines Limited Annual Information Form for the year ended December 31, 1997, which is attached to this Joint Circular as part of Appendix H;
- (ii) TransCanada PipeLines Limited Management's Discussion and Analysis for the year ended December 31, 1997, which is attached to this Joint Circular as part of Appendix H;
- (iii) TransCanada PipeLines Limited Audited Comparative Consolidated Financial Statements for the year ended December 31, 1997 together with the auditors' report thereon, which are attached to this Joint Circular as part of Appendix H; and
- (iv) TransCanada PipeLines Limited 1998 First Quarter Report, which is attached to this Joint Circular as part of Appendix H.

Any interim financial statements or material change reports (excluding confidential reports) filed by TransCanada with securities regulatory authorities in Canada or with the SEC after the date of this Joint Circular and prior to the TransCanada Meeting shall be deemed to be incorporated by reference in this Joint Circular.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Joint Circular to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes that statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Joint Circular.

The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of

a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Copies of the documents incorporated herein by reference and not attached as appendices to this Joint Circular, and this Joint Circular, may be obtained on request without charge from the Corporate Secretary of TransCanada at TransCanada PipeLines Limited, TransCanada PipeLines Tower, 111 - 5th Avenue S.W., Calgary, Alberta, T2P 3Y6.

STOCK EXCHANGE LISTINGS — PRICE RANGE AND TRADING VOLUMES

NOVA Common Shares

The NOVA Common Shares are listed on each of the TSE, ME, ASE and NYSE. The following table shows the high and low prices and composite volume of trading of the NOVA Common Shares on the TSE and the NYSE, as reported by each such exchange, for the periods indicated.

	TSE			NYSE		
	High	Low	Volume	High	Low	Volume
					(US\$)	
1995						
First Quarter	\$13.750	\$10.625	85,386,605	\$ 9.625	\$7.625	7,285,700
Second Quarter	12.750	10.875	58,034,979	9.375	8.000	4,570,200
Third Quarter	12.375	10.375	49,631,555	9.000	7.625	6,200,600
Fourth Quarter	11.500	9.500	45,919,741	8.500	7.000	3,771,300
1996						
First Quarter	13.125	10.875	66,433,045	9.625	8.000	4,030,500
Second Quarter	13.550	12.250	63,086,579	10.000	9.000	4,634,800
Third Quarter	12.750	11.450	47,686,203	9.375	8.250	2,051,600
Fourth Quarter	13.150	11.350	83,047,393	9.750	8.500	3,090,600
1997						
First Quarter	13.150	11.150	61,572,465	9.750	8.125	1,863,700
Second Quarter	12.000	10.500	83,053,529	8.750	7.500	5,101,100
Third Quarter	12.500	11.250	53,478,694	9.063	8.063	2,008,700
Fourth Quarter	14.150	11.250	77,198,472	10.000	7.625	7,915,600
1998						
First Quarter	17.10	13.10	152,178,528	12.063	9.188	4,503,200
April	16.85	16.05	31,045,899	11.875	11.125	478,600
May 1 to May 15	16.800	16.000	14,377,794	11.500	11.125	340,300

NOVA Preferred Shares

The NOVA Preferred Shares are listed on the TSE and the ME. The following table shows the high and low prices and composite volume of trading of the NOVA Preferred Shares on the TSE, as reported by such exchange, for the periods indicated.

	TSE		
	High	Low	Volume
1997			
First Quarter	\$24.700	\$24.400	4,812,270
Second Quarter	25.500	23.850	2,482,331
Third Quarter	26.000	25.050	1,305,210
Fourth Quarter	26.000	24.000	1,287,900
1998			
First Quarter	25.75	24.00	275,130
April	25.75	24.25	460,200
May 1 to May 15	25.35	25.00	209,200

TransCanada Common Shares

The TransCanada Common Shares are listed on each of the TSE, ME, ASE, VSE, WSE and the NYSE. The following table shows the high and low prices and composite volume of trading of the TransCanada Common Shares on the TSE and the NYSE, as reported by each such exchange, for the periods indicated.

	TSE			NYSE		
	High	Low	Volume	High	Low	Volume
(US\$)						
1995						
First Quarter	\$18.750	\$16.500	22,325,144	\$13.375	\$11.625	7,727,000
Second Quarter	18.875	17.500	19,968,157	13.625	12.625	7,079,600
Third Quarter	18.750	17.500	24,593,589	13.875	12.875	12,377,600
Fourth Quarter	19.000	17.000	21,787,798	14.000	12.500	7,760,000
1996						
First Quarter	20.000	18.625	22,151,540	14.625	13.625	5,581,700
Second Quarter	20.500	18.875	27,983,989	15.000	13.875	6,476,500
Third Quarter	22.450	20.050	32,896,758	16.500	14.625	6,533,100
Fourth Quarter	24.500	21.800	39,429,628	18.125	16.000	9,087,300
1997						
First Quarter	26.850	22.900	31,744,492	19.625	16.750	8,550,600
Second Quarter	28.400	24.100	32,205,862	20.375	17.375	4,945,200
Third Quarter	28.350	25.750	33,111,947	20.625	18.625	5,995,100
Fourth Quarter	32.250	25.600	26,692,494	22.500	18.125	5,091,800
1998						
First Quarter	34.300	29.350	53,083,458	24.250	20.250	5,694,800
April	33.600	31.600	16,018,321	23.625	22.000	1,022,400
May 1 to May 15	32.850	31.650	6,305,500	22.625	22.125	296,600

INTEREST OF MANAGEMENT IN THE ARRANGEMENT

NOVA has agreements with eight senior executives in which the executives covenant not to voluntarily leave their employment with the corporation during a proposed change of control of the corporation, as defined in such agreements. The eight senior executives are: James M. Edward (Ted) Newall, Jeffrey M. Lipton, Daniel W. Boivin, C. Kent Jespersen, Jack S. Mustoe, Sheila H. O'Brien, A. Terence Poole and Bruce W. Simpson. In

consideration for this covenant, certain payments are due to these executives in the event that both a change of control of NOVA (as defined in the agreements) occurs and the executive is involuntarily terminated; the executive resigns due to a reduction in his or her position, compensation, plan participation or benefits; he or she is forced to relocate; a breach of the agreement occurs; NOVA fails to obtain the assumption of the agreement by a successor or assign of NOVA; or if matters which he or she was previously permitted to engage in by the board of directors are altered during the 24 months following a change of control. Under these circumstances, an executive would be entitled to receive various items including salary, NOVA's Management Incentive Plan payments and payments pursuant to the NOVA Savings and Profit Sharing Plan at the maximum level for periods ranging from 24 to 36 months. Pensions would vest immediately and continue to accrue for these periods. Most employee benefits would be maintained through these periods or may be paid out as a lump sum at the option of the executive.

NOVA's compensation consultants, who were retained with respect to the design of these agreements, advised the NOVA board of directors that these agreements meet median industry standards.

Closing of the Arrangement will result in a change of control (as defined in the agreements), an effect of which will be that all of these executives' outstanding options will immediately vest on the Effective Date of the merger and become exercisable through their normal expiry dates.

Mr. Jespersen had been named CEO-elect of NOVA's energy business prior to the decision to merge with TransCanada, a role which will not exist after the Arrangement. If the Arrangement is completed in its currently proposed form, Mr. Jespersen will be entitled to benefits under his agreement based on a 36 month period.

See the NOVA Management Information Circular dated May 19, 1998 for further information with respect to certain of the arrangements entered into by NOVA.

LEGAL MATTERS

Osler, Hoskin & Harcourt and Howard, Mackie, Canadian legal counsel to NOVA, have advised NOVA with respect to certain legal matters disclosed in this Joint Circular. Osler, Hoskin & Harcourt will pass upon certain Canadian tax considerations in connection with the Arrangement.

Bennett Jones Verchere, Canadian legal counsel to TransCanada, has advised TransCanada with respect to certain legal matters disclosed in this Joint Circular and will pass upon certain Canadian tax considerations in connection with the Arrangement.

Orrick, Herrington & Sutcliffe LLP, United States legal counsel to NOVA, has advised NOVA with respect to certain legal matters disclosed in this Joint Circular and Baker & McKenzie will pass upon certain United States tax considerations in connection with the Arrangement.

Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), United States legal counsel for TransCanada, has advised TransCanada with respect to certain legal matters disclosed in this Joint Circular and will pass upon certain United States tax considerations in connection with the Arrangement.

As at May 15, 1998, partners and associates of Osler, Hoskin & Harcourt, Howard, Mackie, Orrick, Herrington & Sutcliffe LLP and Baker & McKenzie owned beneficially, directly or indirectly, less than 1% of NOVA Common Shares, respectively, and partners and associates of Bennett Jones Verchere and Fried, Frank, Harris, Shriver & Jacobson owned beneficially, directly or indirectly, less than 1% of TransCanada Common Shares, respectively.

EXPERTS

The Consolidated Financial Statements of NOVA and NOVA Chemicals Ltd. included in this Joint Circular have been audited by Ernst & Young, Chartered Accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report.

The Consolidated Financial Statements of TransCanada included in this Joint Circular have been audited by KPMG, Chartered Accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report.

AVAILABLE INFORMATION

In the United States, NOVA, NOVA Chemicals Ltd., NGTL and TransCanada are subject to the informational requirements of the Exchange Act, and in accordance therewith must file reports and other information with the SEC. Under a multijurisdictional disclosure system adopted by the SEC, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. Such reports and other information filed by NOVA and TransCanada are available for inspection and copying at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N. W., Judiciary Plaza, Washington, D.C. 20549, and at the SEC's following regional offices: Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois, 60661; and New York Regional Office, 7 World Trade Center, New York, New York, 10048. Copies of certain of the above detailed material can also be obtained at prescribed rates from the Public Reference section of the SEC at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C., 20549.

NOVA CERTIFICATE

The contents of this Joint Circular and the sending thereof to the shareholders of NOVA has been approved by the board of directors of NOVA.

As it relates to NOVA, NOVA Chemicals Ltd., the chemicals business and the energy services businesses of NOVA, the foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. TransCanada has provided the information contained in this Joint Circular concerning TransCanada and the energy services businesses of TransCanada and TransCanada's subsidiaries and the companies or partnerships in which it has equity investments, including the information incorporated by reference, its financial information and financial statements. NOVA assumes no responsibility for the accuracy or completeness of such information, nor for any omission on the part of TransCanada to disclose facts or events which may affect the accuracy of any such information.

By Order of the Board of Directors

Dated at Calgary, Alberta, Canada this 19th day of May, 1998.

“J.E. (TED) NEWALL”

J.E. (TED) NEWALL, O.C.,
Vice Chairman and Chief Executive Officer

“A. TERENCE POOLE”

A. TERENCE POOLE,
Senior Vice President and Chief Financial Officer

TRANSCANADA CERTIFICATE

The contents of this Joint Circular and the sending thereof to the shareholders of TransCanada has been approved by the board of directors of TransCanada.

As it relates to TransCanada and the energy services businesses of TransCanada, the foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. NOVA has provided the information contained in this Joint Circular concerning NOVA, NOVA Chemicals Ltd., the chemicals business and the energy services businesses of NOVA and NOVA's subsidiaries and the companies or partnerships in which it has equity investments, including the information incorporated by reference, its financial information and financial statements. TransCanada assumes no responsibility for the accuracy or completeness of such information, nor for any omission on the part of NOVA to disclose facts or events which may affect the accuracy of any such information.

By Order of the Board of Directors

Dated at Calgary, Alberta, Canada this 19th day of May, 1998.

"GEORGE W. WATSON"

**GEORGE W. WATSON,
President and Chief Executive Officer**

"STEPHEN J.J. LETWIN"

**STEPHEN J.J. LETWIN,
Senior Vice President and Chief Financial Officer**

SCHEDULE I

REPORTING CURRENCIES AND ACCOUNTING PRINCIPLES

The consolidated financial statements of, and the summaries of historical consolidated financial information concerning each of NOVA and TransCanada contained or incorporated by reference in this Joint Circular are reported in Canadian dollars and have been prepared in accordance with Canadian GAAP.

The unaudited pro forma consolidated financial statements and selected pro forma consolidated information concerning EnergyCo. and NOVA Chemicals contained in this Joint Circular are reported in Canadian dollars and have been prepared in accordance with Canadian GAAP.

In this Joint Circular all dollar amounts are expressed in Canadian dollars and “\$” and “Cdn \$” shall mean Canadian dollars, except where otherwise indicated.

EXCHANGE RATE OF CANADIAN DOLLAR

The following table sets forth, for each period indicated: (i) the high and low spot rates for one (1) Canadian dollar expressed in United States dollars, (ii) the average of such exchange rates on the last day of each such period, and (iii) the exchange rate at the end of such period, based upon the noon spot rate of the Bank of Canada (the “Noon Spot Rate”):

	Four-Month Period Ended April 30	Year Ended December 31,				
	1998	1997	1996	1995	1994	1993
High	\$.7105	\$.7493	\$.7526	\$.7533	\$.7642	\$.8065
Low . . . . .	.6831	.6945	.7212	.7009	.7097	.7416
Average . . . . .	.6992	.7223	.7334	.7285	.7321	.7753
Period End . . . . .	.6992	.6997	.7301	.7325	.7134	.7566

On May 15, 1998, the exchange rate for one (1) Canadian dollar expressed in United States dollars based on the Noon Buying Rate was \$.6894.

The following table sets forth, for each period indicated: (i) the high and low exchange rates for one (1) United States dollar expressed in Canadian dollars, (ii) the average of such exchange rates on the last day of each such period, and (iii) the exchange rate at the end of such period, based upon the noon spot rate of the Bank of Canada (the “Noon Spot Rate”):

	Four-Month Period Ended April 30	Year Ended December 31,				
	1998	1997	1996	1995	1994	1993
High	\$1.4639	\$1.4399	\$1.3865	\$1.4267	\$1.4090	\$1.3484
Low	1.4075	1.3345	1.3287	1.3275	1.3085	1.2400
Average	1.4302	1.3844	1.3636	1.3726	1.3659	1.2898
Period End	1.4302	1.4291	1.3696	1.3652	1.4018	1.3217

On May 15, 1998, the Noon Spot Rate was one (1) United States dollar equal to \$1.4505 Canadian dollars.

APPENDIX A — SPECIAL RESOLUTIONS

NOVA CORPORATION SPECIAL RESOLUTION

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

- (1) the arrangement (the “Arrangement”) pursuant to section 186 of the *Business Corporations Act* (Alberta) (the “Act”), involving NOVA Corporation (“NOVA”), its holders of common shares, holders of preferred shares, TransCanada PipeLines Limited (“TransCanada”), and its holders of common shares, and 3399508 Canada Ltd., all as more particularly set forth in the plan of arrangement dated May 19, 1998 (the “Plan of Arrangement”) attached as Exhibit A to the amending agreement between NOVA and TransCanada dated as of May 19, 1998 is hereby authorized and approved;
- (2) the entering into by NOVA of the arrangement agreement dated January 24, 1998, as amended May 19, 1998 (the “Arrangement Agreement”), which is attached as Appendix B to the joint management information circular of NOVA and TransCanada dated May 19, 1998 (the “Joint Circular”) accompanying the notice of this Special Meeting, is hereby ratified, confirmed and approved;
- (3) notwithstanding the approval of this Special Resolution or the approval of the Court of Queen’s Bench of Alberta of the Arrangement, the board of directors of NOVA (i) is hereby authorized in its sole discretion, without further notice to or approval of the common or preferred shareholders of NOVA but subject to the terms of the Arrangement Agreement, to amend or terminate the Arrangement Agreement at any time prior to the Arrangement becoming effective; and (ii) is hereby authorized, in its sole discretion, without further notice to or approval of the shareholders of NOVA, to amend the Plan of Arrangement to the extent permitted thereby and to not proceed with the Arrangement at any time prior to the Arrangement becoming effective;
- (4) the amendment of the NOVA Shareholder Rights Plan to clarify that the momentary holding of NOVA’s issued and outstanding shares by 3399508 Canada Ltd. and TransCanada as part of the Plan of Arrangement does not cause such companies to become an “Acquiring Person” under such plan is hereby ratified, confirmed and approved;
- (5) any one director or officer of NOVA is authorized to sign articles of arrangement on behalf of NOVA and file such articles of arrangement with the Registrar of Corporations under the Act in accordance with the terms of the Plan of Arrangement and Arrangement Agreement;
- (6) NOVA is hereby authorized to restate its articles of incorporation, as may be amended by the articles of Arrangement, to consolidate and restate such articles without substantive change to the corresponding provisions of such articles of incorporation as amended and any one director or officer of NOVA is authorized to sign articles of restatement to consolidate and restate the articles of incorporation of NOVA as amended by the articles of Arrangement and file such articles after the Arrangement has become effective; and
- (7) any one director or officer of NOVA is hereby authorized and directed for and in the name and on behalf of NOVA to do all acts and things and to execute, whether under the corporate seal of NOVA or otherwise, and to deliver or cause to be delivered, all documents and instruments and to do all such acts and things as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this Special Resolution.

TRANSCANADA PIPELINES LIMITED
SPECIAL RESOLUTION
OF
TRANSCANADA COMMON SHAREHOLDERS

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

- (1) the arrangement (the "Arrangement") pursuant to section 192 of the *Canada Business Corporations Act* (the "Act"), involving TransCanada, its holders of common shares, 3399508 Canada Ltd. and NOVA Corporation ("NOVA"), its holders of common shares and its holders of preferred shares, all as more particularly set forth in the plan of arrangement dated May 19, 1998 (the "Plan of Arrangement") attached as Exhibit A to the amending agreement between TransCanada and NOVA dated as of May 19, 1998 is hereby authorized and approved;
- (2) the entering into by TransCanada of the arrangement agreement dated January 24, 1998, as amended May 19, 1998 (the "Arrangement Agreement"), which is attached as Appendix B to the joint management information circular of TransCanada and NOVA dated May 19, 1998 (the "Joint Circular") accompanying the notice of this Special Meeting, is hereby ratified, confirmed and approved;
- (3) notwithstanding the approval of this Special Resolution or the approval of the Court of Queen's Bench of Alberta of the Arrangement, the board of directors of TransCanada (i) is hereby authorized in its sole discretion, without further notice to or approval of the shareholders of TransCanada but subject to the terms of the Arrangement Agreement, to amend or terminate the Arrangement Agreement at any time prior to the Arrangement becoming effective; and (ii) is hereby authorized, in its sole discretion, without further notice to or approval of the shareholders of TransCanada, to amend the Plan of Arrangement to the extent permitted thereby and to not proceed with the Arrangement at any time prior to the Arrangement becoming effective;
- (4) any one director or officer of TransCanada is hereby authorized and directed for and in the name and on behalf of TransCanada to do all acts and things and to execute, whether under the corporate seal of TransCanada or otherwise, and to deliver or cause to be delivered, all documents and instruments and to do all such acts and things as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this Special Resolution; and
- (5) any one director or officer of TransCanada is authorized to sign articles of arrangement on behalf of TransCanada and file such articles of arrangement with the Director under the Act in accordance with the terms of the Plan of Arrangement and Arrangement Agreement.

APPENDIX B — ARRANGEMENT AGREEMENT AND PLAN OF ARRANGEMENT

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ARRANGEMENT AGREEMENT

TransCanada PipeLines Limited

and

NOVA Corporation

January 24, 1998

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ARRANGEMENT AGREEMENT

THIS ARRANGEMENT AGREEMENT made the 24th day of January, 1998,

BETWEEN:

TransCanada PipeLines Limited, a body corporate incorporated under the laws of Canada with its head office in the City of Calgary, in the Province of Alberta (hereinafter called "TransCanada")

AND

NOVA Corporation, a body corporate incorporated under the laws of the Province of Alberta with its head office in the City of Calgary, in the Province of Alberta (hereinafter called "NOVA")

WHEREAS TransCanada and NOVA wish to propose an arrangement involving NOVA, its shareholders and TransCanada and its shareholders;

AND WHEREAS the parties hereto intend to carry out the transactions contemplated herein by way of an arrangement under the provisions of the *Business Corporations Act* (Alberta) and the *Canada Business Corporations Act*;

AND WHEREAS the parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to such arrangement;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto do hereby covenant and agree as follows:

ARTICLE 1 INTERPRETATION

1.01 Definitions

In this Agreement, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act* (Alberta), S.A. 1981, c. B-15, as amended;

"**Acquisition Proposal**" means any merger, amalgamation, take-over bid, sale of material assets, any material sale of treasury shares or rights or interests therein or thereto or similar transactions involving TransCanada or NOVA or any Material Subsidiaries of TransCanada or NOVA, or a proposal to do so, excluding the Pre-Arrangement Steps, the Arrangement and the transactions permitted pursuant to Section 5.04;

"**Arrangement**" means the arrangement in respect of TransCanada under the provisions of Section 192 of the CBCA and the arrangement in respect of NOVA under the provisions of Section 186 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

"**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement in respect of TransCanada and a wholly owned subsidiary of TransCanada required by the CBCA to be sent to the Director and in respect of NOVA required by the ABCA to be sent to the Registrar, in each case, after the Final Order is made;

"**Book Value Allocation**" means with respect to either Party that Party's pro rata share of the asset, cost or liability allocation in question based on the book value of assets to be owned by that Party immediately after the Effective Date divided by the aggregate of the book value of assets to be owned by both Parties immediately after the Effective Date, calculated on the basis of the pro forma financial statements for each of TransCanada and NOVA (that give effect to the Arrangement) which will be incorporated into the Joint Proxy Circular;

"**business day**" means any day, other than Saturday, Sunday and a statutory holiday in the Province of Alberta;

“**CBCA**” means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

“**Chemical Business**” means the chemicals businesses carried on by NOVA, directly or indirectly, immediately prior to the Effective Date, including NGC Corporation;

“**Chemical Employees**” means those individuals employed, as at the Effective Date, by NOVA Chemicals Ltd. or any of its Subsidiaries;

“**Confidentiality Agreement**” means the Confidentiality Agreement dated as of December 1, 1997 between TransCanada and NOVA;

“**Continued Corporate Employees**” means those individuals employed by NOVA as at the Effective Date, who TransCanada and NOVA agree shall receive a written notice on or prior to the Effective Date confirming their continued employment with NOVA after the implementation of the Arrangement;

“**Continued Employees**” means all the employees employed by NOVA and its Subsidiaries as at the Effective Date, including those individuals on short or long term disability or authorized leave from employment whether paid or unpaid (“Employment Leave”), but excluding the Chemical Employees, the Transferred Corporate Employees and the Continued Corporate Employees;

“**Court**” means the Court of Queen’s Bench of Alberta;

“**Director**” means the Director appointed pursuant to Section 260 of the CBCA;

“**Effective Date**” means the later of the dates, as applicable, stamped upon the Articles of Arrangement filed with the Registrar and the Director, respectively;

“**Employee Benefits**” means all plans, arrangements, agreements, programs, policies or practices, as previously disclosed to TransCanada, in writing, whether oral or written, formal or informal, funded or unfunded, relating to any retirement savings, supplemental pension, bonus, profit sharing, deferred compensation, incentive compensation, share purchase, stock option, group insurance, hospitalization, health, dental, disability, death benefit, unemployment insurance, vacation, vacation pay, termination, severance or other retirement, compensation or benefit plan but does not include Pension Benefits;

“**Encumbrance**” includes, without limitation, any mortgage, pledge, assignment, charge, lien, security interest, adverse interest in property, other third party interest or encumbrance of any kind whether contingent or absolute, and any agreement, option, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing;

“**Energy Services Business**” means the energy services businesses carried on by NOVA, directly or indirectly, immediately prior to the Effective Date, other than NGC Corporation;

“**Environmental Approvals**” means all permits, certificates, licences, authorizations, consents, instructions, registrations, directions or approvals issued or required by Governmental Entities pursuant to Environmental Laws;

“**Environmental Laws**” means all applicable Laws, including applicable common laws, relating to the protection of the environment and employee and public health and safety;

“**Final Order**” means the orders of the Court approving the Arrangement, as such orders may be amended at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed;

“**Governance Arrangements**” means the arrangements set forth in Schedule D hereto;

“**Governmental Entity**” means any (a) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau, agency, domestic or foreign, (b) any subdivision, agent, commission, board, or authority of any of the foregoing or (c) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

“**HSR Act**” means the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended, of the United States of America;

“Hazardous Substance” means any pollutant, contaminant, waste of any nature, hazardous substance, hazardous material, toxic substance, dangerous substance or dangerous good as defined, judicially interpreted or identified in any Environmental Law;

“Interim Order” means an order of the Court, as the same may be amended, containing declarations and directions in respect of TransCanada under the CBCA and in respect of NOVA under the ABCA, in each case, with respect to the Arrangement;

“Joint Proxy Circular” means the information circular prepared by TransCanada and NOVA for the TransCanada Meeting and NOVA Meeting;

“Laws” means all laws, by-laws, rules, regulations, orders, ordinances, protocols, codes, guidelines, policies, notices, directions and judgments or other requirements of any Governmental Entity;

“material adverse change” or **“material adverse effect”** means, when used in connection with TransCanada or NOVA, any change, effect, event, occurrence or state of facts that is, or would reasonably be expected to be, material and adverse to the business, operations or financial condition of such Party and its Subsidiaries taken as a whole other than any change, effect, event or occurrence relating to (i) the Canadian or United States economy or securities markets in general, (ii) any change in the trading price of the TransCanada Common Shares or NOVA Common Shares, respectively, immediately following and reasonably attributable to the announcement of this Agreement and the transactions contemplated hereby, or (iii) the energy services industry or petrochemicals industry in general, and not specifically relating to TransCanada or NOVA or their respective Subsidiaries, respectively;

“Material Subsidiary” in respect of a Party, means a Subsidiary of that Party the total assets of which would have constituted more than 10% of the consolidated assets of that Party or the total revenues of which would have constituted more than 10% of the consolidated revenues of that Party, in each case as set out in the financial statements for the year ended December 31, 1996;

“Minimum Approval” means approvals of the Arrangement under the *Gas Utilities Act*, sections 25.1(2)(d) and 26(1), the *Public Utilities Board Act*, section 99, the *National Energy Board Act*, section 74 and the *Federal Power Act* (US), section 203, in each case, to the extent required to complete the Arrangement;

“NGI” means NOVA Gas International Ltd.;

“NGTL” means NOVA Gas Transmission Ltd.;

“NOVA Common Shareholders” means the holders of NOVA Common Shares;

“NOVA Common Shares” means the common shares of NOVA;

“NOVA Meeting” means such meetings of NOVA shareholders as are required to be held in accordance with the Interim Order;

“NOVA Partially Owned Entities” means those entities identified in notes 4 and 5 of the NOVA financial statements contained in the 1996 NOVA Annual Report excluding Novagas Clearinghouse Limited Partnership and Catalytic Distillation Technologies and including NOVA-Borealis Compounds LLC and Gasoducto del Pacifico;

“NOVA Preferred Shareholders” means the holders of NOVA Preferred Shares;

“NOVA Preferred Shares” means the Cumulative Redeemable First Preferred Shares, Series 1, of NOVA;

“NOVA Shareholder Rights Plan” means the Shareholder Rights Plan of NOVA, as set out in the Shareholder Rights Plan Agreement dated as of May 6, 1994 between NOVA and The R-M Trust Company (now CIBC-Mellon Trust Company);

“Partially Owned Entities” means the TransCanada Partially Owned Entities and NOVA Partially Owned Entities;

“Parties” means TransCanada and NOVA; and **“Party”** means either one of them;

“**Pension Benefits**” means the benefits provided under the pension plan or plans registered with the applicable Governmental Entities under which the Continued Employees and the Transferred Corporate Employees participate;

“**Plan of Arrangement**” means the plan of arrangement substantially in the form and content annexed as Schedule A hereto and any amendment or variation thereto made in accordance with Section 6.4 of the Plan of Arrangement or Section 7.01 hereof;

“**Pre-Arrangement Steps**” means the steps undertaken by TransCanada, NOVA and their Subsidiaries in advance of the Arrangement and agreed to in writing by TransCanada and NOVA;

“**Registrar**” means the Registrar of Corporations appointed pursuant to Section 253 of the ABCA;

“**Returns**” means all reports, information statements and returns relating to, or required to be filed in connection with, any Taxes;

“**Subsidiary**” means, with respect to a specified body corporate, any body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the board of directors thereof (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) are at the time owned directly or indirectly by such specified body corporate and shall include any body corporate, partnership, joint venture or other entity over which it exercises direction or control or which is in a like relation to a Subsidiary. Subject to Section 1.06, “**Subsidiary**” shall include the Partially Owned Entities;

“**Tax Act**” means the *Income Tax Act* (Canada);

“**Tax Ruling**” means the advance income tax rulings issued by Revenue Canada, including the rulings contemplated in the Tax Ruling Letter;

“**Tax Ruling Letter**” means the letter between TransCanada and NOVA as of the date hereof setting out the minimum rulings to be sought by TransCanada and NOVA as part of the Tax Ruling Request;

“**Tax Ruling Request**” means the joint application made by TransCanada and NOVA in form and substance and scope acceptable to TransCanada and NOVA, to Revenue Canada requesting the Tax Ruling in respect of the Arrangement as the same may be amended;

“**Taxes**” means all taxes, however denominated, including any interest, penalties or other additions that may become payable in respect thereof, imposed by any Governmental Entity, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal income taxes and provincial income taxes), capital taxes, payroll and employee withholding taxes, unemployment insurance, social insurance taxes (including Canada Pension Plan payments), sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers’ compensation, pension assessment and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which one of the parties to this Agreement or any of its Subsidiaries is required to pay, withhold or collect;

“**TransCanada Common Shareholders**” means the holders of TransCanada Common Shares;

“**TransCanada Common Shares**” means common shares of TransCanada;

“**TransCanada Meeting**” means such meetings of TransCanada shareholders as are required to be held in accordance with the Interim Order;

“**TransCanada New Common Shares**” means the new TransCanada common shares to be created and issued pursuant to the Plan of Arrangement;

“**TransCanada New Preferred Shares**” means the TransCanada preferred shares to be issued to NOVA Preferred Shareholders pursuant to the Plan of Arrangement;

“**TransCanada Partially Owned Entities**” means the entities identified in notes 4 and 5 of the TransCanada financial statements contained in the 1996 TransCanada Annual Report and TransCanada’s interests in Energia Mayakan, S. de R. L. de C.V., but excluding Alberta Natural Gas Company which is now a Subsidiary;

“TransCanada Preferred Shareholders” means the holders of the TransCanada Preferred Shares;

“TransCanada Preferred Shares” means the \$2.80 Cumulative Redeemable First Preferred Shares and the Cumulative Redeemable First Preferred Shares, Series O, Series P, Series Q and Series R of TransCanada;

“TransCanada Shareholder Rights Plan” means the Shareholder Rights Plan of TransCanada, as set out in the Shareholder Rights Plan Agreement dated as of December 2, 1994 and amended and restated as of April 7, 1995 between TransCanada and Montreal Trust Company of Canada; and

“Transferred Corporate Employees” means those individuals employed by NOVA as at the Effective Date who TransCanada and NOVA agree shall receive written notice, on or prior to the Effective Date, confirming their employment with TransCanada after the implementation of the Arrangement.

1.02 Interpretation Not Affected by Headings

The division of this Agreement into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

1.03 Article References

Unless the contrary intention appears, references in this Agreement to an Article, Section, subsection, paragraph or Schedule by number or letter or both refer to the Article, Section, subsection, paragraph or Schedule, respectively, bearing that designation in this Agreement.

1.04 Number and Gender

In this Agreement, unless the contrary intention appears, words importing the singular include the plural and vice versa; words importing gender shall include all genders; and words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any governmental agency, political subdivision or instrumentality thereof).

1.05 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the Parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.06 Partially Owned Entities

Notwithstanding any other provisions hereof, the representations and warranties given hereunder with respect to the Partially Owned Entities or their subsidiaries (by incorporation in the definition of Subsidiaries) including in Schedule B or C, are given by the respective Party to the best of its knowledge only, based on inquiry of the management and employees of a Party or its Subsidiaries (excluding the Partially Owned Entities or their subsidiaries) but without inquiry of the management or employees of the Partially Owned Entity or its subsidiaries, except for the representations and warranties given respecting TransCanada's or NOVA's direct or indirect ownership of such Partially Owned Entities. Covenants given by a Party which refer to any of the Subsidiaries shall not extend to the Partially Owned Entities; provided however, that if an issue relating to any of the Partially Owned Entities arises, which issue would be the subject matter of any of the covenants contained in this Agreement but for the fact that the covenants do not extend to the Partially Owned Entities, the respective Party shall vote its voting interests in the relevant Partially Owned Entity in respect of such issue consistent with complying with the relevant covenant as though such covenant did extend to the relevant Partially Owned Entity. The respective Party shall also exercise any other influence in the relevant Partially Owned Entity in a manner consistent with complying with the relevant covenant as though such covenant did extend to the relevant Partially Owned Entity, subject to any applicable fiduciary duties or contractual obligations, other than hereunder. To the extent any representations, warranties, covenants or agreements contained herein relate, directly or indirectly, to a Subsidiary of any Party, other than Partially Owned Entities, each such provision shall

be construed as a covenant by such Party to cause (to the fullest extent to which it is legally capable) such Subsidiary to perform the required action.

1.07 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

1.08 Schedules

Schedules A, B, C and D annexed to this Agreement, being the Plan of Arrangement and the representations and warranties of TransCanada and NOVA, and the Governance Arrangements, respectively, are incorporated by reference into this Agreement and form part hereof.

1.09 Accounting Matters

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under Canadian generally accepted accounting principles and all determinations of an accounting nature required to be made shall be made in a manner consistent with Canadian generally accepted accounting principles.

1.10 Material

The terms “material” and “materially” shall, when used in this Agreement, be construed, measured or assessed on the basis of whether the matter would materially affect a Party and its Subsidiaries taken as a whole or would significantly impede the ability to complete the Arrangement in accordance with the Agreement.

1.11 Disclosure

Where in this Agreement reference is made to disclosure in writing, such disclosure shall be made in writing in the memorandums, dated the date hereof, exchanged by the Parties and signed by an officer of the Party and delivered to the other Party hereto prior to the execution of this Agreement. Such disclosure memorandums make reference to the applicable Sections and paragraphs of this Agreement. Notwithstanding the foregoing, disclosure in relation to one Section or paragraph shall constitute disclosure for other applicable Sections and paragraphs.

ARTICLE 2 THE ARRANGEMENT

2.01 Arrangement

As soon as reasonably practicable, TransCanada and NOVA shall apply to the Court pursuant to Section 192(3) of the CBCA and Section 186 of the ABCA, respectively, for an order approving the Arrangement and in connection with such application, each of TransCanada and NOVA shall:

- (a) file, proceed with and diligently prosecute an application for an Interim Order providing for, among other things, the calling and holding of the TransCanada Meeting and the NOVA Meeting, which shall be held on the same date and time, if practicable, or as near as may be, for the purpose of considering and, if deemed advisable, approving the Arrangement; and
- (b) subject to obtaining the approvals as contemplated in the Interim Order and as may be directed by the Court in the Interim Order, take all steps necessary or desirable to submit the Arrangement to the Court and apply for the Final Order;

and, subject to the fulfilment or waiver of the conditions set forth in Article 6, TransCanada shall deliver to the Director and NOVA shall deliver to the Registrar, Articles of Arrangement and such other documents as may be required to give effect to the Arrangement as soon as reasonably practicable.

2.02 Effective Date

The Arrangement shall become effective on the Effective Date and the steps to be carried out pursuant to the Arrangement shall become effective on the Effective Date in the order set out in the Plan of Arrangement.

2.03 NOVA Approval

- (a) NOVA represents as of the date hereof, that its Board of Directors has determined unanimously that:
 - (i) the Arrangement is fair to its shareholders and is in the best interests of NOVA;
 - (ii) its Board of Directors will recommend that its shareholders vote in favor of the Arrangement; and
 - (iii) this Agreement is in the best interests of NOVA;
- (b) NOVA represents as of the date hereof, that its Board of Directors has received a written opinion from RBC Dominion Securities Inc., the financial advisor to NOVA, that the Arrangement is fair from a financial point of view to the NOVA Common Shareholders and the NOVA Preferred Shareholders; and
- (c) NOVA represents as of the date hereof, that its directors have advised it that they intend to vote NOVA Common Shares held by them in favor of the Arrangement and will, accordingly, so represent in the Joint Proxy Circular.

2.04 TransCanada Approval

- (a) TransCanada represents as of the date hereof, that its Board of Directors has determined unanimously that:
 - (i) the Arrangement is fair to its shareholders and is in the best interests of TransCanada;
 - (ii) its Board of Directors will recommend that its shareholders vote in favour of the Arrangement; and
 - (iii) this Agreement is in the best interests of TransCanada;
- (b) TransCanada represents as of the date hereof, that its Board of Directors has received a written opinion from each of Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, financial advisors to TransCanada, that the Arrangement is fair from a financial point of view to its shareholders; and
- (c) TransCanada represents as of the date hereof, that its directors have advised it that they intend to vote TransCanada Common Shares held by them in favour of the Arrangement and will, accordingly, so represent in the Joint Proxy Circular.

2.05 Shareholder Rights Plans

NOVA covenants and represents that its Board of Directors has resolved to take all action necessary in order to ensure that the Separation Time (as defined in the NOVA Shareholder Rights Plan) does not occur in connection with this Agreement or the Arrangement, and to recommend to the NOVA Common Shareholders that they approve such resolutions and take such actions as may be necessary in order to waive the application of the NOVA Shareholder Rights Plan to this Agreement and to the Arrangement effective immediately prior to the Effective Date and covenants to take all action necessary pursuant to the NOVA Shareholder Rights Plan to seek such waiver.

TransCanada covenants and represents that its Board of Directors has resolved to take all action necessary in order to ensure that the Separation Time (as defined in the TransCanada Shareholder Rights Plan) does not occur in connection with this Agreement or the Arrangement, and to recommend to the TransCanada Common Shareholders that they approve such resolutions and take such actions as may be necessary in order to waive the application of the TransCanada Shareholder Rights Plan to this Agreement and to the Arrangement effective

immediately prior to the Effective Date and covenants to take all action necessary pursuant to the TransCanada Shareholder Rights Plan to seek such waiver.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF TRANSCANADA

3.01 Representations

TransCanada hereby makes to NOVA the representations and warranties as set forth in Schedule B to this Agreement and acknowledges that NOVA is relying upon those representations and warranties in connection with entering into this Agreement.

3.02 Investigation

Any investigation by NOVA and its advisors shall not mitigate, diminish or affect the representations and warranties of TransCanada pursuant to this Agreement.

3.03 Survival of Representations and Warranties

The representations and warranties of TransCanada contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated and extinguished at the Effective Date.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF NOVA

4.01 Representations

NOVA hereby makes to TransCanada the representations and warranties as set forth in Schedule C to this Agreement and acknowledges that TransCanada is relying upon those representations and warranties in connection with entering into this Agreement.

4.02 Investigation

Any investigation by TransCanada and its advisors shall not mitigate, diminish or affect the representations and warranties of NOVA pursuant to this Agreement.

4.03 Survival of Representations and Warranties

The representations and warranties of NOVA contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated and extinguished at the Effective Date.

ARTICLE 5 COVENANTS

5.01 Pooling Accounting

TransCanada and NOVA shall each use all reasonable commercial efforts to cause the business combination contemplated by the Arrangement to be effected in such a manner as to ensure that such business combination will be accounted for as of the Effective Date as a pooling of interests under generally accepted accounting principles. Each of TransCanada and NOVA represents as of the date hereof, that their respective Boards of Directors have received the opinion of its auditors on or before the date hereof that pooling of interests is the appropriate method to account for the business combination to be effected by the Arrangement.

5.02 Corporate Governance

The parties agree that the corporate governance arrangements respecting TransCanada and NOVA shall be as set out in Schedule D, upon the Arrangement becoming effective.

5.03 Consultation

TransCanada and NOVA agree to consult with each other in issuing any press releases or otherwise making public statements with respect to this Agreement or the Arrangement and in making any filings with any federal, provincial or state governmental or regulatory agency or with any securities exchange with respect thereto. Each Party shall use its best efforts to enable the other Party to review and comment on all such press releases and filings prior to release thereof. The parties agree to issue jointly a press release with respect to this Agreement as soon as practicable, in a form acceptable to both parties and each of TransCanada and NOVA agrees to file a copy of this Agreement with applicable regulatory authorities.

5.04 Mutual Covenants

Each of the Parties covenants and agrees that, except as contemplated in this Agreement or the Arrangement or in connection with effecting any Pre-Arrangement Steps, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier:

- (a) except as previously disclosed in writing to the other Party hereto, it shall, and shall cause each of its Subsidiaries to, conduct its and their respective business only in, and not take any action except in, the usual, ordinary and regular course of business and consistent with past practice;
- (b) except as previously disclosed in writing to the other Party hereto, it shall not, without the prior written consent of the other Party hereto, which shall not be unreasonably withheld, directly or indirectly do or permit to occur any of the following:
 - (i) issue, sell, pledge, lease, dispose of, encumber or agree to issue, sell, pledge, lease, dispose of or encumber (or permit any of its Subsidiaries to issue, sell, pledge, lease, dispose of, encumber or agree to issue, sell, pledge, lease, dispose of or encumber):
 - (1) any shares of, or any options, warrants, calls, conversion privileges or rights of any kind to acquire any shares of it or any of its Subsidiaries, other than (I) the issuance of additional shares in NGTL to manage the equity component of the capital structure of NGTL in accordance with the directions of the Alberta Energy Utilities Board, where no new application has been made after the date hereof, except as required, pursuant to the capital reorganization of NGTL and NGI and related steps, completed prior to the execution of this Agreement; (II) issuances in the same circumstances as paragraph 5.04(b)(i)(1)(I) by TransCanada in accordance with the direction of the National Energy Board, where no new application has been made after the date hereof by TransCanada or its Subsidiaries to do so; (III) pursuant to the exercise of stock options currently outstanding or under existing share issuance plans which have been disclosed to the other Party to this Agreement; or (IV) stock options issued consistent with past practices and share issuances in respect thereof;
 - (2) except in the usual, ordinary and regular course of business and consistent with past practice, any assets of it or any of its Material Subsidiaries;
 - (ii) amend or propose to amend its articles or by-laws or those of any of its Material Subsidiaries;
 - (iii) split, combine or reclassify any of its outstanding shares, or declare, set aside or pay any dividend or other distribution payable in cash, stock, property or otherwise with respect to its shares (other than regular quarterly dividends in respect of its common shares, in amounts consistent with past practice, and dividends provided for pursuant to the provisions of its preferred shares);
 - (iv) redeem, purchase or offer to purchase (or permit any of its Material Subsidiaries to redeem, purchase or offer to purchase) any shares or other securities of it or any of its Material Subsidiaries, unless otherwise required by the terms of such securities;

- (v) reorganize, amalgamate or merge it or any of its Material Subsidiaries with any other person, corporation, partnership or other business organization whatsoever;
 - (vi) except in the usual, ordinary and regular course of business and consistent with past practice, acquire or agree to acquire any person, corporation, partnership, joint venture or other business organization or division or acquire or agree to acquire any assets, which, in each case, are individually or in the aggregate, material;
 - (vii) except in the usual, ordinary and regular course of business and consistent with past practice:
 - (A) satisfy or settle any claims or liabilities, except such as have been reserved against in its financial statements delivered to the other Party to this Agreement, which are individually or in the aggregate, material; (B) relinquish any contractual rights, which are individually or in the aggregate, material; or (C) enter into any interest rate, currency or commodity swaps, hedges or other similar financial instruments; or
 - (viii) except in the usual, ordinary and regular course of business and consistent with past practice, and except for the purpose of the renewal of or the replacement of existing credit facilities, incur or commit to provide guarantees, incur any indebtedness for borrowed money or issue any amount of debt securities, which are individually or in the aggregate, material;
- (c) without the prior written consent of the other Party hereto, which shall not be unreasonably withheld, it shall not, and shall cause each of its Subsidiaries to not:
- (i) other than as previously disclosed in writing to the other Party hereto or in the usual, ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, enter into or modify any employment, severance, collective bargaining or similar agreements, policies or arrangements with, or grant any bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay to, or make any loan to, any officers or directors of it;
 - (ii) other than as previously disclosed in writing to the other Party hereto or in the usual, ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, in the case of employees who are not officers or directors, take any action with respect to the entering into or modifying of any employment, severance, collective bargaining or similar agreements, policies or arrangements or with respect to the grant of any bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay or any other form of compensation or profit sharing or with respect to any increase of benefits payable; or
 - (iii) except as set forth in the Parties' respective approved capital budgets, incur or commit to capital expenditures prior to the Effective Date, individually or in the aggregate exceeding \$300 million;
- (d) it shall use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;
- (e) it shall:
- (i) use its reasonable commercial efforts, and cause each of its Subsidiaries to use its reasonable commercial efforts, to preserve intact their respective business organizations and goodwill, to keep available the services of its officers and employees as a group and to maintain satisfactory relationships with suppliers, agents, distributors, customers and others having business relationships with it or its Subsidiaries;

- (ii) not take any action, or permit any of its Subsidiaries to take any action that would interfere with or be inconsistent with the completion of the transactions contemplated hereunder or would render, or that reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to the Effective Date if then made or interfere with or be inconsistent with the ability to account for the transactions hereunder on the basis of pooling accounting or for the auditors to concur that such accounting is appropriate; and
- (iii) promptly notify the other Party to this Agreement of any material adverse change, or any change which could reasonably be expected to become a material adverse change, in respect of its or any of its Subsidiaries' businesses or in the operation of its or any of its Subsidiaries' businesses or in the operation of its or any of its Subsidiaries' properties, and of any material Governmental Entity or third party complaints, investigations or hearings (or communications indicating that the same may be contemplated);
- (f) it shall not settle or compromise any claim brought by any present, former or purported holder of any of its securities in connection with the transactions contemplated by this Agreement or the Arrangement prior to the Effective Date without the prior written consent not to be unreasonably withheld of the other Party to this Agreement;
- (g) except in the usual, ordinary and regular course of business and consistent with past practice, or except as previously disclosed in writing to the other Party hereto or as required by applicable law, it and its Subsidiaries shall not enter into or modify in any material respect any contract, agreement, commitment or arrangement which new contract or series of related new contracts or modification to an existing contract or series of related existing contracts would be material to a Party hereto or which would have a material adverse effect on a Party hereto;
- (h) it shall use all commercially reasonable efforts to satisfy (or cause the satisfaction of) the conditions precedent to its obligations hereunder set forth in Article 6 to the extent the same is within its control and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the Arrangement, including using its commercially reasonable efforts to:
 - (i) obtain all necessary waivers, consents and approvals required to be obtained by it from other parties to loan agreements, leases and other contracts;
 - (ii) obtain all necessary consents, approvals and authorizations as are required to be obtained by it under any applicable Law; provided that in respect of natural gas transmission regulatory approvals, the parties agree that the approvals sought shall be the Minimum Approvals;
 - (iii) effect all necessary registrations and filings and submissions of information requested by Governmental Entities required to be effected by it in connection with the Arrangement and participate and appear in any proceedings of either Party before Governmental Entities;
 - (iv) oppose, lift or rescind any injunction or restraining order or other order or action seeking to stop, or otherwise adversely affecting the ability of the parties to consummate, the transactions contemplated hereby or by the Arrangement;
 - (v) fulfill all conditions and satisfy all provisions of this Agreement and the Arrangement; and
 - (vi) cooperate with the other Party to this Agreement in connection with the performance by it of its obligations hereunder;
- (i) it shall not take any action, refrain from taking any action, or permit any action to be taken or not taken, inconsistent with this Agreement or which would reasonably be expected to significantly impede the consummation of the Arrangement, provided that where a Party hereto is required to take any such action or refrain from taking such action as a result of this Agreement, that Party shall immediately notify the other Party in writing of such circumstances;
- (j) subject to Section 5.08(a), it will, in all material respects, conduct itself so as to keep the other Party to this Agreement fully informed as to the material decisions or actions required or required to be made

with respect to the operation of its business, provided that such disclosure is not otherwise prohibited by reason of a confidentiality obligation owed to a third party for which a waiver could not be obtained or is in respect to customer specific or competitively sensitive information relating to areas or projects where TransCanada or NOVA are competitors;

- (k) it shall make or cooperate as necessary in the making of all other necessary filings and applications under all applicable Laws required in connection with the transactions contemplated herein and take all reasonable action necessary to be in compliance with such Laws;
- (l) it shall use its reasonable commercial efforts to conduct its affairs so that all of its representations and warranties contained herein shall be true and correct in all material respects on and as of the Effective Date as if made thereon; and
- (m) it shall jointly prepare and file the Tax Ruling Request as soon as reasonably practicable.

5.05 Allocation of Assets and Liabilities

The Parties agree that it is intended and agreed that in connection with the Arrangement the assets and liabilities of NOVA will be divided between the Energy Services Business and Chemical Business in a commercially reasonable fashion which preserves the value and credit rating of each business, reasonably allocates the assets and liabilities of NOVA between such corporations carrying on such businesses after the Effective Date and provides the holders of securities of TransCanada and NOVA after the Effective Date with, to the greatest extent possible, consistent with the specific allocation of assets and liabilities set out in Sections 5.05(a) and 5.05(b), securities representing investments in the Energy Services Business and TransCanada on the one hand and the Chemical Business and NOVA (as constituted after the Effective Date) on the other hand. The Parties hereto agree that they shall take all such actions, including implementing the Pre-Arrangement Steps and Plan of Arrangement, as may be reasonably necessary to ensure that from and after the Effective Date:

- (a) TransCanada shall own, directly or indirectly, all of the rights and assets held, primarily used or associated with the Energy Services Business immediately prior to the Effective Date (and such other rights or assets hereinafter acquired or resulting from the disposition of such assets) together with such other assets allocated to TransCanada (the “Energy Services Assets”) as disclosed by NOVA to TransCanada in writing on the date hereof (the “Allocation Letter”) and TransCanada shall assume all debts, liabilities, obligations (under contract or otherwise), responsibilities, losses or damages, whether known or unknown, contingent or otherwise, in respect of the Energy Services Business together with such debts and liabilities allocated to TransCanada on such Allocation Letter (the “Energy Services Liabilities”), now or in the future;
- (b) NOVA shall own, directly or indirectly, all of the rights and assets held, primarily used or associated with the Chemical Business immediately prior to the Effective Date (and such other rights or assets hereinafter acquired or resulting from the disposition of such assets) together with such other assets allocated to NOVA (the “Chemical Business Assets”) as disclosed in the Allocation Letter and NOVA shall assume all debts, liabilities, obligations (under contract or otherwise), responsibilities, losses or damages, whether known or unknown, contingent or otherwise, in respect of the Chemical Business together with debts and liabilities allocated to NOVA on such Allocation Letter (the “Chemical Business Liabilities”), now or in the future;
- (c) Where rights or assets or where debts, liabilities, obligations (under contract or otherwise), responsibilities, losses or damages, contingent or otherwise, are not allocated on the basis of the Allocation Letter, and cannot reasonably be identified as being Energy Services Assets, Energy Services Liabilities, Chemical Business Assets or Chemical Business Liabilities, such rights or assets and such debts, liabilities, obligations (under contract or otherwise), responsibilities, losses or damages shall, on an aggregate basis, be allocated between TransCanada and NOVA and assumed in accordance with their respective Book Value Allocation (but excluding such unallocated assets and liabilities);
- (d) Notwithstanding the foregoing, for greater certainty: (i) liabilities, contingent or otherwise, other than those allocated in the Allocation Letter, shall be the responsibility of the Subsidiary (direct or indirect)

of TransCanada and NOVA, as the case may be, in which the liabilities arise, unless such liability primarily relates to the business carried on by the other of them; and (ii) assets and liabilities allocated in the Allocation Letter shall be allocated as set forth therein;

- (e) Taxes payable by NOVA in connection with the implementation of the Arrangement and other transactions contemplated thereby, including the capital reorganization of NGTL and NGI and related steps completed prior to the execution of this Agreement, shall be paid by NOVA but shall be funded as set out in the Plan of Arrangement and as otherwise agreed in writing between the Parties. For greater certainty, Taxes arising otherwise than as a result of the foregoing, including Taxes arising out of the operation of the Chemical Business and the Energy Services Business, shall be allocated according to paragraph (a), (b), (c) and (d) of this Section 5.05; and
- (f) NOVA agrees that from the date hereof until the earlier of the Effective Date and the day upon which this Agreement is terminated, no additional indebtedness shall be incurred by and no guarantees shall be given by NOVA or the Energy Services Business in respect of the Chemical Business, but this section shall not preclude NOVA from incurring any indebtedness to be utilized in the Energy Services Business and such indebtedness shall be repaid to NOVA (or a release obtained) in accordance with the Plan of Arrangement.

The Parties agree to give effect to the foregoing by executing such transfers, assignments, conveyances or assumption agreements necessary or desirable to give effect to the foregoing, provided that the failure to enter into or execute such agreements shall not delay the Effective Date. The foregoing shall not obligate either Party to transfer or assign any rights, agreement or licence contrary to law or where prohibited by the terms thereof or where the rights thereunder would be materially diminished, without first obtaining all necessary consents or approvals to do so, pending the receipt of which the holders thereof shall hold such rights, agreement or licence in trust for the other Party hereto.

TransCanada agrees that it will use commercially reasonable efforts to obtain a release of all and any obligations of NOVA and any NOVA Subsidiaries under guarantees, sureties, letters of credit or other instruments in favour of the entities that are part of the Energy Services Business or as guarantor or obliger of any Energy Services Business Liabilities (the "Energy Guarantees"), by replacing such obligations with its own guarantee or obligation or otherwise.

NOVA agrees that it will use commercially reasonable efforts to remove all and any obligations of NOVA Subsidiaries that become subsidiaries of TransCanada as a result of the Arrangement under guarantees, sureties, letters of credit or other instruments in favour of the entities that are part of the Chemical Business or as guarantor or obliger of any Chemical Business Liabilities (the "Chemical Guarantees"), if any, by replacing such obligation with its own guarantee or obligation or otherwise.

5.06 Mutual Covenant Regarding Non-Solicitation

- (a) Neither TransCanada nor NOVA shall, directly or indirectly, through any officer, director, employee, representative or agent of TransCanada or NOVA, as the case may be, or any of its Subsidiaries, solicit, initiate or knowingly encourage (including by way of furnishing information or entering into any form of agreement, arrangement or understanding) the initiation of any inquiries or proposals regarding an Acquisition Proposal, provided that, nothing contained in this Section 5.06 or other provisions of this Agreement shall prevent the Board of Directors of TransCanada or NOVA from considering, negotiating, approving, recommending to its shareholders or entering into an agreement in respect of an unsolicited *bona fide* written Acquisition Proposal (i) in respect of which any required financing has been demonstrated to the satisfaction of the Board of Directors of the Party subject to the Acquisition Proposal, acting in good faith, to be reasonably likely to be obtained, (ii) which is not subject to a due diligence access condition which allows access to the books, records and personnel of a Party hereto or any of its Subsidiaries or their representatives beyond 5:00 p.m. (Calgary time) on the third day after which access is afforded to the person making the Acquisition Proposal (provided, however, the foregoing shall not restrict the ability of such person to continue to review information provided) and (iii) in respect of which the Board of Directors of the Party subject to the Acquisition Proposal determines in good faith would, after consultation with financial advisors, if consummated in

accordance with its terms, result in a transaction more favourable to its shareholders than the transaction contemplated by this Agreement (any such Acquisition Proposal being referred to herein as a "Superior Proposal");

- (b) Subject to the ability of the Parties to carry on business in accordance with Section 5.04, TransCanada and NOVA shall immediately cease and cause to be terminated any existing discussions or negotiations with any parties (other than the other Party hereto) with respect to any potential Acquisition Proposal. TransCanada and NOVA agree not to release any third party from any confidentiality agreement to which such third party is a party. TransCanada and NOVA further agree not to release any third party from any standstill agreement to which such third party is a party, unless such third party has made a Superior Proposal. TransCanada and NOVA shall immediately request the return or destruction of all information provided to any third parties who have entered into a confidentiality agreement with TransCanada or NOVA, or as the case may be, relating to a potential Acquisition Proposal and shall use all reasonable efforts to ensure that such requests are honoured;
- (c) Each of TransCanada and NOVA shall promptly notify the other Party of any current Acquisition Proposals or of any future Acquisition Proposal of which senior officers become aware, or any amendments to the foregoing, or any request for non-public information relating to TransCanada or NOVA, as the case may be, or any Material Subsidiaries in connection with an Acquisition Proposal or for access to the properties, books or records of such Party, or any Material Subsidiary by any person or entity that informs such Party or such Material Subsidiary that it is considering making, or has made, an Acquisition Proposal. Such notice shall include a description of the material terms and conditions of any proposal and provide such details of the proposal, inquiry or contact as the other Party hereto may reasonably request including the identity of the person making such proposal, inquiry or contact;
- (d) If TransCanada or NOVA receives a request for material non-public information from a person who proposes a *bona fide* Acquisition Proposal in respect of TransCanada or NOVA, and the Board of Directors of such Party determines that such proposal would be a Superior Proposal pursuant to Section 5.06(a) assuming the satisfactory outcome of a due diligence condition which conforms to Section 5.06(a), then, and only in such case, the Board of Directors may, subject to the execution of a confidentiality agreement substantially similar to the Confidentiality Agreement containing a standstill provision substantially similar to that contained in Section 5.09 of this Agreement, provide such person with access in accordance with Section 5.06(a) to information regarding the Party, provided however the person making the Acquisition Proposal shall not be precluded thereunder from making the Acquisition Proposal, and provided such Party sends a copy of any such confidentiality agreement to the other Party hereto, immediately upon its execution and the other Party hereto is provided with a list of or copies of the information provided to such person and immediately provided with access to similar information to which such person was provided; and
- (e) Each Party hereto shall ensure that its officers, directors and employees and its Subsidiaries and any financial advisors or other advisors or representatives retained by it are aware of the provisions of this Section, and it shall be responsible for any breach of this Section 5.06 by its financial advisors or other advisors or representatives.

5.07 Notice of Superior Proposal Determination

Neither TransCanada nor NOVA shall accept, approve, recommend or enter into any agreement in respect of an Acquisition Proposal (other than a confidentiality agreement) on the basis that it constitutes a Superior Proposal unless (i) it has provided the other Party hereto with a copy of the Acquisition Proposal document which has been determined to be a Superior Proposal, with such deletions as are necessary to protect confidential portions of such Acquisition Proposal document, provided that material terms or conditions or the identity of the person making the Acquisition Proposal may not be deleted; and (ii) five (5) days shall have elapsed from the later of the date the other Party received notice of the determination to accept, approve, recommend or enter into an agreement in respect of such Acquisition Proposal, and the date such Party received a copy of the Acquisition Proposal document. Information provided hereunder shall constitute Evaluation Material under the Confidentiality Agreement.

5.08 Access to Information

- (a) Subject to the Confidentiality Agreement and applicable Law, upon reasonable notice, NOVA shall (and shall cause each of its Subsidiaries to) afford TransCanada's officers, employees, counsel, accountants and other authorized representatives and advisors ("Representatives") access, during normal business hours from the date hereof and until the earlier of the Effective Date or the termination of this Agreement, to its properties, books, contracts and records as well as to its management personnel, and, during such period, NOVA shall (and shall cause each of its Subsidiaries to) furnish promptly to TransCanada all information concerning its business, properties and personnel as TransCanada may reasonably request. TransCanada shall (and shall cause each of its Subsidiaries to) provide the same access to NOVA and its Representatives on the same terms and conditions. Nothing in the foregoing shall require TransCanada or NOVA to disclose information subject to a written confidentiality agreement with third parties, customer specific or competitively sensitive information relating to areas or projects where TransCanada and NOVA are competitors. For greater certainty, until the earlier of the Effective Date and the termination of this Agreement, access to and exchange of competitively sensitive confidential information ("Confidential Data") as between the Parties shall be limited to that which is reasonably necessary for the purposes of securing all necessary regulatory approvals, the preparation and settlement of definitive documents and the advancement of the Arrangement as contemplated herein and shall be further limited such that the dissemination of such Confidential Data shall be confined to those representatives of the Parties and their advisors who have a need to know such information for these purposes and who agree to respect such confidentiality in their dealings with such Confidential Data. In particular, with reference to access to and the sharing of Confidential Data of one Party with representatives of the other Party for the purposes of preparing any filings or submissions under the *Competition Act* in respect of the Arrangement, the general principle which shall be applied is that such information shall be made available to, exchanged or shared with counsel to the Parties rather than the Parties or their representatives; and
- (b) After the Effective Date the Parties hereto shall afford each other the access set out in paragraph (a) of Section 5.08 in respect of matters prior to the Effective Date, subject to appropriate restrictions for privileged or confidential information, insofar as such access, including duplication of documents, is reasonably required by the requesting Party as may be reasonably required by the requesting Party for the conduct of any and all aspects of that Party's business including in connection with the prosecution or defense of any claim by or against that Party, the preparation and filing of Tax Returns, to comply with this Agreement, including to permit determination of any matters under Section 5.05, or as required by a Party to comply with any obligations under applicable Law. Each Party shall also take all reasonable steps to preserve and keep the records delivered to it in connection with the completion of the Arrangement for a period of six (6) years from the Effective Date, or for any longer period as may be required by any Law or Governmental Entity, and shall make such records available to the other Party in connection with the foregoing.

5.09 Mutual Standstill

During the period commencing on the date hereof and continuing until the Effective Date or the termination of this Agreement, other than pursuant to this Agreement, the Arrangement and the transactions contemplated hereby and thereby, each Party agrees that it will not, except in connection with this Agreement or the Arrangement or with the prior approval of the other Party, which approval may be given on such terms as the other Party may determine: (i) in any manner acquire, agree to acquire or make any proposal or offer to acquire, directly or indirectly, any securities or property of the other Party; (ii) propose or offer to enter into, directly or indirectly, any merger or business combination involving the other Party or to purchase, directly or indirectly, a material portion of the assets of the other Party; (iii) directly or indirectly, "solicit", or participate or join with any person in the "solicitation" of, any "proxies" (as such terms are defined in the *Securities Act* (Alberta), as the same may be amended from time to time) to vote, to seek to advise or to influence any person with respect to the voting of any voting securities of the other Party; (iv) otherwise act alone or in concert with others to seek to control or to influence the management, Board of Directors or policies of the other Party; (v) make any public or private disclosure of any consideration, intention, plan or arrangement inconsistent with

any of the foregoing; or (vi) advise, assist or encourage any of the foregoing or work in concert with others in respect of the foregoing. For the purpose of this Section 5.09, Party shall include Subsidiaries of such Party and their successors.

5.10 Covenants of NOVA

NOVA covenants and agrees that, except as contemplated in this Agreement or pursuant to the Arrangement, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier, it will:

- (a) in a timely and expeditious manner, but in any event not later than five (5) days after the receipt of the Tax Ruling, file, proceed with and diligently prosecute an application to the Court for the Interim Order with respect to the Arrangement, provided that notwithstanding the foregoing, the Parties agree to consult regarding seeking the Interim Order and mailing the Joint Proxy Circular earlier than as required hereby;
- (b) in a timely and expeditious manner:
 - (i) forthwith carry out the terms of the Interim Order;
 - (ii) prepare, in consultation with TransCanada, and file the Joint Proxy Circular with respect to the TransCanada Meeting and the NOVA Meeting in all jurisdictions where the same is required to be filed and mail the same as ordered by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable Laws on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to the Arrangement and NOVA and not containing any misrepresentation, as defined under such applicable Laws, with respect thereto;
 - (iii) convene the NOVA Meeting and distribute copies of this Agreement (or a written summary thereof prepared by NOVA in form and substance reasonably satisfactory to TransCanada), in each case as ordered by the Interim Order;
 - (iv) provide notice to TransCanada of the NOVA Meeting and allow TransCanada's representatives to attend the NOVA Meeting unless such attendance is prohibited by the Interim Order; and
 - (v) conduct the NOVA Meeting in accordance with the Interim Order, the by-laws of NOVA and any instrument governing such meeting, as applicable, and as otherwise required by applicable Laws;
- (c) in a timely and expeditious manner, prepare (in consultation with TransCanada) and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Joint Proxy Circular with respect to the NOVA Meeting and mail the same as required by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable legal requirements on the date of mailing thereof;
- (d) subject to the approval of the Arrangement at the NOVA Meeting in accordance with the provisions of the Interim Order, forthwith proceed with and diligently prosecute an application for the Final Order;
- (e) forthwith carry out the terms of the Interim Order and the Final Order and, subject to the receipt of the Final Order, the satisfaction of the conditions precedent in favour of NOVA and the receipt of the written confirmation of TransCanada that the conditions precedent in favour of TransCanada have been satisfied, file Articles of Arrangement and the Final Order with the Registrar in order for the Arrangement to become effective;
- (f) except for proxies and other non-substantive communications, furnish promptly to TransCanada a copy of each notice, report, schedule or other document or communication delivered, filed or received by NOVA in connection with the Arrangement or the Interim Order, the NOVA Meeting or any other meeting of NOVA security holders or class of security holders which all such holders, as the case may be, are entitled to attend, any filings under applicable Laws and any dealings with regulatory agencies in connection with, or in any way affecting, the transactions contemplated herein;

- (g) in a timely and expeditious manner, provide to TransCanada all information as may be reasonably requested by TransCanada or as required by the Interim Order or applicable Laws with respect to NOVA and its Subsidiaries and their respective businesses and properties for inclusion in the Joint Proxy Circular with respect to the TransCanada Meeting or in any amendments or supplements to such Joint Proxy Circular complying in all material respects with all applicable legal requirements on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to NOVA and not containing any misrepresentation (as defined under applicable securities laws) with respect thereto;
- (h) assist and cooperate in the preparation and filing with all applicable securities commissions or similar securities regulatory authorities of Canada and the United States of all necessary applications to seek exemptions, if required, from the prospectus, registration and other requirements of the applicable securities laws of Canada and the United States for the issue by TransCanada of TransCanada New Common Shares and TransCanada New Preferred Shares pursuant to the Arrangement and the resale of such shares (other than by control persons and subject to requirements of general application);
- (i) assist and cooperate in the preparation and filing with all applicable securities commissions or similar securities regulatory authorities of Canada and the United States of all necessary applications to seek exemptions, if required, from the prospectus, registration and other requirements of the applicable securities laws of Canada and the United States for the issue by TransCanada of NOVA Common Shares pursuant to the Arrangement and the resale of such shares (other than by control persons and subject to requirements of general application);
- (j) fully implement the Pre-Arrangement Steps; and
- (k) to the extent within its power, forthwith carry out the terms of the Final Order.

5.11 Covenants of TransCanada

TransCanada covenants and agrees that, except as contemplated in this Agreement or pursuant to the Arrangement, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier, it will:

- (a) in a timely and expeditious manner, but in any event not later than five (5) days after the receipt of the Tax Ruling, file, proceed with and diligently prosecute an application to the Court for the Interim Order with respect to the Arrangement, provided that notwithstanding the foregoing, the Parties agree to consult regarding seeking the Interim Order and mailing the Joint Proxy Circular earlier than as required hereby;
- (b) in a timely and expeditious manner:
 - (i) forthwith carry out the terms of the Interim Order;
 - (ii) prepare, in consultation with NOVA, and file a Joint Proxy Circular with respect to the TransCanada Meeting and the NOVA Meeting in all jurisdictions where the same is required to be filed and mail the same as ordered by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable Laws on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to the Arrangement and TransCanada and not containing any misrepresentation, as defined under such applicable Laws, with respect thereto;
 - (iii) convene the TransCanada Meeting and distribute copies of this Agreement (or a written summary thereof prepared by TransCanada in form and substance reasonably satisfactory to NOVA), in each case as ordered by the Interim Order;
 - (iv) provide notice to NOVA of the TransCanada Meeting and allow NOVA's representatives to attend the TransCanada Meeting unless such attendance is prohibited by the Interim Order; and

- (v) conduct the TransCanada Meeting in accordance with the Interim Order, the by-laws of TransCanada and any instrument governing such meeting, as applicable, and as otherwise required by applicable Laws;
- (c) in a timely and expeditious manner, prepare (in consultation with NOVA) and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Joint Proxy Circular with respect to the TransCanada Meeting and mail the same as required by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable legal requirements on the date of mailing thereof;
- (d) subject to the approval of the Arrangement at the TransCanada Meeting in accordance with the provisions of the Interim Order, forthwith proceed with and diligently prosecute an application for the Final Order;
- (e) forthwith carry out the terms of the Interim Order and the Final Order and, subject to the receipt of the Final Order, the satisfaction of the conditions precedent in favour of TransCanada and the receipt of the written confirmation of NOVA that the conditions precedent in favour of NOVA have been satisfied, file Articles of Arrangement and the Final Order with the Registrar in order for the Arrangement to become effective;
- (f) except for proxies and other non-substantive communications, furnish promptly to NOVA a copy of each notice, report, schedule or other document or communication delivered, filed or received by TransCanada in connection with the Arrangement or the Interim Order, the TransCanada Meeting or any other meeting of TransCanada security holders or class of security holders which all such holders, as the case may be, are entitled to attend, any filings under applicable Laws and any dealings with regulatory agencies in connection with, or in any way affecting, the transactions contemplated herein;
- (g) in a timely and expeditious manner, provide to NOVA all information as may be reasonably requested by NOVA or as required by the Interim Order or applicable Laws with respect to TransCanada and its Subsidiaries and their respective businesses and properties for inclusion in the Joint Proxy Circular with respect to the NOVA Meeting or in any amendments or supplements to such Joint Proxy Circular complying in all material respects with all applicable legal requirements on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to TransCanada and not containing any misrepresentation (as defined under applicable securities laws) with respect thereto;
- (h) prepare and file with all applicable securities commissions or similar securities regulatory authorities of Canada and the United States all necessary applications to seek exemptions, if required, from the prospectus, registration and other requirements of the applicable securities laws of Canada and the United States for the issue by TransCanada of TransCanada New Common Shares and TransCanada New Preferred Shares pursuant to the Arrangement and the resale of such shares (other than by control persons and subject to the general requirements);
- (i) prepare and file with all applicable securities commissions or similar securities regulatory authorities of Canada and the United States all necessary applications to seek exemptions, if required, from the prospectus, registration and other requirements of the applicable securities laws of Canada and the United States for the issue by TransCanada of NOVA Common Shares pursuant to the Arrangement and the resale of such shares (other than by control persons and subject to requirements of general application);
- (j) fully cooperate in implementing the Pre-Arrangement Steps, to the extent such steps involve TransCanada; and
- (k) to the extent within its power, forthwith carry out the terms of the Final Order.

5.12 Employment and Employee Benefits and Stock Options

- (a) **Continued Employment** — The Subsidiaries of NOVA which become subsidiaries of TransCanada on the Effective Date will continue to employ the Continued Employees, as applicable, from and after the Effective Date on substantially similar terms and conditions of employment that are no less favourable in the aggregate and in substantially similar or equivalent positions, as provided to the Continued Employees by NOVA or its Subsidiaries, as applicable, immediately prior to the Effective Date. Subject to Section 5.12(g), such terms and conditions shall be maintained, while Continued Employees are employed, for a period not less than 2 years from the Effective Date.
- (b) **Offers of Employment** — TransCanada shall offer employment to the Transferred Corporate Employees, or cause such employment to be offered, effective on the Effective Date on substantially similar terms and conditions of employment that are no less favourable in the aggregate and in substantially similar or equivalent positions, as provided to the Transferred Corporate Employees by NOVA immediately prior to the Effective Date. Subject to Section 5.12(g), such terms and conditions shall be maintained, while Transferred Corporate Employees are employed, for a period not less than 2 years from the Effective Date.
- (c) **Pension Benefits** — From and after the Effective Date, TransCanada shall be responsible for the payment of Pension Benefits (and NOVA shall transfer to TransCanada any assets associated with such Pension Benefits) of Continued Employees and the Transferred Corporate Employees (the “New TransCanada Employees”). Such New TransCanada Employees shall be provided with Pension Benefits on the same terms and conditions, or otherwise on a basis which is no less favourable in the aggregate, as the Pension Benefits that would have been provided to them by NOVA, or its Subsidiaries as applicable immediately prior to the Effective Date for a period of not less than two years from the Effective Date.
- (d) **Employee Benefits** — From and after the Effective Date, the New TransCanada Employees shall be provided with Employee Benefits on the same terms and conditions, or otherwise on a basis which is not less favourable in the aggregate, as the Employee Benefits that would have been provided to the New TransCanada Employees by NOVA or its Subsidiaries, as applicable, immediately prior to the Effective Date, for a period of not less than two years from the Effective Date.
- (e) **Credited Service** — TransCanada and its Subsidiaries shall credit the New TransCanada Employees with all service recognized by NOVA or its Subsidiaries, as applicable, including all such periods of employment leave, for all purposes including without limitation, all Pension Benefit and Employee Benefit purposes.
- (f) **Employee Transfer Agreement** — The Parties shall enter into such other agreements as may be necessary in order to address specific issues with respect to the New TransCanada Employees, including all matters relating to their Employee Benefits and Pension Benefits, all of which shall be in accordance with this Section 5.12.
- (g) **Employee Termination** — Where a New TransCanada Employee is terminated during the 2 year period referred to in paragraph (a) or (b) of this Section 5.12 for reasons other than legal cause, TransCanada shall provide such employee with a severance and termination package on terms and conditions which are no less favourable in the aggregate to that which would have been provided by NOVA upon termination of such employee under its Employment Transition and Continuity Program and severance guidelines, including treatment of stock options on termination, adjusted to the benefit of the employee in order to reflect additional service and inflation and other market conditions, as appropriate.
- (h) **Post-Retirement Benefits** — NOVA shall retain liabilities for post-retirement benefits and pension benefits to retired persons formerly employed in the Chemical Business and TransCanada shall assume liability for post-retirement benefits and pension benefits to retired persons formerly employed by NOVA in the Energy Services Business and the liabilities for post-retirement benefits and pension benefits relating to retired corporate head office employees formerly employed by NOVA shall be shared between TransCanada and NOVA on a Book Value Allocation basis.

- (i) **New NOVA Employees** — Employees of TransCanada which TransCanada and NOVA agree will be employees of NOVA after the Effective Date shall receive the same treatment and benefits all as set out above.
- (j) (i) **NOVA Stock Options** — Subject to any regulatory or other required approvals, the outstanding employee and director stock options issued by NOVA will be exchanged as of the Effective Date based on the principle that the accrued benefit of such options will be preserved, without augmenting such benefit. NOVA will cancel and reissue adjusted NOVA options and TransCanada will grant new TransCanada options to NOVA optionholders as at the Effective Date. The number of common shares of TransCanada and NOVA ultimately subject to such new options will be the number of common shares of each of TransCanada and NOVA that such NOVA optionholder would have held after the completion of the Arrangement had the NOVA optionholder exercised all of his or her NOVA options immediately prior to the Effective Date (as if those options were all then vested). The combined aggregate exercise cost for each of the new TransCanada options and NOVA options will be allocated between the new TransCanada options and new NOVA options so that the aggregate in-the-money value of the existing NOVA options will be equal to the combined aggregate in-the-money value of the new TransCanada options and new NOVA options at the time of the exchange of the options while to the extent possible preserving the ratio of the exercise price to the fair market value of the shares subject to option as at the Effective Date and aggregate exercise cost. NOVA will also amend or otherwise provide such relief under the NOVA stock option plan as is necessary to allow the New TransCanada Employees to continue to hold NOVA options as if employed by NOVA. TransCanada agrees to make appropriate changes to or determinations under its option plan to permit NOVA employees to continue to hold TransCanada options. TransCanada and NOVA agree to take such other steps as are necessary and advisable to validly grant the new options to all NOVA optionholders as of the Effective Date to reflect the foregoing. The terms and conditions of such options shall otherwise be the same as the existing NOVA options and TransCanada will recognize service with NOVA for all purposes of the options.
- (ii) **NOVA Stock Options for TransCanada Transferred Employees** — Subject to any required regulatory or other required approvals, the outstanding employee and officers stock options issued by TransCanada to TransCanada employees who become employed by NOVA, if any, or who become directors of NOVA will be exchanged for options in NOVA as of the Effective Date based on the principle that the accrued benefit of such options will be preserved, without augmenting such benefit. Such exchange will involve the termination of the TransCanada options held by such optionholders in exchange for the grant of NOVA options by NOVA. The number of NOVA Common Shares subject to such new options will be such that the aggregate in-the-money value of the existing TransCanada options will be equal to the aggregate in-the-money value of the new NOVA options at the time of the exchange (while to the extent possible preserving the aggregate exercise cost). NOVA will take such steps as are necessary and advisable to grant such stock options. The terms and conditions of the exchanged NOVA options will otherwise be the same as the existing TransCanada options, except that the vesting of any NOVA options granted for unvested TransCanada options will be reduced from five years to three years, and NOVA will recognize service with TransCanada for all purposes of the options.
- (iii) **TransCanada Options** — Subject to any regulatory or other required approvals, TransCanada may adjust the exercise price of existing TransCanada options of TransCanada optionholders who continue employment with TransCanada to reflect the Arrangement based on the principle that, as at the Effective Date, the accrued benefit of such options will be preserved, without augmenting such benefit. Such adjustment will preserve the aggregate in-the-money value of existing TransCanada options. TransCanada may also reduce the vesting period in respect of TransCanada options from five years to three years.
- (iv) **Tax Free Exchange** — It is the intent of the Parties that the foregoing stock option exchanges and adjustments contemplated herein not be taxable events under the *Income Tax Act* (Canada). Accordingly, the foregoing is subject to obtaining rulings as part of the Tax Ruling confirming that,

or counsel to TransCanada and NOVA, respectively, providing an opinion to the effect that, the TransCanada and NOVA optionholders, respectively, will not be subject to taxation in respect of such adjustments or exchanges. In the event such opinions or rulings are not obtained or any approvals necessary to implement the above adjustments are not obtained prior to the Effective Date, then each of NOVA and TransCanada may amend their option plans to provide that all outstanding employee and director options of all NOVA employees and of the employees and officers of TransCanada who are to become employed with NOVA shall vest and become exercisable immediately prior to the Effective Date unless otherwise agreed by the Parties. In such case, each of the Parties agrees to negotiate a reasonable lending program to enable affected optionholders to exercise such options or alternately to purchase such options for an amount equal to their in-the-money value at the Effective Date.

5.13 Indemnification of Directors and Officers, Corporate Indemnities and Insurance

- (a) From and after the Effective Date, TransCanada shall indemnify, defend and hold harmless, in each case to the full extent permitted under applicable Law and TransCanada's Restated Articles of Incorporation and By-laws, each person who is now, or has been at any time prior to the date hereof or who becomes prior to the Effective Date, an officer, director or employee of NOVA, or any of its Subsidiaries, their respective heirs, executors, administrators and other legal representatives (the "Indemnified NOVA Individuals") against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or employee of NOVA or any Subsidiary of NOVA, pertaining to any matter existing or occurring at or prior to the Effective Date and whether asserted or claimed prior to, or at or after, the Effective Date, provided however that in respect of matters arising from or related to the Chemical Business, the Indemnified NOVA Individuals may only have recourse to the indemnity granted herein, after having exhausted all indemnification rights available to the Indemnified NOVA Individuals from NOVA or any other person and after having exhausted all insurance coverage available. The foregoing indemnity shall not improve the position of any existing insurer and any renewal of insurance by NOVA shall preserve TransCanada's position as set out in the foregoing.
- (b) From and after the Effective Date, NOVA shall indemnify, defend and hold harmless, in each case to the full extent permitted under applicable Law and NOVA's Articles of Incorporation and By-laws, each person who is now, or has been at any time prior to the date hereof or who becomes prior to the Effective Date, an officer, director or employee of NOVA, or any of its Subsidiaries and who becomes a director, officer or employee of TransCanada on the Effective Date and their respective heirs, executors, administrators and other legal representatives (the "Indemnified New TransCanada Individuals") against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or employee of NOVA or any Subsidiary of NOVA, pertaining to any matter existing or occurring at or prior to the Effective Date and whether asserted or claimed prior to, or at or after, the Effective Date, provided however that in respect of matters arising from or related to the Energy Services Business, the Indemnified New TransCanada Individuals may only have recourse to the indemnity granted herein, after having exhausted all indemnification rights available to the Indemnified New TransCanada Individuals from TransCanada or any other person and after having exhausted all insurance coverage available. The foregoing indemnity shall not improve the position of any existing insurer and any renewal of insurance by TransCanada shall preserve NOVA's position as set out in the foregoing.
- (c) From and after the Effective Date, TransCanada shall indemnify, defend and hold harmless, in each case to the full extent permitted under applicable Law and TransCanada's Restated Articles of Incorporation and By-laws, each person who is now, or has been at any time prior to the date hereof or who becomes prior to the Effective Date, an officer, director or employee of TransCanada, or any of its

Subsidiaries and who becomes a director, officer or employee of NOVA on the Effective Date and their respective heirs, executors, administrators and other legal representatives (the "Indemnified New NOVA Individuals") against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or employee of TransCanada or any Subsidiary of TransCanada, pertaining to any matter existing or occurring at or prior to the Effective Date and whether asserted or claimed prior to, or at or after, the Effective Date. The foregoing indemnity shall not improve the position of any existing insurer and any renewal of insurance by NOVA shall preserve TransCanada's position as set out in the foregoing.

- (d) From and after the Effective Date, NOVA shall indemnify, defend and hold harmless, in each case to the full extent permitted under applicable Law and NOVA's Articles of Incorporation and By-laws, each person who is now, or has been at any time prior to the date hereof or who becomes prior to the Effective Date, an officer, director or employee of TransCanada, or any of its Subsidiaries and who becomes a director, officer or employee of TransCanada on the Effective Date and their respective heirs, executors, administrators and other legal representatives (the "Indemnified TransCanada Individuals") against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or employee of TransCanada or any Subsidiary of TransCanada, pertaining to any matter existing or occurring at or prior to, or after, the Effective Date in respect of matters arising from or related to the Chemical Business. Indemnified TransCanada Individuals may only have recourse to the indemnity granted herein, after having exhausted all insurance coverage available. The foregoing indemnity shall not improve the position of any existing insurer and any renewal of insurance by NOVA shall preserve TransCanada's position as set out in the foregoing.
- (e) From and after the Effective Date, TransCanada shall indemnify, defend and hold harmless, in each case to the full extent permitted under applicable Law, NOVA and its Subsidiaries (the "Indemnified NOVA Entities") against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation to the extent based in whole or in part on or arising in whole or in part out of the Energy Services Business or Energy Guarantees, any liabilities allocated to TransCanada or its Subsidiaries under Section 5.05 pertaining to any matter existing or occurring at or prior to the Effective Date and whether asserted or claimed prior to, or at or after, the Effective Date or any claims by Transferred Corporate Employees or any Continued Employees relating to termination or alleged termination of employment as a result of the Arrangement. The foregoing indemnity shall be in addition to any existing insurance and not improve the position of any existing insurer. Any renewal of insurance by NOVA shall preserve TransCanada's position as set out in the foregoing.
- (f) From and after the Effective Date, NOVA shall indemnify, defend and hold harmless, in each case to the full extent permitted under applicable Law, TransCanada and its Subsidiaries (the "Indemnified TransCanada Entities") against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation to the extent based in whole or in part on or arising in whole or in part out of the Chemical Business or Chemical Guarantees, any liabilities allocated to NOVA or its Subsidiaries under Section 5.05 pertaining to any matter existing or occurring at or prior to the Effective Date and whether asserted or claimed prior to, or at or after, the Effective Date or any claims of TransCanada Employees, who TransCanada and NOVA agree are to be offered employment in the Chemical Business, relating to termination of employment as a result of the Arrangement. The foregoing indemnity shall be in addition to any existing insurance and not improve the position of any existing insurer. Any renewal of insurance by TransCanada shall preserve NOVA's position as set out in the foregoing.
- (g) NOVA shall pay all of the claims, costs and expenses, relating to the termination of its corporate head office employees (the "Termination Expenses"), if any, who do not receive offers of employment, or

offers of continuation of employment, as the case may be, from one of the Parties. TransCanada shall indemnify NOVA against, and pay to NOVA, any Termination Expenses in excess of NOVA's pro rata share of the aggregate of each Party's Termination Expenses (based on the Book Value Allocation).

- (h) Without limiting the foregoing, in the event any such claim, action, suit, proceeding or investigation is brought against any person entitled to an indemnity under the foregoing (collectively the "Indemnified Parties") from an indemnitor under the foregoing (hereinafter the "Indemnitor") (whether arising before or after the Effective Date), (i) any counsel retained by the Indemnified Parties for any period after the Effective Date shall be reasonably satisfactory to the Indemnitor, (ii) after the Effective Date, the Indemnitor shall pay all reasonable fees and expenses (including the fees and expenses of such counsel) for the Indemnified Parties promptly as statements therefor are received; and (iii) after the Effective Date, the Indemnitor will use all reasonable efforts to assist in the vigorous defense of any such matter, provided that the Indemnitor shall not be liable for any settlement of any claim effected without its written consent, which consent, however, shall not be unreasonably withheld. Any Indemnified Party wishing to claim indemnification under this Section 5.13, upon learning of any such claim, action, suit, proceeding or investigation, shall give prompt written notice, and in any event within 30 days, to the Indemnitor but the failure to so notify the Indemnitor shall not relieve it from any liability which it may have under this Section 5.13 except the right to indemnification may be reduced to the extent, but only to the extent such delay prejudiced the defense of the claim or demand or increased the amount of liability or cost of defense. The Indemnitor shall be liable for the fees and expenses hereunder with respect to only one law firm, in addition to local counsel in each applicable jurisdiction, to represent the Indemnified Parties as a group with respect to each such matter unless there is, under applicable standards of professional conduct, a conflict between the positions of any two or more Indemnified Parties that would preclude or render inadvisable joint or multiple representation of such parties. The Indemnitor may participate in any defense of such claim and the Indemnified Parties shall fully cooperate with such defense.
- (i) For a period of six years after the Effective Date, NOVA shall cause to be maintained in effect the current policies of directors' and officers' liability insurance maintained by NOVA (provided that NOVA may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are no less advantageous) with respect to claims arising from facts or events which occurred before the Effective Date; provided, however, that NOVA shall not be obligated to make annual premium payments for such insurance to the extent such premiums exceed 250% of the premiums paid as of the date hereof by NOVA for such insurance ("NOVA's Current Premium"), and if such premiums for such insurance would at any time exceed 250% of NOVA's Current Premium, then NOVA shall cause to be maintained policies of insurance which, in NOVA's good faith determination, provide the maximum coverage available at an annual premium equal to 250% of NOVA's Current Premium. Notwithstanding anything to the contrary contained elsewhere herein, NOVA's indemnity agreement set forth above shall be limited to cover claims only to the extent that those claims are not covered under NOVA's directors' and officers' insurance policies (or any substitute policies permitted by this Section 5.13).
- (j) For a period of six years after the Effective Date, TransCanada shall cause to be maintained in effect the current policies of directors' and officers' liability insurance maintained by TransCanada (provided that TransCanada may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are no less advantageous) with respect to claims arising from facts or events which occurred before the Effective Date; provided, however, that TransCanada shall not be obligated to make annual premium payments for such insurance to the extent such premiums exceed 250% of the premiums paid as of the date hereof by TransCanada for such insurance ("TransCanada's Current Premium"), and if such premiums for such insurance would at any time exceed 250% of TransCanada's Current Premium, then TransCanada shall cause to be maintained policies of insurance which, in TransCanada's good faith determination, provide the maximum coverage available at an annual premium equal to 250% of TransCanada's Current Premium. Notwithstanding anything to the contrary contained elsewhere herein, TransCanada's indemnity agreement set forth above shall be limited to cover claims only to the extent that those claims are not

covered under TransCanada's directors' and officers' insurance policies (or any substitute policies permitted by this Section 5.13).

- (k) In the event TransCanada or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any person, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of TransCanada assume the obligations set forth in this Section 5.13.
- (l) In the event NOVA or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any person, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of NOVA assume the obligations set forth in this Section 5.13.
- (m) The provisions of this Section 5.13 are (i) intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his heirs, executors, administrators and other legal representatives and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such person may have by contract or otherwise.

5.14 Merger of Covenants

The covenants set out in this Agreement, except for Sections 5.05, 5.08(b), 5.12, 5.13 and 10.01, shall not survive the completion of the Arrangement, and shall expire and be terminated without recourse between the Parties upon such completion.

ARTICLE 6 CONDITIONS

6.01 Mutual Conditions

The obligations of NOVA and TransCanada to complete the transactions contemplated hereby are subject to fulfilment of the following conditions on or before the Effective Date or such other time as is specified below:

- (a) the Interim Order shall have been granted in form and substance satisfactory to NOVA and TransCanada, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;
- (b) the resolutions set forth in the Joint Proxy Circular shall have been passed at the NOVA Meeting and at the TransCanada Meeting, duly approving the Arrangement, in accordance with the Interim Order;
- (c) the Final Order shall have been granted in form and substance satisfactory to NOVA and TransCanada, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties on appeal or otherwise;
- (d) the Articles of Arrangement relating to the Arrangement shall be in form and substance satisfactory to NOVA and TransCanada, acting reasonably;
- (e) the Tax Ruling shall have been obtained;
- (f) the Effective Date shall be on or before December 31, 1998, subject to any extension up to thirty (30) days from December 31, 1998, available to a Party pursuant to Section 6.04;
- (g) there shall be no action taken under any Law or by any Governmental Entity, that:
 - (i) makes it illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated herein or the Pre-Arrangement Steps; or
 - (ii) results in a judgment or assessment of damages, directly or indirectly, relating to the transactions contemplated herein which is materially adverse;

- (h) the Minimum Approvals shall have been obtained and all other consents, waivers, permits, orders and approvals of any Governmental Entity (other than as contemplated in Section 6.01(i)) or other person, and the expiry of any waiting periods, in connection with, or required to permit, the consummation of the Arrangement, the failure of which to obtain or the non-expiry of which would be materially adverse on TransCanada or NOVA, as the case may be, or materially impede the completion of the Arrangement, shall have been obtained or received on terms that will not have a material adverse effect to either TransCanada or NOVA and reasonably satisfactory evidence thereof shall have been delivered to each Party;
- (i) without limiting the scope of the condition in Section 6.01(g), (i) the applicable waiting period under Section 123 of the *Competition Act* (Canada) shall have expired without the Director of Investigation and Research (the "Competition Director") appointed under the *Competition Act* having given notice that he intends to make an application to the Competition Tribunal for an order under s. 92 or 100 of the *Competition Act* in respect of the Arrangement or (ii) the Competition Director shall have issued an advance ruling certificate under Section 102 of the *Competition Act* in respect of the Arrangement and any applicable waiting periods under the *HSR Act* shall have expired or been earlier terminated;
- (j) the TransCanada Common Shares, and NOVA Common Shares issuable pursuant to the Arrangement shall have been conditionally approved for listing on The Toronto Stock Exchange and the New York Stock Exchange, and the TransCanada Preferred Shares shall have been conditionally approved for listing on The Toronto Stock Exchange, subject to the filing of required documentation, any required prospectus exemptions shall have been obtained and such securities shall not be subject to resale restrictions in Canada and the United States other than in respect of control persons and subject to requirements of general application;
- (k) the auditors of TransCanada and NOVA shall have reaffirmed, immediately prior to the mailing of the Joint Proxy Circular and immediately prior to the Effective Date, without material amendment, their opinions delivered under Section 5.01;
- (l) the governance arrangements in respect of TransCanada and NOVA shall have been carried out as agreed in Schedule D;
- (m) the holders of not more than 5% of the issued and outstanding TransCanada Common Shares or of the NOVA Common Shares, shall have exercised rights of dissent in relation to the Arrangement; and
- (n) this Agreement shall not have been terminated pursuant to Article 9.

The foregoing conditions are for the mutual benefit of NOVA and TransCanada and may be waived, in whole or in part, by NOVA and TransCanada at any time. If any of the said conditions precedent shall not be complied with or waived as aforesaid on or before the date required for the performance thereof, either NOVA or TransCanada may rescind and terminate this Agreement by written notice to the other Party and shall have no other right or remedy, except as set forth in Article 8 or 9.

6.02 NOVA Conditions

The obligation of NOVA to complete the transactions contemplated herein is subject to the fulfilment of the following conditions on or before the Effective Date or such other time as specified below:

- (a) the representations and warranties made by TransCanada in this Agreement shall be true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement or except for any failures or breaches of representations and warranties which individually or in the aggregate would not have a material adverse effect on TransCanada or materially impede the completion of the Arrangement or the other transactions contemplated hereby), and TransCanada shall have provided to NOVA the certificate of two qualified officers of TransCanada certifying such accuracy on the Effective Date;
- (b) TransCanada shall have complied with its covenants herein, if the failure, in the reasonable judgment of NOVA, to comply with such covenants would individually or in the aggregate have a material

adverse effect on TransCanada or materially impede the completion of the Arrangement or the other transactions contemplated in this Agreement, and TransCanada shall have provided to NOVA the certificate of two qualified officers of TransCanada certifying that TransCanada has so complied with its covenants herein;

- (c) from the date hereof up to and including the Effective Date, there shall have been no change, condition, event or occurrence which, in the reasonable judgment of NOVA, has or is reasonably likely to have a material adverse effect on TransCanada; and
- (d) the Board of Directors of TransCanada shall have made and shall not have modified or amended, in any material respect, prior to the TransCanada Meeting, an affirmative recommendation that its shareholders approve the Arrangement;

The foregoing conditions precedent are for the benefit of NOVA and may be waived, in whole or in part, by NOVA in writing at any time. If any of the said conditions shall not be complied with or waived by NOVA on or before the date required for their performance then NOVA may rescind and terminate this Agreement by written notice to TransCanada and shall have no other right or remedy against TransCanada except as set forth in Article 8 or 9.

6.03 TransCanada Conditions

The obligation of TransCanada to complete the transactions contemplated herein is subject to the fulfilment of the following conditions on or before the Effective Date or such other time as specified below:

- (a) the representations and warranties made by NOVA in this Agreement shall be, in the reasonable judgement of TransCanada, true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement or except for any failures or breaches of representations and warranties which individually or in the aggregate would not have a material adverse effect on NOVA or materially impede the completion of the Arrangement or the other transactions contemplated hereby), and NOVA shall have provided to TransCanada the certificate of two qualified officers of NOVA certifying such accuracy on the Effective Date;
- (b) NOVA shall have complied with its covenants herein, if the failure, in the reasonable judgment of TransCanada, to comply with such covenants would individually or in the aggregate have a material adverse effect on NOVA or materially impede the completion of the Arrangement or the other transactions contemplated in this Agreement, and NOVA shall have provided to TransCanada the certificate of two qualified officers of NOVA certifying that NOVA has so complied with its covenants herein;
- (c) from the date hereof up to and including the Effective Date, there shall have been no change, condition, event or occurrence which, in the reasonable judgment of TransCanada, has or is reasonably likely to have a material adverse effect on NOVA; provided that to the extent that the losses incurred with respect to item 1 of Section 5.04(b)(vii) of the disclosure memorandum, as amended by a letter dated January 24, 1998, exceed the amount specified in the letter, such excess shall be deemed to be a change for purposes of this section 6.03(c); and
- (d) the Board of Directors of NOVA shall have made and shall not have modified or amended, in any material respect, prior to the NOVA Meeting, an affirmative recommendation that its shareholders approve the Arrangement;

The foregoing conditions precedent are for the benefit of TransCanada and may be waived, in whole or in part, by TransCanada in writing at any time. If any of the said conditions shall not be complied with or waived by TransCanada on or before the date required for their performance then TransCanada may rescind and terminate this Agreement by written notice to NOVA and shall have no other right or remedy, except as set forth in Article 8 or 9.

6.04 Notice and Cure Provisions

Each Party will give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof until the Effective Date, of any event or state of facts which occurrence or failure would, or would be likely to:

- (a) cause any of the representations or warranties of any Party contained herein to be untrue or inaccurate in any material respect on the date hereof or at the Effective Date; or
- (b) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any Party hereunder prior to the Effective Date.

No Party may elect not to complete the transactions contemplated hereby pursuant to the conditions precedent contained in Sections 6.01, 6.02 and 6.03 or any termination right arising therefrom and no fees are payable under Section 8.01 and 8.02, unless forthwith and in any event prior to the filing of the Final Order for acceptance by the Director and the Registrar, the Party intending to rely thereon has delivered a written notice to the other Party specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the Party delivering such notice is asserting as the basis for the non-fulfilment or the applicable condition precedent or termination right, as the case may be. If any such notice is delivered, provided that a Party is proceeding diligently to cure such matter, no Party may terminate this Agreement until the later of December 31, 1998 and the expiration of a period of 30 days from such notice. If such notice has been delivered prior to the date of the TransCanada Meeting and the NOVA Meeting, such meetings shall be postponed until the expiry of such period.

6.05 Merger of Conditions

The conditions set out in Sections 6.01, 6.02 and 6.03 shall be conclusively deemed to have been satisfied, waived or released upon the joint filing of Articles of Arrangement, as contemplated by this Agreement, and the issuance of a certificate of arrangement and certificate of amendment in respect thereof under the CBCA and ABCA, respectively. Notwithstanding the foregoing, the covenants set forth in Sections 5.05, 5.08(b), 5.12, 5.13 and 10.01 shall survive the joint filing of Articles of Arrangement, as contemplated by this Agreement, and the issuance of a certificate of arrangement and certificate of amendment in respect thereof under the CBCA and ABCA, respectively.

ARTICLE 7 AMENDMENT

7.01 Amendment

This Agreement may, at any time and from time to time before or after the holding of the TransCanada and NOVA Meetings, be amended by mutual written agreement of the Parties hereto without further notice to or authorization on the part of their respective shareholders, and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the Parties;
- (b) waive any inaccuracies or modify any representation contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the Parties; and
- (d) waive compliance with or modify any conditions precedent herein contained;

provided that, (i) notwithstanding the foregoing, the number of TransCanada Common Shares which the holders of NOVA Common Shares shall have the right to receive on the Arrangement may not be decreased without the approval of the NOVA Common Shareholders given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court; (ii) notwithstanding the foregoing, the number of TransCanada Preferred Shares which the holders of NOVA Preferred Shares shall have the right to receive on the Arrangement may not be decreased without the approval of the NOVA Preferred Shareholders given in the

same manner as required for the approval of the Arrangement or as may be ordered by the Court; and (iii) any such change, waiver or modification does not invalidate any required security holder approval of the Arrangement.

Without limiting the generality of the foregoing, the Parties agree to make any changes to the Plan of Arrangement required to conform the Plan of Arrangement to the Tax Ruling provided that such changes are not adverse to the financial or economic interests of the Parties or the holders of their securities.

ARTICLE 8 AGREEMENT AS TO DAMAGES AND OTHER ARRANGEMENTS

8.01 TransCanada Damages

If at any time after the execution of this Agreement:

- (a) the Board of Directors of NOVA has withdrawn or changed any of its recommendations or determinations referred to in Section 2.03(a) or 2.05 in a manner adverse to TransCanada or shall have resolved to do so prior to the Effective Date;
- (b) a bona fide Acquisition Proposal is publicly announced, proposed, offered or made to the NOVA Common Shareholders or to NOVA and the NOVA Common Shareholders do not approve the Arrangement or the Arrangement is not submitted for their approval; or
- (c) NOVA breaches any of its representations, warranties or covenants made in this Agreement which breach individually or in the aggregate would have a material adverse effect on NOVA or materially impede the completion of the Arrangement, including, without limitation, the representations and covenants in Section 2.03(a) or 2.05;

(each of the above being a “TransCanada Damages Event”), then NOVA shall pay to TransCanada \$175 million as liquidated damages in immediately available funds to an account designated by TransCanada within one business day after the first to occur of the events described above. NOVA shall only be obligated to make one payment pursuant to this Section 8.01.

8.02 NOVA Damages

If at any time after the execution of this Agreement:

- (a) the Board of Directors of TransCanada has withdrawn or changed any of its recommendations or determinations referred to in Sections 2.04(a) or 2.05 in a manner adverse to NOVA or shall have resolved to do so prior to the Effective Date;
- (b) a bona fide Acquisition Proposal is publicly announced, proposed, offered or made to the TransCanada Common Shareholders or to TransCanada and the TransCanada Common Shareholders do not approve the Arrangement or the Arrangement is not submitted for their approval; or
- (c) TransCanada breaches any of its representations, warranties or covenants made in this Agreement which breach individually or in the aggregate would have a material adverse effect on NOVA or materially impede the completion of the Arrangement, including, without limitation, the representations and covenants in Section 2.03(a) or 2.05;

(each of the above being a “NOVA Damages Event”), then TransCanada shall pay to NOVA \$175 million as liquidated damages in immediately available funds to an account designated by NOVA within one business day after the first to occur of the events described above. TransCanada shall only be obligated to make one payment pursuant to this Section 8.02.

8.03 Liquidated Damages

Each Party acknowledges that all of the payment amounts set out in this Article 8 are payments of liquidated damages which are a genuine pre-estimate of the damages which the Party entitled to such damages

will suffer or incur as a result of the event giving rise to such damages and resultant termination of this Agreement and are not penalties. Each Party irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive. For greater certainty, the Parties agree that, subject to Article 9, the payment of the amount pursuant to this Article 8 is the sole monetary remedy of the Party receiving such payment. Nothing herein shall preclude a Party from seeking injunctive relief to restrain any breach or threatened breach of the covenants or agreements set forth in this Agreement or the Confidentiality Agreement or otherwise to obtain specific performance of any of such act, covenants or agreements, without the necessity of posting bond or security in connection therewith.

ARTICLE 9 TERMINATION

9.01 Termination

This Agreement may be terminated at any time prior to the Effective Date:

- (a) by mutual written consent of TransCanada and NOVA;
- (b) as provided in Sections 6.01, 6.02 and 6.03;
- (c) by TransCanada upon the occurrence of a TransCanada Damages Event as provided in Section 8.01 provided that in the event of a TransCanada Damages Event provided for in Section 8.01(a), this Agreement may not be terminated by TransCanada unless NOVA shareholders do not approve the Arrangement as required in the Interim Order or the Arrangement is not submitted for their approval;
- (d) by NOVA upon the occurrence of a NOVA Damages Event as provided in Section 8.02 provided that in the event of a NOVA Damages Event provided for in Section 8.02(a), this Agreement may not be terminated by NOVA unless the TransCanada shareholders do not approve the Arrangement as required in the Interim Order or the Arrangement is not submitted for their approval;
- (e) by TransCanada upon the payment by it of the amount under Section 8.02; and
- (f) by NOVA upon the payment by it of the amount under Section 8.01.

In the event of the termination of this Agreement in the circumstances set out in paragraphs (a) through (f) of this Section 9.01, (i) this Agreement shall forthwith become void and neither Party shall have any liability or further obligation to the other Party hereunder except with respect to the obligations set forth in Section 8.01 or 8.02 which shall survive such termination; and (ii) if such termination occurs prior to the Effective Date, the Arrangement and Plan of Arrangement shall be terminated without any NOVA Common Shares being exchanged. Nothing contained in this Section 9.01 or Article 8, including the payment of an amount under Article 8, shall, however, relieve or have the effect of resulting in relieving any Party in any way from liability for damages incurred or suffered by a Party as a result of a breach of this Agreement by a Party acting in bad faith intended and designed to result in the conditions precedent to this Agreement's completion from being satisfied.

ARTICLE 10 GENERAL

10.01 Expenses

- (a) The Parties agree that all out-of-pocket third party transaction expenses of the Arrangement, including legal fees, financial advisor fees, regulatory filing fees, all disbursements by advisors and printing and mailing costs, shall be paid by the Party incurring such expense.
- (b) Unless the Agreement is terminated such expenses shall be funded on the Effective Date as set out in the Plan of Arrangement. Such expenses exclude, for greater certainty, any employment termination expenses and any dissent cost expenses. The Parties shall provide to each other a summary of all such expenses incurred as at the Effective Date and a reasonable estimate (and the basis therefor) of all such remaining expenses and such amounts may be included by the Parties in the transaction expenses

to be funded in accordance with the Plan of Arrangement. Any such expenses incurred (and not included in such calculation as at the Effective Date) shall be paid by the Party incurring the expense but funded on the same principles as set out in the Plan of Arrangement.

- (c) TransCanada and NOVA represent and warrant to each other that, except for Nesbitt Burns Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated in the case of TransCanada and RBC Dominion Securities Inc. in the case of NOVA, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission, or to the reimbursement of any of its expenses, in connection with the Arrangement. Each Party to this Agreement has provided to the other Party a correct and complete copy of all agreements relating to the Arrangement between it and its financial advisors as are in existence at the date hereof and agrees not to amend the terms of any such agreements relating to the payment of fees and expenses without the prior written approval of the other Party.
- (d) TransCanada agrees to indemnify NOVA for all costs, losses, and expenses, including fair value awards (however satisfied) paid or suffered by NOVA associated with the exercise of any dissent rights under the Plan of Arrangement ("NOVA Dissent Claims"), to the extent and only to the extent, that NOVA Dissent Claims exceed 20% of the aggregate of NOVA Dissent Claims and TransCanada's costs, losses, and expenses, including fair value awards (however satisfied) paid or suffered by TransCanada associated with the exercise of any dissent rights under the Plan of Arrangement ("TransCanada Dissent Claims").
- (e) NOVA agrees to indemnify TransCanada for the TransCanada Dissent Claims to the extent, and only to the extent, that TransCanada Dissent Claims exceed greater than 80% of the aggregate of the NOVA Dissent Claims and the TransCanada Dissent Claims under the Plan of Arrangement.

10.02 Notices

Any notice, consent, waiver, direction or other communication required or permitted to be given under this Agreement by a Party to any other Party shall be in writing and may be given by delivering same or sending same by facsimile transmission or by delivery addressed to the Party to which the notice is to be given at its address for service herein. Any notice, consent, waiver, direction or other communication aforesaid shall, if delivered, be deemed to have been given and received on the date on which it was delivered to the address provided herein (if a business day, if not, the next succeeding business day) and if sent by facsimile transmission be deemed to have been given and received at the time of receipt unless actually received after 4:00 p.m. at the point of delivery in which case it shall be deemed to have been given and received on the next business day.

The address for service of each of the parties hereto shall be as follows:

- (a) if to TransCanada:

TransCanada PipeLines Limited
111 - 5th Avenue S.W.
Calgary, Alberta
T2P 3Y6

Attention: Senior Vice-President, Law and Chief Compliance Officer
Fax: (403) 267-8510

with a copy to:

Bennett Jones Verchere
Barristers and Solicitors
4500, 855 - 2nd Street S.W.
Calgary, Alberta
T2P 4K7

Attention: Henry Sykes
Fax: (403) 265-7219

(b) if to NOVA:

NOVA Corporation
801 - 7th Avenue S.W.
Calgary, Alberta
T2P 3P9

Attention: Senior Vice President & General Counsel
Fax: (403) 261-3557

with a copy to:

Osler, Hoskin & Harcourt
P.O. Box 50
1 First Canadian Place
Toronto, Ontario
M5X 1B8

Attention: Stan Magidson
Fax: (416) 862-6666

10.03 Time of Essence

Time shall be of the essence in this Agreement.

10.04 Entire Agreement

This Agreement and the Confidentiality Agreement constitute the entire agreement between the parties hereto and cancel and supersede all prior agreements and understandings between the parties with respect to the subject matter hereof.

10.05 Further Assurances

Each Party hereto shall, from time to time, and at all times hereafter, at the request of the other Party hereto, but without further consideration, do all such further acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof.

10.06 Governing Law

This Agreement shall be governed by, and be construed in accordance with, the laws of the Province of Alberta and the laws of Canada applicable therein but the reference to such laws shall not, by conflict of laws rules or otherwise, require the application of the law of any jurisdiction other than the Province of Alberta. Each Party hereto hereby irrevocably attorns to the jurisdiction of the Courts of the Province of Alberta in respect of all matters arising under or in relation to this Agreement.

10.07 Execution in Counterparts

This Agreement may be executed in identical counterparts, each of which is and is hereby conclusively deemed to be an original and the counterparts collectively are to be conclusively deemed to be one instrument.

10.08 Waiver

No waiver by any Party hereto shall be effective unless in writing and any waiver shall affect only the matter, and the occurrence thereof, specifically identified and shall not extend to any other matter or occurrence.

10.09 Enurement and Assignment

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned by any Party hereto without the prior written consent of the other Party hereto.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

TransCanada PipeLines Limited

“George W. Watson”
Per: George W. Watson

“Robert B. Hodgins”
Per: Robert B. Hodgins

NOVA Corporation

“J.E.N. Newall”
Per: J.E.N. Newall

“A.T. Poole”
Per: A.T. Poole

SCHEDULE A
PLAN OF ARRANGEMENT

Amended and restated below. See Exhibit "A" to the Amending Agreement

SCHEDULE B
REPRESENTATIONS AND WARRANTIES OF TRANSCANADA

1. Organization.

Each of TransCanada and its Material Subsidiaries has been duly incorporated or formed under all applicable Laws, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as presently owned and conducted. All of the outstanding shares of capital stock and other ownership interests of its Subsidiaries are validly issued, fully paid and non-assessable and all such shares and other ownership interests owned directly or indirectly by TransCanada are, except as disclosed in writing to NOVA or pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholders, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly owned, (i) owned free and clear of all material liens, claims or encumbrances and (ii) there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of its Subsidiaries.

2. Capitalization.

The authorized capital of TransCanada consists of: (a) an unlimited number of TransCanada Common Shares and (b) an unlimited number of preferred shares issuable in series. As of January 16, 1998 there were (a) 222,460,485.4 TransCanada Common Shares outstanding and 6,187,293 TransCanada Common Shares were reserved, in the aggregate, for issuance in respect of the following: (Key Employee Stock Incentive Plan ("KESIP") and Key Employee Stock Incentive Plan (1995) ("KESIP 95"); and (b) the following series of First Preferred Shares were outstanding: 552,968 Cumulative Redeemable \$2.80 Series; 3,000,000 Cumulative Redeemable Series O; 2,600,000 Cumulative Redeemable Series P; 2,100,000 Cumulative Redeemable Retractable Series Q; and 2,000,000 Cumulative Redeemable Retractable Series R. Except as described in the immediately preceding sentence and other than pursuant to the rights under KESIP, KESIP 95, the TransCanada Dividend Reinvestment Plan and the TransCanada Rights Plan, which are not exercisable, and the rights attaching to First Preferred Shares Series O and P, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments obligating TransCanada or any Subsidiary to issue or sell any shares of TransCanada or any of its Subsidiaries or securities or obligations of any kind convertible into or exchangeable for any shares of TransCanada, any Subsidiary or any other person, nor is there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of TransCanada of the Subsidiary. There have been no TransCanada Common Shares issued since December 31, 1997, other than pursuant to the exercise of stock option entitlements.

3. Authority.

TransCanada has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by TransCanada and the consummation by TransCanada of the transactions contemplated by this Agreement have been duly authorized by the Board of Directors of TransCanada and, subject to shareholder approval, no other corporate proceedings on the part of TransCanada are necessary to authorize this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by TransCanada and constitutes a valid and binding obligation of TransCanada, enforceable against TransCanada in accordance with its terms subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium, the Minimum Approvals and other applicable laws relating to or affecting creditors' rights generally, to general principles of equity and public policy. Except as disclosed in writing to NOVA on or prior to the date hereof and for Minimum Approvals, the execution and

delivery by TransCanada of this Agreement and performance by it of its obligations hereunder and the completion of the Arrangement and the transactions contemplated thereby, will not:

- (a) result in a violation or breach of, require any consent to be obtained under or give rise to any termination rights under any provision of:
 - (i) its or any Material Subsidiary's certificate of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder agreement or any other agreement or understanding with any Party holding an ownership interest in any Material Subsidiary;
 - (ii) any law, regulation, order, judgment or decree; or
 - (iii) any contract, agreement, license, franchise or permit to which TransCanada or any Material Subsidiary is bound or is subject or is the beneficiary;
- (b) give rise to any right of termination or acceleration of indebtedness, or cause any third party indebtedness to come due before its stated maturity or cause any available credit to cease to be available; or
- (c) result in the imposition of any encumbrance, charge or lien upon any of its assets or the assets of any Material Subsidiary, or restrict, hinder, impair or limit the ability of TransCanada or any Material Subsidiary to carry on the business of TransCanada or any Material Subsidiary as and where it is now being carried on or as and where it may be carried on in the future;

which would individually or in the aggregate have a material adverse effect on TransCanada.

4. Absence of Changes.

Since December 31, 1996, and except as has been previously disclosed in writing to the other Party hereto or has been publicly disclosed prior to the date hereof in any document filed with the Alberta Securities Commission (the "Securities Authorities") (i) TransCanada has conducted its business only in the ordinary and regular course of business consistent with past practice, (ii) other than in the ordinary and regular course of business consistent with past practice, no liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) which would individually or in the aggregate be material to TransCanada have been incurred, (iii) there has not been any material change in the affairs of TransCanada as defined under the Securities Act (Alberta) financial condition, results of operations or business of TransCanada (iv) as of the execution hereof, there are no material change reports filed with the Securities Authorities which remain confidential.

5. Employment Agreements.

- (a) Other than as disclosed in writing to NOVA on or prior to the date hereof, or except as set forth in the proxy circular prepared in connection with the Annual Meeting of TransCanada held in 1997, TransCanada is not a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any senior executive of TransCanada.
- (b) Other than as disclosed in writing to NOVA on or prior to the date hereof, neither TransCanada nor any Material Subsidiary is a party to any collective bargaining agreement nor subject to any application for certification or threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current, pending or threatened strikes or lockouts at either TransCanada or any Material Subsidiary that would individually or in the aggregate have a material adverse effect.
- (c) Other than as disclosed in writing to NOVA on or prior to the date hereof, neither TransCanada nor any Material Subsidiary is subject to any claim for wrongful dismissal, constructive dismissal or any other tort claim, actual or threatened, or any litigation, actual or threatened, relating to employment or termination of employment of employees or independent contractors other than those claims or such litigation as would individually or in the aggregate not have a material adverse effect.

- (d) Other than as disclosed in writing to NOVA on or prior to the date hereof or are not material, TransCanada and all Material Subsidiaries have operated in accordance with all applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or threatened proceedings before any board or tribunal with respect to any of the areas listed herein other than where the failure to so operate or such proceedings which, individually or in the aggregate would not have a material adverse effect.

6. Disclosure.

TransCanada has publicly disclosed in documents filed with the Securities Authorities or disclosed to NOVA in writing, on or prior to the date hereof, any information regarding any event, circumstance or action taken or failed to be taken which could individually or in the aggregate materially and adversely affect the business, operations, assets, capitalization, financial condition, prospects, rights or liabilities of or relating to TransCanada and its Material Subsidiaries, taken as a whole.

7. Financial Statements.

The audited consolidated statement of financial position and related consolidated statements of income, changes in financial position and contributed surplus and retained earnings of TransCanada for the fiscal year ending December 31, 1996, and the audited consolidated statement of financial position and related consolidated statements of income, changes in financial position and statements of contributed surplus and retained earnings for the years ended December 31, 1994 and December 31, 1995, as contained in TransCanada's 1994 and 1995 Annual Reports, and the unaudited interim consolidated financial statements for the nine month period ended September 30, 1997, were prepared in accordance with generally accepted accounting principles in Canada consistently applied and fairly present the consolidated financial condition of TransCanada at the respective dates indicated and the results of operations of TransCanada (on a consolidated basis) for the period covered.

8. Books and Records.

The corporate records and minute books of TransCanada and the Material Subsidiaries have been maintained substantially in accordance with all applicable Laws and are complete and accurate in all material respects.

9. Litigation, etc.

Except as set forth or specifically reflected in any document filed with the Securities Authorities, or as disclosed in writing to NOVA prior to the date hereof, there is no claim, action, proceeding or investigation pending or, to the knowledge of TransCanada, threatened against or relating to TransCanada or any Material Subsidiary or affecting any of their properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a material adverse effect on TransCanada and its Material Subsidiaries, taken as a whole, or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement, nor is TransCanada aware of any basis for any such claim, action, proceeding or investigation. Neither TransCanada nor any Material Subsidiary is subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a material adverse effect or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement.

10. Environmental.

All operations of TransCanada and its Material Subsidiaries, have been and are now, in compliance with all Environmental Laws, except where the failure to be in compliance would not individually or in the aggregate have a material adverse effect on TransCanada Except as has been disclosed in writing to NOVA prior to the date hereof, neither TransCanada nor any Material Subsidiary is aware of, or is subject to:

- (i) any proceeding, application, order or directive which relates to environmental health or safety matters, and which may require any material work, repairs, construction, or expenditures; or

- (ii) any demand or notice with respect to the breach of any Environmental Laws applicable to TransCanada or any Subsidiary, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of Hazardous Substances;

which individually or in the aggregate would have a material adverse effect on TransCanada.

11. **Insurance.**

Policies of insurance in force as of the date hereof naming TransCanada as an insured adequately cover all risks reasonably and prudently foreseeable in the operation and conduct of the business of TransCanada and the Material Subsidiaries for which, having regard to the nature of such risk and the relative cost of obtaining insurance, it is in the opinion of TransCanada acting reasonably to seek such insurances rather than provide for self insurance. All such policies of insurance shall remain in force and effect and shall not be canceled or otherwise terminated as a result of the transactions contemplated hereby or by the Arrangement other than such cancellations as would not individually or in the aggregate have a material adverse effect.

12. **Tax Matters.**

- (a) **Returns Filed and Taxes Paid.** All Returns required to be filed by or on behalf of TransCanada or any Material Subsidiaries have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. Except as disclosed in writing by TransCanada to NOVA prior to the date hereof, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by TransCanada or any Material Subsidiaries with respect to items or periods covered by such Returns.
- (b) **Tax Reserves.** TransCanada has paid or provided adequate accruals in its financial statements for the year ended dated December 31, 1996 and for the nine month period ended September 30, 1997 for Taxes, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada.
- (c) **Tax Deficiencies; Audits.** Except as has been disclosed in writing to NOVA, no deficiencies exist or have been asserted with respect to Taxes of TransCanada or any Material Subsidiary, neither TransCanada nor any Material Subsidiary is a Party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against TransCanada or any Material Subsidiary or any of their respective assets, except where such deficiencies, actions or proceedings are not material to TransCanada or the Arrangement.

13. **Pension and Employee Benefits**

- (a) Other than as disclosed in writing to NOVA on or prior to the date hereof, TransCanada has complied, in all material respects, with all the terms of and all applicable Laws in respect of the pension and other employee compensation and benefit obligations of TransCanada and its Material Subsidiaries, including the terms of any collective agreements, funding and investment contracts or obligations applicable thereto, arising under or relating to each of the pension or retirement income plans or other employee compensation or benefit plans, agreements, policies, programs, arrangements or practices, whether written or oral, which are maintained by or binding upon TransCanada or any of its Material Subsidiaries (collectively referred to as the "TransCanada Plans") and all TransCanada Plans are fully funded and in good standing with such regulatory authorities as may be applicable.
- (b) No step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could reasonably be expected to result in any TransCanada Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable legislation refused or revoked, or being placed under the administration of any trustee or receiver or regulatory authority or being required to pay any material taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are

pending or threatened in respect of any of the TransCanada Plans or their assets which individually or in the aggregate would have a material adverse effect.

14. Property.

Other than as disclosed in writing to NOVA on or prior to the date hereof, TransCanada and its Material Subsidiaries have good and sufficient title to the real property interests including, without limitation, fee simple estate of and in real property, leases, easements, rights of way, permits or licences from landowners or authorities permitting the use of land by TransCanada and its Material Subsidiaries, necessary to permit the operation of its businesses as presently owned and conducted except as disclosed in writing to the other Party hereto and except for such failure of title that would individually or in the aggregate not have a material adverse effect on TransCanada.

15. Reports.

TransCanada has filed with the Securities Authorities, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1996 (such forms, reports, schedules, statements and other documents, including any financial statements or other documents, including any financial statements or schedules included therein, are referred to as the "TransCanada Documents"). The TransCanada Documents, at the time filed, (a) did not contain any misrepresentation and (b) complied in all material respects with the requirements of applicable securities legislation. TransCanada has not filed any confidential material change report with any Securities Authorities which at the date hereof remains confidential.

16. Compliance with Laws.

Since December 31, 1996, and except as has been publicly disclosed prior to the date hereof in any document filed with the Securities Authorities, TransCanada Material Subsidiaries have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would not individually or in the aggregate have a material adverse effect on TransCanada.

17. Licenses, etc.

Except as disclosed in writing to NOVA on or prior to the date hereof, TransCanada and each of its Material Subsidiaries owns, possesses, or has obtained and is in compliance with, all licenses, permits (including permits required under Environmental Laws), certificates, costs, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as now conducted or as proposed to be conducted, the failure to own, possess, obtain or be in compliance with which would not individually or in the aggregate have a material adverse effect on TransCanada.

18. Certain Contracts.

Except as disclosed in writing to NOVA on or prior to the date hereof, neither TransCanada nor any of its Material Subsidiaries is a party to or bound by any non-competition agreement or any other agreement or obligation which purports to limit the manner or the localities in which all or any material portion of the business of TransCanada or its Material Subsidiaries is or would be conducted other than such contracts which individually or in the aggregate would not have a material adverse effect on TransCanada.

SCHEDULE C
REPRESENTATIONS AND WARRANTIES OF NOVA

1. Organization.

Each of NOVA and its Material Subsidiaries has been duly incorporated or formed under all applicable Laws, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as presently owned and conducted. All of the outstanding shares of capital stock and other ownership interests of its Subsidiaries are validly issued, fully paid and non-assessable and all such shares and other ownership interests owned directly or indirectly by NOVA are, except as disclosed in writing to TransCanada or pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholders, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly owned, (i) owned free and clear of all material liens, claims or encumbrances and (ii) there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of its Subsidiaries. NOVA currently indirectly owns 56.5% of each of Gasoducto GasAndes S.A. in Chile and Gasoducto GasAndes (Argentina) S.A. (the "GasAndes Pipeline Companies"). Each of Metrogas S.A. and Chilgener S.A. have a call option to acquire 5% of the GasAndes Pipeline Companies from NOVA at book value. There is no outside date to the call option but both Metrogas and Chilgener have verbally exercised their call options.

2. Capitalization.

The authorized capital of NOVA consists of: (a) an unlimited number of NOVA Common Shares without par value and (b) an unlimited number of preferred shares issuable in series of which 10,000,000 First Preferred Shares Series 1 and 10,000,000 First Preferred Shares Series 2 have been created. As of January 23, 1998 there were (a) 449,165,559 NOVA Common Shares outstanding and 21,509,884 NOVA Common Shares were reserved, in the aggregate, for issuance in respect of the following: Employee Incentive Stock Option Plan (1982), 20,146,475 NOVA Common Shares; Dividend Reinvestment and Share Purchase Plan, 1,075,809 NOVA Common Shares; Director Share Compensation Plan, 287,600 NOVA Common Shares; and (b) the following First Preferred Shares were outstanding: 8,000,000 Series 1 First Preferred Shares. Except as described in the immediately preceding sentence and other than the rights attaching to the Series 1 First Preferred Shares, the Series 2 First Preferred Shares and the rights under the NOVA Rights Plan (which rights under the NOVA Rights Plan are not exercisable), there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments obligating NOVA or any Subsidiary to issue or sell any shares of NOVA or any of its Subsidiaries or securities or obligations of any kind convertible into or exchangeable for any shares of NOVA, any Subsidiary or any other person, nor is there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of NOVA of the Subsidiary. There have been no NOVA Common Shares issued since January 23, 1998, other than pursuant to the exercise of stock option entitlements.

3. Authority.

NOVA has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by NOVA and the consummation by NOVA of the transactions contemplated by this Agreement have been duly authorized by the Board of Directors of NOVA and, subject to shareholder approval, no other corporate proceedings on the part of NOVA are necessary to authorize this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by NOVA and constitutes a valid and binding obligation of NOVA, enforceable against NOVA in accordance with its terms subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium, the Minimum Approvals and other applicable Laws relating to or affecting creditors' rights generally, to general principles of equity and public policy. Except as disclosed in writing to TransCanada on or prior to the date hereof and for Minimum Approvals, the execution and delivery by NOVA of this Agreement and performance by it of its obligations hereunder and the completion of the Arrangement and the transactions contemplated thereby, will not:

- (a) result in a violation or breach of, require any consent to be obtained under or give rise to any termination rights under any provision of:
 - (i) its or any Material Subsidiary's certificate of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder agreement or any other agreement or understanding with any Party holding an ownership interest in any Material Subsidiary;
 - (ii) any law, regulation, order, judgment or decree; or
 - (iii) any contract, agreement, license, franchise or permit to which NOVA or any Material Subsidiary is bound or is subject or is the beneficiary;
- (b) give rise to any right of termination or acceleration of indebtedness, or cause any third party indebtedness to come due before its stated maturity or cause any available credit to cease to be available; or
- (c) result in the imposition of any encumbrance, charge or lien upon any of its assets or the assets of any Material Subsidiary, or restrict, hinder, impair or limit the ability of NOVA or any Material Subsidiary to carry on the business of NOVA or any Material Subsidiary as and where it is now being carried on or as and where it may be carried on in the future;

which would individually or in the aggregate have a material adverse effect on NOVA.

4. Absence of Changes.

Since December 31, 1996, and except as has been previously disclosed in writing to the other Party hereto or has been publicly disclosed prior to the date hereof in any document filed with the Alberta Securities Commission (the "Securities Authorities") (i) NOVA has conducted its business only in the ordinary and regular course of business consistent with past practice, (ii) other than in the ordinary and regular course of business consistent with past practice, no liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) which would individually or in the aggregate be material to NOVA have been incurred, (iii) there has not been any material change in the affairs of NOVA as defined under the Securities Act (Alberta) financial condition, results of operations or business of NOVA (iv) as of the execution hereof, there are no material change reports filed with the Securities Authorities which remain confidential.

5. Employment Agreements.

- (a) Other than as disclosed in writing to TransCanada on or prior to the date hereof, or except as set forth in the proxy circular prepared in connection with the Annual Meeting of NOVA held in 1997, NOVA is not a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any senior executive of NOVA.
- (b) Other than as disclosed in writing to TransCanada on or prior to the date hereof, neither NOVA nor any Material Subsidiary is a party to any collective bargaining agreement nor subject to any application for certification or threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current, pending or threatened strikes or lockouts at either NOVA or any Material Subsidiary that would individually or in the aggregate have a material adverse effect.
- (c) Other than as disclosed in writing to TransCanada on or prior to the date hereof, neither NOVA nor any Material Subsidiary is subject to any claim for wrongful dismissal, constructive dismissal or any other tort claim, actual or threatened, or any litigation, actual or threatened, relating to employment or termination of employment of employees or independent contractors other than those claims or such litigation as would individually or in the aggregate not have a material adverse effect.
- (d) Other than as disclosed in writing to TransCanada on or prior to the date hereof or are not material, NOVA and all Material Subsidiaries have operated in accordance with all applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards,

occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or threatened proceedings before any board or tribunal with respect to any of the areas listed herein other than where the failure to so operate or such proceedings which, individually or in the aggregate would not have a material adverse effect.

6. Disclosure.

NOVA has publicly disclosed in documents filed with the Securities Authorities or disclosed to TransCanada in writing, on or prior to the date hereof, any information regarding any event, circumstance or action taken or failed to be taken which could individually or in the aggregate materially and adversely affect the business, operations, assets, capitalization, financial condition, prospects, rights or liabilities of or relating to NOVA and its Material Subsidiaries, taken as a whole.

7. Financial Statements.

The audited consolidated balance sheet and related consolidated statements of income and reinvested earnings and consolidated statement of cashflows of NOVA for the fiscal years ending December 31, 1996, 1995 and 1994, all as contained in NOVA's 1996 Annual Report, and the unaudited interim consolidated statements for the nine month period ended September 30, 1997, were prepared in accordance with generally accepted accounting principles in Canada consistently applied and fairly present the consolidated financial condition of NOVA at the respective dates indicated and the results of operations of NOVA (on a consolidated basis) for the years then ended.

8. Books and Records.

The corporate records and minute books of NOVA and the Material Subsidiaries have been maintained substantially in accordance with all applicable Laws and are complete and accurate in all material respects.

9. Litigation, etc.

Except as set forth or specifically reflected in any document filed with the Securities Authorities, or as disclosed in writing to TransCanada prior to the date hereof, there is no claim, action, proceeding or investigation pending or, to the knowledge of NOVA, threatened against or relating to NOVA or any Material Subsidiary or affecting any of their properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a material adverse effect on NOVA and its Material Subsidiaries, taken as a whole, or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement, nor is NOVA aware of any basis for any such claim, action, proceeding or investigation. Neither NOVA nor any Material Subsidiary is subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a material adverse effect or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement.

10. Environmental.

All operations of NOVA and its Material Subsidiaries, have been and are now, in compliance with all Environmental Laws, except where the failure to be in compliance would not individually or in the aggregate have a material adverse effect on NOVA. Except as has been disclosed in writing to TransCanada prior to the date hereof, neither NOVA nor any Material Subsidiary is aware of, or is subject to:

- (i) any proceeding, application, order or directive which relates to environmental health or safety matters, and which may require any material work, repairs, construction, or expenditures; or
- (ii) any demand or notice with respect to the breach of any Environmental Laws applicable to NOVA or any Subsidiary, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of Hazardous Substances;

which individually or in the aggregate would have a material adverse effect on NOVA.

11. **Insurance.**

Policies of insurance in force as of the date hereof naming NOVA as an insured adequately cover all risks reasonably and prudently foreseeable in the operation and conduct of the business of NOVA and the Material Subsidiaries for which, having regard to the nature of such risk and the relative costs of obtaining insurance, it is in the opinion of NOVA acting reasonably to seek such insurances rather than provide for self insurance. All such policies of insurance shall remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated hereby or by the Arrangement other than such cancellations as would not individually or in the aggregate have a material adverse effect.

12. **Tax Matters.**

- (a) **Returns Filed and Taxes Paid.** All Returns required to be filed by or on behalf of NOVA or any Material Subsidiaries have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. Except as disclosed in writing by NOVA to TransCanada prior to the date hereof, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by NOVA or any Material Subsidiaries with respect to items or periods covered by such Returns.
- (b) **Tax Reserves.** NOVA has paid or provided adequate accruals in its financial statements for the year ended dated December 31, 1996 and for the nine month period ended September 30, 1997 for Taxes, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada.
- (c) **Tax Deficiencies; Audits.** Except as has been disclosed in writing to TransCanada, no deficiencies exist or have been asserted with respect to Taxes of NOVA or any Material Subsidiary, neither NOVA nor any Material Subsidiary is a Party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against NOVA or any Material Subsidiary or any of their respective assets, except where such deficiencies, actions or proceedings are not material to NOVA or the Arrangement.
- (d) **Cost Basis.** The adjusted cost base of NOVA's interest in NGTL and NGI for the purposes of the Income Tax Act (Canada) and immediately prior to undertaking the Pre-Arrangements Steps, will not be less than the amounts disclosed in writing to TransCanada.

13. **Pension and Employee Benefits.**

- (a) Other than as disclosed in writing to TransCanada on or prior to the date hereof, NOVA has complied, in all material respects, with all the terms of and all applicable Laws in respect of the pension and other employee compensation and benefit obligations of NOVA and its Material Subsidiaries, including the terms of any collective agreements, funding and investment contracts or obligations applicable thereto, arising under or relating to each of the pension or retirement income plans or other employee compensation or benefit plans, agreements, policies, programs, arrangements or practices, whether written or oral, which are maintained by or binding upon NOVA or any of its Material Subsidiaries (collectively referred to as the "NOVA Plans") and all NOVA Plans are fully funded and in good standing with such regulatory authorities as may be applicable.
- (b) No step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could reasonably be expected to result in any NOVA Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable legislation refused or revoked, or being placed under the administration of any trustee or receiver or regulatory authority or being required to pay any material taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are pending or threatened in respect of any of the NOVA Plans or their assets which individually or in the aggregate would have a material adverse effect.

14. Property

Other than as disclosed in writing to TransCanada on or prior to the date hereof, NOVA and its Material Subsidiaries have good and sufficient title to the real property interests including, without limitation, fee simple estate of and in real property, leases, easements, rights of way, permits or licences from landowners or authorities permitting the use of land by NOVA and its Material Subsidiaries, necessary to permit the operation of its businesses as presently owned and conducted except as disclosed in writing to the other Party hereto and except for such failure of title that would individually or in the aggregate not have a material adverse effect on NOVA.

15. Reports.

NOVA has filed with the Securities Authorities, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1996 (such forms, reports, schedules, statements and other documents, including any financial statements or other documents, including any financial statements or schedules included therein, are referred to as the "NOVA Documents"). The NOVA Documents, at the time filed, (a) did not contain any misrepresentation and (b) complied in all material respects with the requirements of applicable securities legislation. NOVA has not filed any confidential material change report with any Securities Authorities which at the date hereof remains confidential.

16. Compliance with Laws.

Since December 31, 1996, and except as has been publicly disclosed prior to the date hereof in any document filed with the Securities Authorities, NOVA and its Material Subsidiaries have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would not individually or in the aggregate have a material adverse effect on NOVA.

17. Licenses, etc.

Except as disclosed in writing to TransCanada on or prior to the date hereof, NOVA and each of its Material Subsidiaries owns, possesses, or has obtained and is in compliance with, all licenses, permits (including permits required under Environmental Laws), certificates, costs, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as now conducted or as proposed to be conducted, the failure to own, possess, obtain or be in compliance with which would not individually or in the aggregate have a material adverse effect on NOVA.

18. Certain Contracts.

Except as disclosed in writing to TransCanada on or prior to the date hereof, neither NOVA nor any of its Material Subsidiaries is a party to or bound by any non-competition agreement or any other agreement or obligation which purports to limit the manner or the localities in which all or any material portion of the business of NOVA or its Material Subsidiaries is or would be conducted other than such contracts which individually or in the aggregate would not have a material adverse effect on NOVA.

SCHEDULE D GOVERNANCE ARRANGEMENTS

1. Senior Positions in Energyco and Chemco

The Board of Directors of each of Energyco and Chemco shall be equally divided between persons who were directors of NOVA Corporation (“NOVA”) prior to the Effective Date and persons who were directors of TransCanada PipeLines Limited (“TCPL”) prior to the Effective Date. The following would be the senior appointments of Energyco:

Chairman Emeritus:	Mr. Gerald Maier
Chairman:	Mr. Richard Haskayne
Vice Chairman:	Mr. Harry Schaefer
President and CEO:	Mr. George Watson

The following would be senior appointments of Chemco:

Chairman:	Mr. Ted Newall
Vice Chairman:	Mr. Gerald Maier
President and CEO:	Mr. Jeffrey Lipton

2. Transitional Arrangements

During the period from announcement of the transaction until its implementation following approval by shareholders and by the court, the *ad hoc* Committee of NOVA and TCPL will continue to function. They will work with senior executives of NOVA and TCPL and the persons designated to become the senior executives of Energyco and Chemco, and will arrive at the transitional plan, including management decisions to be implemented immediately upon completion of the transaction. The basic strategic and tactical decisions necessary so that Energyco and Chemco will become effective business operations as quickly as possible will be overseen by the *ad hoc* Committees working together and with the CEOs of NOVA and TCPL. The CEOs will carry general responsibility for transitional arrangements within the framework established by the *ad hoc* Committees.

It should be remembered that this transitional period is expected to last for three to seven months, or perhaps even longer. During this time, the businesses of NOVA and TCPL must continue to be operated separately, but decisions must be made as to their combined operations following completion of the transaction.

AMENDING AGREEMENT

THIS AMENDING AGREEMENT made the 19th day of May, 1998 BETWEEN:

TransCanada PipeLines Limited, a body corporate incorporated under the laws of Canada with its head office in the City of Calgary, in the Province of Alberta (hereinafter called "TransCanada")

AND

NOVA Corporation, a body corporate incorporated under the laws of the Province of Alberta with its head office in the City of Calgary, in the Province of Alberta (hereinafter called "NOVA")

WHEREAS TransCanada and NOVA entered into an Arrangement Agreement (the "Arrangement Agreement") dated January 24, 1998;

AND WHEREAS TransCanada and NOVA have agreed to certain technical amendments to such Arrangement Agreement and the Plan of Arrangement attached thereto;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto do hereby covenant and agree as follows:

1. The Arrangement Agreement shall be amended as follows:

(a) The definitions in Section 1.01 noted below shall be amended as follows:

"**ArrangeCo**" means 3399508 Canada Ltd., a wholly owned subsidiary of TransCanada;

"**Certificate of Amendment**" means a certificate of amendment issued to NOVA in respect of the Plan of Arrangement pursuant to the ABCA;

"**Certificate of Arrangement**" means collectively the certificates of arrangement issued to TransCanada and ArrangeCo in respect of the Plan of Arrangement pursuant to the CBCA;

"**Certificates**" means the Certificate of Arrangement and the Certificate of Amendment;

"**Chemical Business**" — delete the word 'immediately' and add the following at the end of the sentence: "and the Alberta Ethane Gathering System."

"**Chemical Employees**" — add the following at the end of the sentence — "including those individuals on short or long term disability or authorized leave from employment, whether paid or unpaid ("Employment Leave"), but excluding Continued Employees, Transferred Corporate Employees and Continued Corporate Employees."

"**Continued Employees**" means those individuals employed, as at the Effective Date, by NGTL, NGI or any of their Subsidiaries, including those individuals on Employment Leave, but excluding the Chemicals Employees, the Transferred Corporate Employees and the Continued Corporate Employees."

"**Energy Services Business**" — delete the word 'immediately' and add the following at the end of the sentence: "and the Alberta Ethane Gathering System."

"**Effective Date**" means the later of the effective dates as applicable, indicated upon the Certificates;

"**Joint Proxy Circular**" means that joint management information circular dated May 19, 1998 prepared by TransCanada and NOVA for the TransCanada Meeting and the NOVA Meeting.

"**TransCanada Preferred Shares**" "means the \$2.80 Cumulative Redeemable First Preferred Shares, the Cumulative Redeemable First Preferred Shares, Series O and Series P, and the Cumulative Redeemable Retractable First Preferred Shares, Series Q and Series R."

(b) Section 1.01 shall be amended to delete the words "which will be incorporated into the Joint Proxy Circular" from the definition of "Book Valuation Allocation" and to add at the end of that definition: "as contained in the Joint Proxy Circular, which the Parties agree results in the value of an asset or liability to be allocated pursuant to the Arrangement Agreement, being allocated as to 15% to NOVA and as to 85% to TransCanada".

- (c) Section 1.01 shall be amended to add to such section, a definition of “Effective Time” as follows:
“Effective Time” means 1800 hrs. (Mountain Daylight Savings Time) on the Effective Date.
- (d) Section 2.02 shall be amended to delete the provisions thereof and to substitute the following:
“The Arrangement shall be effective at the Effective Time on the Effective Date and the steps to be carried out pursuant to the Arrangement shall be effective at the Effective Time in the order set forth in the Plan of Arrangement. All references to “Effective Date” in this Agreement shall be references to the “Effective Time” on the Effective Date, except where the context requires otherwise.
- (e) Section 2.05 shall be amended to delete the provisions thereof and to substitute in lieu thereof the following:
“NOVA covenants and represents that its Board of Directors has resolved to take all action necessary in order to ensure that the Separation Time (as defined in the NOVA Shareholder Rights Plan) does not occur in connection with this Agreement or the Arrangement, and to recommend to the NOVA common shareholders that they approve an amendment to the NOVA Shareholders Rights Plan to ensure, for greater certainty, that the Arrangement does not inadvertently trigger the application of the NOVA Shareholder Rights Plan.
TransCanada covenants and represents that no action is necessary to ensure that the Separation Time (as defined in the TransCanada Shareholder Rights Plan) will not occur as a result of the execution and performance of this Agreement or the Arrangement.
- (f) Section 5.05 shall be amended to add “or as may be mutually agreed in writing hereafter” to the fifth line of subparagraph 5.05(a) after the words “in writing on the date hereof” and to the third line of subparagraph 5.05(c) after the words “of the Allocation Letter.”
- (g) Section 5.12(g) shall be amended to number the existing paragraph as subparagraph (i) and add the following as subparagraph 5.12(g) (ii):
(ii) NOVA shall retain liability for and shall pay all of the claims, costs and expenses, including damages, settlements or legal costs, if any, relating to the termination (“Termination Expenses”) of its corporate head office employees, if any, who do not receive offers of employment, or offers of continuation of employment, as the case may be, from one of the Parties. Notwithstanding the foregoing, Termination Expenses shall be shared between TransCanada and NOVA on a Book Value Allocation basis.”
- (h) Section 5.12(j) (i) shall be amended to delete the provisions and substitute in lieu thereof the following:
NOVA Stock Options — Subject to any regulatory or other required approvals, the outstanding employee and director stock options issued by NOVA will be exchanged as of the Effective Time based on the principle that the accrued benefit of such options will be preserved, without augmenting such benefit. NOVA will cancel and reissue adjusted replacement NOVA options and TransCanada will grant replacement TransCanada options to NOVA optionholders as at the Effective Time. The combined aggregate exercise cost for each of the replacement TransCanada options and NOVA options will be allocated between the replacement NOVA options and TransCanada options on a basis of an equal division of the option holder’s exercise cost so that the aggregate in-the-money value of the existing NOVA options will not be exceeded by the combined aggregate in-the-money value of the replacement TransCanada options and replacement NOVA options at the time of the exchange of the options while to the extent possible preserving the ratio of the exercise price to the fair market value of the shares subject to option as at the Effective Time and aggregate exercise cost to the option holder. NOVA will also amend or otherwise provide such relief under the NOVA Stock Option Plan as is necessary to allow the New TransCanada Employees to continue to hold NOVA options as if employed by NOVA until such time as they are required to exercise their TransCanada options. TransCanada agrees to make appropriate changes to or determinations under its option plan to permit NOVA employees to continue to hold TransCanada options until such time as they are required to exercise their NOVA options.
- (i) Section 5.12(j) (ii) shall be deleted.

- (j) Section 5.12(j)(iii) shall be deleted and replaced as follows (such subsection to be renumbered 5.12(j)(ii)):

TransCanada Stock Options — Subject to any regulatory or other required approvals, TransCanada may cancel and replace existing TransCanada options of TransCanada optionholders to reflect the Arrangement based on the principle that, as at the Effective Time, the accrued benefit of such options will be preserved, without augmenting such benefit. The adjustment will be made such that the aggregate in-the-money value of the existing TransCanada options will not be exceeded by the aggregate in-the-money value of the replacement TransCanada options at the time of the exchange of the options while to the extent possible preserving the ratio of the exercise price to the fair market value of the shares subject to option as of the Effective Date and the aggregate exercise cost to the option holder. TransCanada may also reduce the vesting period in respect of TransCanada options from five years to three years.

- (k) Section 5.12(j)(iv) shall be renumbered as Section 5.12(j)(iii).
- (l) Section 5.13(g) shall be deleted and the balance of the section be renumbered.
- (m) Section 5.13(i) and (j) as such exists prior to renumbering pursuant to this agreement shall be amended to add the following at the front of each such section: “Except as may be agreed in writing between NOVA and TransCanada,” and the word “For” at the beginning of each section shall be changed to “for”.
- (n) The Plan of Arrangement attached as Schedule A to the Arrangement Agreement shall be amended and restated in the form of the Plan of Arrangement attached to this Agreement as Exhibit A.
2. All capitalized terms herein shall have the meanings ascribed thereto in the Arrangement Agreement and all rules of interpretation in the provisions of Sections 1.02 through 1.11 of Article 1 of the Arrangement Agreement and the provisions of Sections 10.02, 10.03, 10.05, 10.06, 10.07, 10.08 and 10.09 of the Arrangement Agreement shall also be applicable to this Agreement.
3. This Agreement together with the provisions of the Arrangement Agreement and Confidentiality Agreement constitute the entire agreement between the parties hereto, and for greater certainty, other than as specifically provided in this Agreement, the provisions of the Arrangement Agreement and the Confidentiality Agreement remain in full force and effect and unamended.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

TRANSCANADA PIPELINES LIMITED

“Alison T. Love”
Per: Alison T. Love

“George W. Watson”
Per: George W. Watson

NOVA CORPORATION

“A.T. Poole”
Per: A.T. Poole

“J.S. Mustoe”
Per: J.S. Mustoe

EXHIBIT "A"

PLAN OF ARRANGEMENT

**under the *Canada Business Corporations Act*
and the *Business Corporations Act (Alberta)***

concerning

**TransCanada PipeLines Limited, 3399508 Canada Ltd. and
NOVA Corporation**

and

**the Holders of TransCanada PipeLines Limited Common Shares and
NOVA Corporation Common Shares and Preferred Shares**

May 19, 1998

Plan of Arrangement of TransCanada PipeLines Limited and 3399508 Canada Ltd.
under Section 192 of the
Canada Business Corporations Act

Plan of Arrangement of NOVA Corporation
under Section 186 of the
Business Corporations Act (Alberta)

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Plan of Arrangement, unless the context should otherwise require, the following terms have the following meanings:

“**ABCA**” means the *Business Corporations Act*, S.A. 1981, c. B-15, as amended;

“**Additional NOVA Common Shares**” means the NOVA Common Shares to be subscribed for by TransCanada and issued by NOVA pursuant to Section 3.2.8 of the Plan of Arrangement;

“**Aggregate Transaction Costs**” means the aggregate of the NOVA Transaction Costs and the TransCanada Transaction Costs;

“**Allocation Ratio**” means the fraction of which the numerator is the book value of the assets of NOVA as set forth in the pro forma financial statements for NOVA (which assume completion of the Arrangement) incorporated into the Joint Circular and the denominator is the aggregate of the book value of the assets of each of TransCanada and NOVA as set forth in the pro forma financial statements for each of TransCanada and NOVA (which assume completion of the Arrangement) incorporated in the Joint Circular and for greater certainty, the Parties agree that the fraction resulting from the foregoing is 15/100;

“**ArrangeCo**” means 3399508 Canada Ltd., a wholly-owned subsidiary of TransCanada;

“**ArrangeCo Common Shares**” means common shares in the capital of ArrangeCo;

“**Arrangement**” means the arrangement in respect of TransCanada and ArrangeCo under the provisions of section 192 of the CBCA and the arrangement in respect of NOVA under the provisions of section 186 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

“**Arrangement Agreement**” means the arrangement agreement dated January 24, 1998, as amended May 19, 1998, between TransCanada and NOVA and as may be amended from time to time;

“**Articles of Arrangement**” means the articles of arrangement in respect of the Arrangement in respect of TransCanada and ArrangeCo required by the CBCA to be sent to the Director and in respect of NOVA required by the ABCA to be sent to the Registrar, in each case, after the Final Order is made;

“**business day**” means any day, other than Saturday, Sunday and a statutory holiday in the Province of Alberta;

“**CBCA**” means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

“**Certificate of Amendment**” means a certificate of amendment issued to NOVA in respect of the Plan of Arrangement pursuant to the ABCA;

“**Certificate of Arrangement**” means collectively the certificates of arrangement issued to TransCanada and ArrangeCo in respect of the Plan of Arrangement pursuant to the CBCA;

“**Certificates**” means the Certificate of Arrangement and the Certificate of Amendment;

“**Court**” means the Court of Queen’s Bench of Alberta;

“**Depository**” means Montreal Trust Company of Canada, 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8;

“**Director**” means the Director appointed pursuant to Section 260 of the CBCA;

“**Effective Date**” means the later of the effective dates, as applicable, indicated upon the Certificates;

“**Effective Time**” means 1800 hrs. (Mountain Daylight Savings Time) on the Effective Date;

“**EnergyCo Common Shares**” means the new TransCanada Common Shares to be created and issued pursuant to this Plan of Arrangement, having the rights, privileges, restrictions and conditions set forth in Schedule A;

“**EnergyCo Preferred Shares**” means the new series of TransCanada Cumulative Redeemable First Preferred Shares, Series S to be issued pursuant to this Plan of Arrangement and having terms, privileges, restrictions and conditions as set forth in Schedule B;

“**Exchange Ratio**” with respect to the NOVA Common Shares means 0.52 TransCanada Common Shares for each NOVA Common Share;

“**Final Order**” means the order of the Court approving the Arrangement, as such order may be amended at any time prior to the Effective Time;

“**Holder**” means a Person who is the beneficial owner of Securities and “**Registered Holder**” means the person whose name appears on the register of the relevant Party as the owner of Securities;

“**Indebtedness for Borrowed Money**” means, without duplication, the full amount of all liabilities of NOVA for the repayment, either in money or in property, of borrowed money, as at the Effective Date, excluding, for greater certainty, any indebtedness of NOVA to its Subsidiaries, other than for amounts owing under NOVA’s intercompany cash management centre to its Subsidiaries;

“**Interim Order**” means the order of the Court as the same may be amended, containing declarations, orders and directions in respect of TransCanada and ArrangeCo under the CBCA and in respect of NOVA under the ABCA, in each case, with respect to the Arrangement;

“**Joint Circular**” means the joint management information circular dated May 19, 1998 prepared and sent to the TransCanada Common Shareholders and NOVA Shareholders in connection with the Meetings;

“**Meetings**” means the TransCanada Meeting and the NOVA Meeting;

“**NGI**” means NOVA Gas International Ltd., a Subsidiary of NOVA;

“**NGI Preferred Shares**” means the preferred shares in the capital of NGI;

“**NGTL**” means NOVA Gas Transmission Ltd., a Subsidiary of NOVA;

“**NGTL Preferred Shares**” means the preferred shares in the capital of NGTL;

“**NOVA**” means NOVA Corporation, a corporation incorporated under the ABCA;

“**NOVA Chemicals**” is the term used in this Plan to describe and distinguish NOVA Corporation, as it will be constituted after the step in Section 3.2.11, and thereafter, from NOVA Corporation as it is constituted prior to that step;

“**NOVA Chemicals Common Shares**” means the NOVA Common Shares as affected by this Plan of Arrangement and which are distributed by TransCanada as described in Section 3.2.16 of the Plan;

“**NOVA Common Shareholders**” means the holders of NOVA Common Shares;

“**NOVA Common Shares**” means the common shares in the capital of NOVA;

“**NOVA Meeting**” means such meetings of NOVA Shareholders as are required to be held in accordance with the Interim Order;

“**NOVA Preferred Shareholders**” means the holders of NOVA Preferred Shares;

“**NOVA Preferred Shares**” means the Cumulative Redeemable First Preferred Shares, Series 1, of NOVA;

“**NOVA Shareholders**” means the NOVA Common Shareholders and the NOVA Preferred Shareholders;

“**NOVA Shares**” means NOVA Common Shares and NOVA Preferred Shares;

“**NOVA Transaction Costs**” means the out-of-pocket third party costs incurred or estimated to be incurred by NOVA in respect of the Arrangement as determined in accordance with the Arrangement Agreement;

“**NOVA Tax Liability**” means the amount equal to the tax payable by NOVA on the disposition of the Pipe Holdco Shares to TransCanada, calculated utilizing the fair market value of such shares as determined on the Effective Date and assuming: (i) the use of any capital losses as may be permitted by the Tax Ruling (as defined in the Arrangement Agreement) or as agreed by the Parties and (ii) the use of any non-capital losses or net capital losses of NOVA and such other deductions as may be agreed by the Parties. The fair market value of the Pipe Holdco Shares for this purpose shall be equal to the aggregate redemption amount of the NGTL Preferred Shares and the NGI Preferred Shares, without reference to any price adjustment clause in the terms thereof;

“**Paid-Up Capital**” has the meaning assigned by Section 89(1) of the *Income Tax Act* (Canada);

“**Parties**” means TransCanada and NOVA; and “**Party**” means either one of them;

“**Person**” includes an individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

“**Pipe Holdco**” means 747978 Alberta Ltd., a wholly-owned Subsidiary of NOVA which will own all of the NGI Preferred Shares and NGTL Preferred Shares as at the Effective Time;

“**Pipe Holdco Shares**” means the common shares in the capital of Pipe Holdco;

“**Plan of Arrangement**” or “**Plan**” means this plan of arrangement dated May 19, 1998 and any amendment or variation thereto made in accordance with Section 6.4 hereof;

“**Pre-Arrangement Steps**” means the transactions undertaken by TransCanada, NOVA and their Subsidiaries in advance of the Arrangement and agreed to in writing by TransCanada and NOVA;

“**Registrar**” means the Registrar of Corporations appointed pursuant to Section 253 of the ABCA;

“**Securities**” means securities issued by TransCanada or NOVA, whether before or as part of this Plan of Arrangement;

“**Shareholders**” means the TransCanada Common Shareholders and the NOVA Shareholders;

“**Subscription Price**” means the amount equal to

(i) the aggregate of the NOVA Tax Liability and the NOVA Transaction Costs

minus

(ii) the product resulting from multiplying the Allocation Ratio by the aggregate of:

(A) the NOVA Tax Liability; and

(B) the Aggregate Transaction Costs;

plus

(iii) all Indebtedness for Borrowed Money of NOVA, to the extent that NOVA has not been released from liability therefrom;

and

(iv) an adjustment, if any, to the extent agreed upon by the Parties in writing prior to the Effective Date in respect of the allocation of certain NOVA assets and liabilities as contemplated under the Arrangement Agreement.

“**Subsidiary**” means, with respect to a specified body corporate, any body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the board of directors thereof (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) are at the time owned directly or indirectly by such specified body corporate and shall include any body corporate, partnership, joint venture or other entity over which it exercises direction or control or which is in a like relation to a Subsidiary;

“**TransCanada**” means TransCanada PipeLines Limited, a corporation incorporated under the CBCA;

“**TransCanada Common Shareholders**” means the holders of TransCanada Common Shares;

“**TransCanada Common Shares**” means common shares in the capital of TransCanada;

“**TransCanada Meeting**” means the meeting of TransCanada Common Shareholders as is required to be held in accordance with the Interim Order;

“**TransCanada Preferred Shareholders**” means the holders of TransCanada Preferred Shares;

“**TransCanada Preferred Shares**” means the TransCanada \$2.80 Cumulative Redeemable First Preferred Shares, the Cumulative Redeemable First Preferred Shares, Series O and Series P, and the Cumulative Redeemable Retractable First Preferred Shares, Series Q, and Series R; and

“**TransCanada Transaction Costs**” means the out-of-pocket third party costs incurred or estimated to be incurred by TransCanada in respect of the Arrangement as determined in accordance with the Arrangement Agreement.

1.2 Interpretation Not Affected by Headings

The division of this Plan into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan.

1.3 Article References

Unless the contrary intention appears, references in this Plan to an Article, Section, subsection, paragraph or Schedule by number or letter or both refer to the Article, Section, subsection, paragraph or Schedule, respectively, bearing that designation in this Plan.

1.4 Number and Gender

In this Plan, unless the contrary intention appears, words importing the singular include the plural and vice versa; words importing gender shall include all genders; and words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any governmental agency, political subdivision or instrumentality thereof).

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.6 Currency

Unless otherwise stated, all references in this Plan to sums of money are expressed in lawful money of Canada.

1.7 Schedules

The following schedules are incorporated into and form part of this Plan of Arrangement:

Schedule A: EnergyCo Common Share Terms

Schedule B: EnergyCo Preferred Share Terms

Schedule C: Directors of TransCanada as a result of the Plan of Arrangement
Schedule D: Directors of NOVA Chemicals as a result of the Plan of Arrangement

1.8 Governing Law

This Plan of Arrangement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

1.9 Payments

Any payments to be made hereunder, including payments or exchanges of Securities, shall be made without interest and less any tax required by law to be deducted and withheld.

ARTICLE 2 PURPOSE AND EFFECT OF THE PLAN OF ARRANGEMENT

- 2.1 This Plan of Arrangement is made pursuant to and subject to the provisions of the Arrangement Agreement. The following is only intended as a general statement of the purpose of this Plan of Arrangement and is qualified in its entirety by the specific provisions of this Plan of Arrangement. The purpose of the Plan is to effect a merger of equals between TransCanada and NOVA including a combination of the energy services businesses of TransCanada and NOVA for the benefit of the TransCanada shareholders and the NOVA Shareholders and to effect the split off of the chemicals business of NOVA to the TransCanada Common Shareholders and NOVA Common Shareholders as a public company.
- 2.2 This Plan of Arrangement will, upon filing of the Articles of Arrangement and the issuance of the Certificates, become effective in the sequence set out in Section 3.2 (except as otherwise provided therein) and be binding from and after the Effective Time.
- 2.3 The implementation of this Plan of Arrangement is expressly subject to the fulfillment and/or waiver (by the Party or Parties entitled) of the conditions precedent set out in the Arrangement Agreement.

ARTICLE 3 THE ARRANGEMENT

- 3.1 As at the Effective Time, each of the events described in Section 3.2 shall occur and shall be deemed to occur in the sequence and at the times set out therein (except as otherwise provided below) without any further authorization of any of the Persons referred to in Section 2 or any further act or formality.
- 3.2 At the Effective Time, the following shall occur in the following sequence (except as otherwise provided below):
 - 3.2.0 The amendments to the shareholder rights plan of NOVA, presented to the NOVA Shareholders at the NOVA Meeting will become effective.
 - 3.2.1 All right, title and interest of the NOVA Common Shareholders in the NOVA Common Shares, free and clear of any encumbrances, shall be directly transferred and assigned to ArrangeCo, acting as principal, in consideration for TransCanada Common Shares issued by TransCanada to NOVA Common Shareholders, on the basis of the Exchange Ratio, so that ArrangeCo shall be the registered and beneficial owner of all NOVA Common Shares. ArrangeCo will issue one ArrangeCo Common Share to TransCanada for each TransCanada Common Share issued by TransCanada to a NOVA Common Shareholder hereunder.
 - 3.2.2 All right, title and interest of the NOVA Preferred Shareholders in the NOVA Preferred Shares, free and clear of any encumbrances, shall be transferred and assigned to TransCanada in exchange for EnergyCo Preferred Shares issued by TransCanada, on the basis of 0.5 of an EnergyCo Preferred Share for each NOVA Preferred Share, so that TransCanada shall be the registered and beneficial owner of all of the NOVA Preferred Shares.

- 3.2.3 TransCanada shall transfer the NOVA Preferred Shares to ArrangeCo in exchange for ArrangeCo Common Shares with a fair market value equal to the fair market value of the NOVA Preferred Shares.
- 3.2.4 ArrangeCo shall transfer and assign its right, title and interest in the NOVA Preferred Shares to NOVA for cancellation, and such shares shall be cancelled and NOVA will issue NOVA Common Shares to ArrangeCo with a fair market value equal to the fair market value of the NOVA Preferred Shares.
- 3.2.5 ArrangeCo shall commence winding up and dissolution in accordance with subsection 88(1) of the *Income Tax Act* (Canada) and the provisions of the CBCA and, in connection with and as a consequence of the commencement of the winding up and dissolution, all of the assets, rights and properties of ArrangeCo, including the NOVA Common Shares, will be distributed, transferred and conveyed to TransCanada so that TransCanada shall be the registered and beneficial owner of all NOVA Common Shares and all the liabilities and obligations of ArrangeCo will be assumed by TransCanada
- 3.2.6 TransCanada, as sole registered and beneficial owner of all of the NOVA Common Shares, shall adopt a unanimous shareholders declaration with NOVA and will thereby assume all of the powers of the directors of NOVA (the "USA").
- 3.2.7 All right, title and interest of NOVA in the Pipe Holdco Shares shall be transferred and assigned to TransCanada, free and clear of any encumbrances, in exchange for a non-interest bearing demand promissory note of TransCanada (the "Note") with a principal amount equal to the aggregate of the redemption amount in respect of all of the NGTL Preferred Shares and all of the NGI Preferred Shares.
- 3.2.8 TransCanada shall subscribe for the Additional NOVA Common Shares with a fair market value equal to the Subscription Price and shall pay to NOVA the Subscription Price in respect thereof, against which NOVA shall issue the Additional NOVA Common Shares to TransCanada.
- 3.2.9 NOVA shall declare a dividend to TransCanada, as the registered and beneficial owner of all of the NOVA Common Shares, in an amount equal to the principal amount of the Note (the "Dividend"). Such Dividend shall be concurrently paid by the issuance by NOVA of a demand, non-interest bearing promissory note (the "First Dividend Note") to TransCanada.
- 3.2.10 The Note shall be set off against the First Dividend Note, and the liability of TransCanada under the Note and the liability of NOVA under the First Dividend Note shall be satisfied in full. The Note and the First Dividend Note shall be cancelled.
- 3.2.11 Concurrently with the declaration and payment of the Dividend referred to in Section 3.2.9, the Articles of NOVA shall be amended to consolidate the number of NOVA Common Shares into a number of NOVA Common Shares equal to one-fifth of the number of TransCanada Common Shares outstanding in accordance with the Plan after the issue of TransCanada Common Shares pursuant to Section 3.2.1 and excluding shares in respect of which a dissent right is perfected.
- 3.2.12 NOVA Chemicals shall declare a dividend to TransCanada on the NOVA Chemicals Common Shares in an amount equal to the amount, if any, by which any loss realized by TransCanada on the disposition of the NOVA Chemicals Common Shares in accordance with Section 3.2.16, as determined for purposes of the *Income Tax Act* (Canada) without reference to subsection 112(3) thereof, would exceed the amount of the Dividend described in Section 3.2.9. Such dividend shall be concurrently paid by the issuance of a demand, non-interest bearing promissory note by NOVA Chemicals (the "Second Dividend Note") to TransCanada.
- 3.2.13 TransCanada shall forgive the payment of the Second Dividend Note by NOVA Chemicals, and the Second Dividend Note shall be cancelled, without any payment being made by NOVA Chemicals.
- 3.2.14 The Articles of TransCanada shall be amended to create the EnergyCo Common Shares.
- 3.2.15 The USA shall be terminated.

- 3.2.16 All right, title and interest of the TransCanada Common Shareholders, including those persons who became TransCanada Common Shareholders pursuant to Section 3.2.1., in the TransCanada Common Shares shall be surrendered to TransCanada for cancellation, and such shares shall be cancelled by TransCanada, and in exchange therefor, each TransCanada Common Shareholder will receive from TransCanada one-fifth of a NOVA Chemicals Common Share and one EnergyCo Common Share for each TransCanada Common Share surrendered and cancelled.
- 3.2.17 The directors of TransCanada shall be replaced with those persons set forth in Schedule C.
- 3.2.18 The directors of NOVA Chemicals shall be replaced with those persons set forth in Schedule D.
- 3.3 The stated capital accounts maintained in respect of the Securities issued hereunder, at the respective times that such Securities are issued, shall be dealt with as follows:
- 3.3.1 The amount added for stated capital for the TransCanada Common Shares in respect of the TransCanada Common Shares issued to the NOVA Common Shareholders pursuant to Section 3.2.1 and the amount added for stated capital for the ArrangeCo Common Shares issued to TransCanada pursuant to Section 3.2.1, shall each be equal to the fair market value of the NOVA Common Shares at the time of the exchanges referred to in Section 3.2.1.
- 3.3.2 The amount added for stated capital for the EnergyCo Preferred Shares in respect of the EnergyCo Preferred Shares issued to the NOVA Preferred Shareholders pursuant to Section 3.2.2, shall be equal to the Paid-Up Capital of the NOVA Preferred Shares immediately prior to the exchange referred to in Section 3.2.2.
- 3.3.3 The amount added for stated capital for the ArrangeCo Common Shares in respect of the ArrangeCo Common Shares issued to TransCanada pursuant to Section 3.2.3 shall be equal to the fair market value of the NOVA Preferred Shares immediately before the time of the exchange referred to in Section 3.2.3.
- 3.3.4 The amount added for stated capital for the NOVA Common Shares in respect of the NOVA Common Shares issued to ArrangeCo pursuant to Section 3.2.4 shall be equal to the Paid-Up Capital of the NOVA Preferred Shares immediately prior to the exchange referred to in Section 3.2.4.
- 3.3.5 The amount added for stated capital for the NOVA Common Shares in respect of the NOVA Common Shares issued to TransCanada pursuant to Section 3.2.8 shall be equal to the Subscription Price.
- 3.3.6 The amount added for stated capital for the EnergyCo Common Shares in respect of the EnergyCo Common Shares issued to TransCanada Common Shareholders pursuant to Section 3.2.16 shall be equal to the Paid-Up Capital of the TransCanada Common Shares immediately prior to the exchange set forth in Section 3.2.16, less the aggregate fair market value of the NOVA Chemicals Common Shares distributed pursuant to Section 3.2.16.
- 3.3.7 In the case of stated capital of any Securities in respect of which fractional interests are not issued, the amount of stated capital attributable to such Securities will be reduced by the amount of cash paid in lieu of issuance of such fractional Securities.

ARTICLE 4 RIGHTS OF DISSENT

- 4.1 Registered Holders of NOVA Shares may exercise rights of dissent in connection with the Plan in the manner set forth in section 184 of the ABCA (as modified by the Interim Order, the Final Order and this Section 4.1) as if that section (as modified) was applicable to such Registered Holders. Registered Holders of NOVA Shares who:
- 4.1.1 are ultimately entitled to be paid fair value for their NOVA Shares shall be deemed to have transferred their NOVA Shares to NOVA for cancellation at the Effective Time prior to any of the steps described in Section 3.2; or

- 4.1.2 are ultimately not entitled to be paid fair value, for any reason, for their NOVA Shares shall be deemed to have participated in the Plan on the same basis as any non-dissenting Registered Holder as at and from the Effective Time and shall receive Securities on the basis set forth in Article 3.
- 4.2 Registered Holders of TransCanada Common Shares may exercise rights of dissent in connection with the Plan in the manner set forth in section 190 of the CBCA (as modified by the Interim Order, the Final Order and this Section 4.1) as if that section (as modified) was applicable to such Registered Holders. Registered Holders of TransCanada Common Shares who:
- 4.2.1 are ultimately entitled to be paid fair value for their TransCanada Common Shares shall be deemed to have transferred their TransCanada Common Shares to TransCanada for cancellation at the Effective Time prior to any of the steps described in Section 3.2; or
- 4.2.2 are ultimately not entitled to be paid fair value, for any reason, for their TransCanada Common Shares shall be deemed to have participated in the Plan on the same basis as any non-dissenting Holder as at and from the Effective Time and shall receive Securities on the basis set forth in Article 3.
- 4.3 In no circumstances shall any person be required to recognize a person exercising the rights set out in Section 4.1 or 4.2 as Registered Holders or Holders of NOVA Shares, NOVA Chemicals Common Shares, TransCanada Common Shares, EnergyCo. Common Shares or EnergyCo. Preferred Shares, as the case may be.

ARTICLE 5
CERTIFICATES; FRACTIONAL SECURITIES

- 5.1 From and after the Effective Time, certificates formerly representing TransCanada Common Shares shall represent and be deemed to represent EnergyCo Common Shares.
- 5.2 From and after the Effective Time, certificates formerly representing NOVA Preferred Shares shall cease to represent such shares and shall represent only the right to receive from TransCanada certificates representing EnergyCo Preferred Shares in accordance with the Plan, subject to compliance with the provisions of Section 5.3 hereof.
- 5.3 Holders of NOVA Preferred Shares at the Effective Time shall be entitled to receive the certificates representing the EnergyCo Preferred Shares to which such Holder is entitled pursuant to the provisions hereof as soon as practicable after the Effective Date upon delivery to TransCanada or the Depository of a duly completed letter of transmittal and the certificates formerly representing NOVA Preferred Shares. The Depository shall register and make available or send certificates representing EnergyCo Preferred Shares as directed in each properly completed letter of transmittal. Notwithstanding any of the other provisions hereof, any certificate which immediately prior to the Effective Time represented outstanding NOVA Preferred Shares that were exchanged pursuant to Section 3.2.2 shall cease to represent a claim or interest of any kind or nature against NOVA and, if it has not been surrendered with all other instruments required by this Section 5.3 on or prior to the sixth anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature against TransCanada. In such circumstances, the Person ultimately entitled to any certificate hereunder shall be deemed to have surrendered such entitlement to TransCanada together with all entitlement to dividends, distributions and cash for fractional interest thereon held for such former Holder for no consideration.
- 5.4 From and after the Effective Time, certificates formerly representing NOVA Common Shares shall cease to represent such shares and shall represent only the right to receive from TransCanada certificates representing EnergyCo Common Shares in accordance with the provisions of Section 5.5 hereof.
- 5.5 Holders of NOVA Common Shares at the Effective Time shall be entitled to receive the certificates representing the EnergyCo Common Shares to which such Holder is entitled pursuant to the provisions hereof as soon as practicable after the Effective Date upon delivery to TransCanada or the Depository of a duly completed letter of transmittal and the certificates formerly representing NOVA Common Shares. The Depository shall register and make available or send certificates representing EnergyCo Common Shares as directed in each properly completed letter of transmittal. Notwithstanding any of the other provisions

hereof, any certificate which immediately prior to the Effective Time represented outstanding NOVA Common Shares that were exchanged pursuant to Section 3.2.1 shall cease to represent a claim or interest of any kind or nature against NOVA and, if it has not been surrendered with all other instruments required by this Section 5.5 on or prior to the sixth anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature against TransCanada. In such circumstances, the Person ultimately entitled to any certificate hereunder shall be deemed to have surrendered such entitlement to TransCanada, as applicable, together with all entitlement to dividends, distributions and cash for fractional interest thereon held for such former Holder for no consideration.

- 5.6 As soon as practicable after the record date for distribution of certificates representing NOVA Chemicals Common Shares, TransCanada shall register and make available or send to each Registered Holder of TransCanada Common Shares at the Effective Time (including NOVA Common Shareholders who become TransCanada Common Shareholders at the Effective Time pursuant to the provisions hereof) to the extent that the name of and the address of such holder appears on the relevant share register at such record date, certificates representing the NOVA Chemicals Common Shares to which such holder is entitled pursuant to the provisions hereof. Only transfers of TransCanada Common Shares effected on or before the Effective Time will be recorded on the share register of TransCanada on or prior to such record date. NOVA Common Shareholders of record at the Effective Time, who have not disposed of their interests at such time will, without further action on their part, be registered as shareholders of record of TransCanada for the purposes of the distribution of certificates representing the NOVA Chemicals Common Shares issued to TransCanada Common Shareholders under the Arrangement. Purchasers of EnergyCo Common Shares and NOVA Chemicals Common Shares after the Effective Time will not become holders of record of TransCanada for the purposes of receiving the certificates representing the NOVA Chemicals Common Shares.
- 5.7 No certificates or scrip representing fractional EnergyCo Common Shares or EnergyCo Preferred Shares shall be issued and no dividend, stock split or other change in the capital structure of TransCanada shall relate to any such fractional security and such fractional interests shall not entitle the owner thereof to vote or to exercise any rights as a security holder of TransCanada. In lieu of the issue of certificates representing fractional EnergyCo Common Shares, each person except participants in the TransCanada Dividend Reinvestment and Savings Plan (the "TransCanada DRP") entitled to a fractional interest in an EnergyCo Common Share will receive from TransCanada an amount of cash (rounded to the nearest whole cent) equal to the product obtained when such fraction is multiplied by the weighted average trading price for EnergyCo Common Shares on the Toronto Stock Exchange over the first three days on which the EnergyCo Common Shares trade on such exchange. Such amount to be paid as soon as practicable thereafter. Participants in the TransCanada DRP shall have fractional interests recorded in their accounts on an uncertificated basis. In lieu of the issue of certificates representing fractional EnergyCo Preferred Shares, each person entitled to a fractional interest in an EnergyCo Preferred Share will receive from TransCanada an amount of cash equal to the redemption amount multiplied by such fraction plus a proportionate share of the accumulated but undeclared dividends to the Effective Date as if such shares had been issued on May 1, 1998.
- 5.8 No certificates or scrip representing fractional NOVA Chemicals Common Shares shall be distributed and no dividend, stock split or other change in the capital structure of NOVA Chemicals shall relate to any such fractional security and such fractional interests shall not entitle the owner thereof to vote or to exercise any rights as a security holder of NOVA Chemicals. In lieu of the issue of certificates representing fractional NOVA Chemicals Common Shares, each person entitled to a fractional interest in a NOVA Chemicals Common Share will receive an amount of cash (rounded to the nearest whole cent) equal to the product obtained when such fraction is multiplied by the weighted average trading price for NOVA Chemicals Common Shares on the Toronto Stock Exchange over the first three days on which the NOVA Chemicals Common Shares trade on such exchange. Such amount will be subject to any withholding required by law and will be paid by NOVA Chemicals as soon as practicable thereafter. Any fractional interests shall be cancelled.

ARTICLE 6 GENERAL

6.1 Jurisdiction

No portion of this Plan of Arrangement shall take effect with respect to any Party or Person until the Effective Time.

6.2 Paramourty

From and after the Effective Time (i) this Plan of Arrangement shall take precedence and priority over any and all Securities issued prior to the Effective Time; (ii) the rights and obligations of the Registered Holders, Holders, any trustee and transfer agent therefor and the Parties shall be solely as provided for in this Plan of Arrangement and (iii) all actions, causes of action, claims or proceedings (actual or contingent, and whether or not previously asserted) based on or in any way relating to any Securities shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.

6.3 Different Capacities

If any Holder holds more than one type or class or series of Securities, such Holder has all rights given to the Holders of each particular type, class or series so held, and may participate in each separate capacity. Nothing done by a Holder in one capacity affects the Holder in another capacity, unless expressly agreed in writing.

6.4 Plan of Arrangement Amendment

The Parties reserve the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time provided that (a) any such amendment, modification or supplement must be contained in a written document which is (i) agreed to by the Parties pursuant to the Arrangement Agreement, (ii) filed with the Court and, if made following the Meetings, approved by the Court and (iii) if so required, communicated to Shareholders in the manner required by the Court, or (b) such amendment reflects the agreement of the Parties pursuant to the definition of "NOVA Tax Liability" and "Subscription Price" in Section 1.1 hereof.

Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Parties at any time prior to or at the Meetings, with or without any prior notice or communication, and if so proposed and accepted by the persons voting at the Meetings (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.

Any amendment, modification or supplement to this Plan of Arrangement which is approved by the Court following the Meetings shall be effective only if it is agreed to by the Parties pursuant to the Arrangement Agreement.

Any amendment, modification or supplement to this Plan of Arrangement may be made unilaterally by the Parties after the Effective Date without the approval of the Shareholders, provided that (i) it is agreed to by the Parties pursuant to the Arrangement Agreement; (ii) it concerns a matter which, in the reasonable opinion of the Parties, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the financial or economic interests of any class of the Shareholders.

6.5 Termination

At any time up until the time the Final Order is made, the Parties may mutually determine not to proceed with this Plan of Arrangement, or to terminate this Plan of Arrangement, notwithstanding any prior approvals given at any of the Meetings. In addition to the foregoing, this Plan of Arrangement shall automatically, without notice, terminate immediately and be of no further force or effect, upon the termination of the Arrangement Agreement in accordance with its terms.

6.6 Further Assurances

Notwithstanding that the transactions and events set out in this Plan of Arrangement shall occur and be deemed to occur in the order set out herein without any additional act or formality, each of the persons affected hereby shall make, do and execute, or cause to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by the Parties in order to better implement this Plan of Arrangement.

6.7 Notices

Any notices or communication to be made or given hereunder shall be in writing and shall refer to this Plan of Arrangement and may, subject as hereinafter provided, be made or given by the person making or giving it or by any agent of such Person authorized for that purpose by personal delivery, by prepaid mail or by telecopier addressed to the respective parties as follows:

- | | |
|--|---|
| (i) if to TransCanada: | if to NOVA: |
| TransCanada PipeLines Tower
111 - 5th Avenue S.W.
Calgary, Alberta
T2P 3Y6
Attention: R.A.M. Young Q.C.,
Senior Vice President, Law
Telecopier: (403) 267-8510 | 3600, 801 - 7th Avenue S.W.
Calgary, Alberta
T2P 2N6

Attention: Jack S. Mustoe,
Senior Vice President and General Counsel
Telecopier: (403) 290-6135 |
| (ii) if to a Shareholder: | |
| to the last known address for such Shareholder as shown on the books maintained by the transfer agent of each Party; | |

or to such other address as any such Person may from time to time notify the others in accordance with this Section. In the event of any strike, lock-out or other event which interrupts postal service in any part of Canada, all notices and communications during such interruption may only be given or made by personal delivery or by telecopier, and any notice or other communication given or made by prepaid mail prior to the third (3rd) business day immediately preceding the commencement of such interruptions shall be deemed to have been given or made. All such notices and communications shall be deemed to have been received, in the case of notice by telecopier or by delivery, on the day of such transmission or delivery and, in the case of notice mailed as aforesaid, on the third (3rd) business day following the date on which such notice or other communication is mailed. Accidental failure or omission by the Parties to give a notice contemplated hereunder to any particular Holder, or events beyond the reasonable control of the Parties (including inability to utilize postal services and/or transmission interruptions) shall not invalidate the subject matter for which the notice was intended, this Plan of Arrangement or any action taken by any Person pursuant to this Plan of Arrangement, but if any such failure or omission is brought to the attention of the Parties, it shall be rectified by the Parties by the method and in the time most reasonably practicable in the circumstances.

SCHEDULE "A"

ENERGYCO. COMMON SHARE TERMS

The common shares of the Corporation shall entitle the holders thereof to one vote at all meetings of shareholders, except meetings at which only holders of another specified class of shares are entitled to vote, and shall, subject to the rights, privileges, restrictions and conditions attaching to the \$2.80 Cumulative Redeemable Preferred Shares, the Cumulative Redeemable First Preferred Shares and the Cumulative Redeemable Second Preferred Shares, whether as a class or a series, and to any other class or series of shares of the Corporation which rank prior to the common shares, entitle the holders thereof to receive (i) dividends if, as and when declared by the Board of Directors of the Corporation out of the assets of the Corporation properly applicable to the payment of dividends in such amount and payable at such times and at such place or places as the Board of Directors may from time to time determine and (ii) the remaining property of the Corporation upon a dissolution.

SCHEDULE "B"

ENERGYCO. PREFERRED SHARE TERMS

CUMULATIVE REDEEMABLE FIRST PREFERRED SHARES SERIES S

The Cumulative Redeemable First Preferred Shares Series S (herein called the "First Preferred Shares Series S") shall, in addition to the rights, privileges, restrictions and conditions attaching to the Cumulative Redeemable First Preferred Shares as a class (collectively and respectively the "Cumulative Preferred Shares Class Provisions" and the "Cumulative Preferred Shares") carry and be subject to the following rights, privileges, restrictions and conditions (collectively, the "First Preferred Shares Series S Provisions"):

Dividends

1.1 General: The holders of the First Preferred Shares Series S shall be entitled to receive and the Corporation shall pay thereon, as and when declared by the board of directors out of the monies of the Corporation properly applicable to the payment of dividends, fixed cumulative preferential cash dividends at the rates and times herein provided. Dividends on the First Preferred Shares Series S shall, subject to declaration by the Board of Directors, be payable quarterly, in arrears, during the Fixed Rate Period and monthly, in arrears, during the Floating Rate Period.

Cheques of the Corporation drawn on a Canadian chartered bank and payable at par at any branch of such bank in Canada shall be issued in respect of such dividends to the holders of First Preferred Shares Series S entitled thereto. The mailing of such cheques to the registered holders of First Preferred Shares Series S shall be deemed to be payment and shall satisfy and discharge all liability for such dividends to the extent of the amounts represented thereby (plus any tax required to be and in fact deducted or withheld therefrom), unless such cheques are not paid on due presentation. If on any Dividend Payment Date dividends payable on such date are not paid in full on all First Preferred Shares Series S then outstanding, such dividends or the unpaid part thereof shall be paid on a subsequent date or dates determined by the Board of Directors on which the Corporation shall have sufficient monies properly applicable to the payment of the same. The holders of First Preferred Shares Series S shall not be entitled to any dividends other than or in excess of the cash dividends herein provided for. A dividend which is represented by a cheque which has not been duly presented for payment within six years after it was issued or that otherwise remains unclaimed for a period of six years from the date on which it was declared to be payable and set apart for payment shall be forfeited to the Corporation.

1.2 Fixed Rate Period: During the Fixed Rate Period, the dividends in respect of First Preferred Shares Series S shall, subject to declaration by the Board of Directors, accrue from the date of issue until July 31, 1998, and thereafter quarterly, and in each case be payable fifteen days in arrears, in an amount equal to \$0.64375 per First Preferred Shares Series S for the period from the date of issue until the end of the first Dividend Payment Date, and thereafter at the Annual Fixed Dividend Rate. Accordingly, on each Dividend Payment Date during the Fixed Rate Period, including May 15, 2002, the dividend payable shall be \$0.64375 per First Preferred Share Series S.

Subject to the declaration of the dividend by the Board of Directors, the record date for the purpose of determining holders of First Preferred Shares Series S entitled to receive dividends on each Dividend Payment Date during the Fixed Rate Period shall be the last Trading Day of the next preceding Dividend Period. For greater certainty, the record date for the purpose of determining holders of First Preferred Shares Series S entitled to receive dividends on the first Dividend Payment Date following the date of issue shall be July 31, 1998. In the event of the redemption or purchase of the First Preferred Shares Series S during the Fixed Rate Period or the distribution of the assets of the Corporation during the Fixed Rate Period as contemplated by Article 2 hereof, the amount of the dividend which has accrued during the Dividend Period in which such redemption, purchase or distribution occurs shall be the amount (rounded to the nearest one-thousandth (1/1000) of one cent) calculated by multiplying:

- (i) a fraction, the numerator of which is the number of days elapsed in the Dividend Period in which such redemption, purchase or distribution occurs up to but not including the date of such event and the denominator of which is the number of days in that Dividend Period

by

- (ii) \$0.64375.

1.3 Floating Rate Period: During the Floating Rate Period, the dividends in respect of the First Preferred Shares Series S shall, subject to declaration by the Board of Directors, be payable monthly on the basis per annum of the Annual Floating Dividend Rate as calculated from time to time. Accordingly, on each Dividend Payment Date during the Floating Rate Period, the dividend payable on the First Preferred Shares Series S shall be that amount (rounded to the nearest one-thousandth (1/1000) of one cent) obtained by multiplying \$50.00 by the Annual Floating Dividend Rate applicable to the Month preceding such Dividend Payment Date and by dividing the product thereof by twelve. Subject to declaration of the dividend by the Board of Directors, the record date for the purpose of determining holders of First Preferred Shares Series S entitled to receive dividends on each Dividend Payment Date during the Floating Rate Period shall be the last Trading Day of the next preceding Month. In the event of the redemption or purchase of the First Preferred Shares Series S during the Floating Rate Period or the distribution of the assets of the Corporation during the Floating Rate Period as contemplated by Article 2 hereof, the amount of the dividend which has accrued during the Month in which such redemption, purchase or distribution occurs shall be the amount (rounded to the nearest one-thousandth (1/1000) of one cent) calculated by multiplying:

- (i) a fraction, the numerator of which is the number of days elapsed in the Month in which such redemption, purchase or distribution occurs up to but not including the date of such event and the denominator of which is the number of days in that Month

by

- (ii) the amount obtained by multiplying \$50.00 by one-twelfth of the Annual Floating Dividend Rate applicable to the preceding Month.

1.4 Calculation of Designated Percentage: The Corporation shall as promptly as practicable calculate the Designated Percentage for each Month and give notice thereof to all stock exchanges in Canada on which the First Preferred Shares Series S are listed for trading or, if the First Preferred Shares Series S are not listed on a stock exchange in Canada, to the Investment Dealers Association of Canada or by publication once in the national edition of the Globe and Mail in the English language and once in the City of Montreal in both the French and English languages in a daily newspaper of general circulation in Montreal, provided that if any such newspaper is not being generally circulated at that time, such notice shall be published in another equivalent publication.

Liquidation, Dissolution or Winding-Up

2. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the First Preferred Shares Series S, in accordance with the Cumulative Preferred Shares Class Provisions, shall be entitled to receive in lawful money of Canada \$50.00 per First Preferred Share Series S together with an amount equal to all accrued and unpaid dividends thereon, whether or not declared, calculated to but excluding the date of payment or distribution, the whole to be paid before any amount is paid or any property or assets of the Corporation are distributed to the holders of the common shares or to the holders of any shares ranking junior to the First Preferred Shares Series S. Upon payment to the holders of the First Preferred Shares Series S of the amount so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Corporation.

Redemption at the Option of the Corporation

3.1 Right of Redemption: The Corporation may not redeem any of the First Preferred Shares Series S prior to May 1, 2002. Subject to applicable law and Article 5 hereof, upon giving notice as hereinafter provided, the Corporation may: (i) on May 1, 2002 and May 1 in every fifth year thereafter redeem all, but not less than all, of the outstanding First Preferred Shares Series S, on payment of \$50.00 for each such share to be redeemed; and (ii) at any other time subsequent to May 1, 2002, redeem all, but not less than all, of the outstanding First Preferred Shares Series S, on payment of \$51.00 for each such share to be redeemed; in each case, together with

accrued and unpaid cumulative preferred dividends thereon, whether or not declared, calculated up to but excluding the date fixed for redemption, the whole constituting the redemption price.

3.2 Redemption Procedure: The Corporation shall give notice in writing not less than 45 days nor more than 60 days prior to the date on which the redemption is to take place to each person who at the date of giving such notice is the holder of First Preferred Shares Series S to be redeemed of the intention of the Corporation to redeem such shares. Such notice shall set out the redemption price and shall also set out the date on which the redemption is to take place, and on and after the date so specified for redemption, the Corporation shall pay or cause to be paid to the holders of such First Preferred Shares Series S to be redeemed the redemption price (less any tax required to be deducted or withheld therefrom) on presentation and surrender at any place or places within Canada designated by such notice, of the certificate or certificates for such First Preferred Shares Series S so called for redemption; such payment shall be made by cheque payable at par at any branch in Canada of the Corporation's bankers; from and after the date specified in any such notice, the First Preferred Shares Series S called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be duly made by the Corporation, in which event the rights of the holder shall remain unaffected; at any time after notice of redemption is given as aforesaid, the Corporation shall have the right to deposit the redemption price of any or all First Preferred Shares Series S called for redemption with any chartered bank or banks or with any trust company or trust companies in Canada named in the notice of redemption to the credit of a special account or accounts in trust for the respective holders of such shares, to be paid to them respectively upon surrender to such bank or banks or trust company or trust companies of the certificate or certificates representing the same, and upon such deposit or deposits being made, such shares shall be deemed to have been redeemed on the redemption date specified in the notice of redemption; after the Corporation has made a deposit as aforesaid with respect to any shares, the holders thereof shall not, from and after the redemption date, be entitled to exercise any of the rights of shareholders in respect thereof and the rights of the holders thereof shall be limited to receiving the proportion of the amounts so deposited applicable to such shares, without interest (less any tax required to be deducted or withheld therefrom); any interest allowed on such deposit shall belong to the Corporation.

Conversion of First Preferred Shares Series S

4.1 Conversion at the Option of the Holder: Holders of First Preferred Shares Series S shall have the right, at their option, on May 1, 2002 and on May 1 in every fifth year thereafter (a "Conversion Date"), to convert, subject to the terms and conditions hereof, all or any First Preferred Shares Series S registered in their name into First Preferred Shares Series T of the Corporation on the basis of one First Preferred Share Series T for each First Preferred Shares Series S.

The Corporation shall give notice in writing to the then holders of the First Preferred Shares Series S of the Selected Percentage Rate (as defined in the Articles of the Corporation relating to the First Preferred Shares Series T) determined by the Board of Directors to be applicable to the First Preferred Shares Series T for the next succeeding Fixed Dividend Rate Period (as defined in the Articles of the Corporation relating to the First Preferred Shares Series T) and of the conversion right provided for herein. Such notice shall set out the Conversion Date and shall be given not less than 45 days nor more than 60 days prior to the applicable Conversion Date.

If the Corporation gives notice as provided in Article 3 to the holders of the First Preferred Shares Series S of the redemption of all the First Preferred Shares Series S, the Corporation shall not be required to give notice as provided in this Section 4.1 to the holders of the First Preferred Shares Series S of the Selected Percentage Rate (as defined in Section 1.1 of the Articles of the Corporation relating to the First Preferred Shares Series T) for the First Preferred Shares Series T or of the conversion right and the right of any holder of First Preferred Shares Series S to convert such First Preferred Shares Series S as herein provided shall cease and terminate in that event.

Holders of First Preferred Shares Series S shall not be entitled to convert their shares into First Preferred Shares Series T if, following the close of business on the 14th day preceding a Conversion Date, the Corporation determines that there would be outstanding on the Conversion Date less than 500,000 First Preferred Shares

Series T, after taking into account all First Preferred Shares Series S tendered for conversion into First Preferred Shares Series T and all First Preferred Shares Series T tendered for conversion into First Preferred Shares Series S. The Corporation shall give notice in writing thereof to all affected holders of First Preferred Shares Series S at least seven days prior to the applicable Conversion Date and will issue and mail, prior to such Conversion Date, at the expense of the Corporation, to such holders of First Preferred Shares Series S who have surrendered for conversion any certificate or certificates representing First Preferred Shares Series S, new certificates representing the First Preferred Shares Series S represented by any certificate or certificates surrendered as aforesaid, or alternatively return by mailing, prior to such Conversion Date, at the expense of the Corporation, to such holders of First Preferred Shares Series S who have surrendered for conversion any certificate or certificates representing First Preferred Shares Series S, such certificates surrendered as aforesaid.

4.2 Conversion Procedure: The conversion of First Preferred Shares Series S may be effected by surrender of the certificate or certificates representing the same not earlier than 45 days prior to a Conversion Date but not later than the close of business on the 14th day preceding a Conversion Date during usual business hours at any office of any transfer agent of the Corporation at which the First Preferred Shares Series S are transferable accompanied by: (i) payment or evidence of payment of the tax (if any) payable as provided in this Section 4.2; and (ii) a written instrument of surrender in form satisfactory to the Corporation duly executed by the holder, or his attorney duly authorized in writing, in which instrument such holder may also elect to convert part only of the First Preferred Shares Series S represented by such certificate or certificates not theretofore called for redemption (but in such event a holder of First Preferred Shares Series S shall not be entitled to convert less than 100 First Preferred Shares Series S), in which event the Corporation shall issue and mail to such holder, at the expense of the Corporation, a new certificate representing the First Preferred Shares Series S represented by such certificate or certificates which have not been converted.

In the event all remaining outstanding First Preferred Shares Series S are required to be converted into First Preferred Shares Series T on the applicable Conversion Date as provided for in Section 4.3, any First Preferred Shares Series S which the holders have not elected to convert shall be converted on the Conversion Date into First Preferred Shares Series T and the holders thereof shall be deemed to be holders of First Preferred Shares Series T at the close of business on the Conversion Date and shall be entitled, upon surrender during usual business hours at any office of any transfer agent of the Corporation at which the First Preferred Shares Series S were transferable of the certificate or certificates representing First Preferred Shares Series S not previously surrendered for conversion, to receive a certificate or certificates representing the same number of First Preferred Shares Series T in the manner and subject to the terms and provisions as provided in this Section 4.2.

As promptly as practicable after the Conversion Date, the Corporation shall issue and mail to or upon the written order of the holder of the First Preferred Shares Series S so surrendered, a certificate or certificates issued in the name of, or in such name or names as may be directed by, such holder representing the number of fully-paid and non-assessable First Preferred Shares Series T and the number of remaining First Preferred Shares Series S, if any, to which such holder is entitled. Such conversion shall be deemed to have been made at the close of business on the Conversion Date, so that the rights of the holder of such First Preferred Shares Series S as the holder thereof shall cease at such time and the person or persons entitled to receive First Preferred Shares Series T upon such conversion shall be treated for all purposes as having become the holder or holders of record of such First Preferred Shares Series T at such time.

The holder of any First Preferred Shares Series S on the record date for any dividend declared payable on such share shall be entitled to such dividend notwithstanding that such share is converted into a First Preferred Share Series T after such record date and on or before the date of the payment of such dividend.

The issuance of certificates for the First Preferred Shares Series T upon the conversion of First Preferred Shares Series S shall be made without charge to the converting holders of First Preferred Shares Series S for any fee in respect of the issuance of such certificates or the First Preferred Shares Series T represented thereby. The converting holder or a transferee shall be required to pay any governmental or other tax imposed on such converting holder or transferee in respect of such transaction, and the Corporation may require any such tax to be paid or may require evidence of such payment.

4.3 Automatic Conversion: If following the close of business on the 14th day preceding a Conversion Date the Corporation determines that there would be outstanding on the Conversion Date less than 500,000 First Preferred Shares Series S after taking into account all First Preferred Shares Series S tendered for conversion into First Preferred Shares Series T and all First Preferred Shares Series T tendered for conversion into First Preferred Shares Series S, then all, but not part, of the remaining outstanding First Preferred Shares Series S shall automatically be converted into First Preferred Shares Series T on the basis of one First Preferred Share Series T for each First Preferred Share Series S at the close of business on the applicable Conversion Date and the Corporation shall give notice in writing thereof to the holders of such remaining First Preferred Shares Series S at least seven days prior to the Conversion Date.

4.4 Status of Converted First Preferred Shares Series S: All First Preferred Shares Series S converted into First Preferred Shares Series T on a Conversion Date shall not be canceled but shall be restored to the status of authorized but unissued First Preferred Shares Series S of the Corporation as at the close of business on the Conversion Date.

Restrictions on Dividends and Retirement of Shares

5. So long as any of the First Preferred Shares Series S are outstanding the Corporation shall not:
- (a) declare or pay or set apart for payment any dividends on the common shares or any other shares of the Corporation ranking junior to the First Preferred Shares Series S with respect to payment of dividends,
 - (b) call for redemption, purchase, redeem or otherwise pay off any shares of the Corporation ranking junior to the First Preferred Shares Series S with respect to repayment of capital or with respect to the payment of dividends,
 - (c) call for redemption, purchase, redeem or otherwise pay off less than all of the First Preferred Shares Series S then outstanding, or
 - (d) call for redemption, purchase, redeem or otherwise pay off (except in connection with the exercise of any retraction privilege or any mandatory redemption obligation attaching thereto) any shares of any class or series ranking on a parity with the First Preferred Shares Series S,

unless all dividends up to and including the dividend payable on the last preceding respective dividend payment date on all \$2.80 Cumulative Redeemable First Preferred Shares, the First Preferred Shares Series S and all other Cumulative Redeemable Preferred Shares and on all other preferred shares ranking on a parity with the said shares with respect to the payment of dividends then outstanding shall have been declared and paid at the date of any such action referred to in the foregoing subsections (a) and (b).

Creation or Issue of Additional Preferred Shares

6. So long as any of the First Preferred Shares Series S are outstanding the Corporation shall not, without the prior sanction of the holders of the First Preferred Shares Series S given as hereinafter specified, (a) create any shares ranking prior to the First Preferred Shares Series S in any respect, or (b) issue any Cumulative Preferred Shares in addition to the First Preferred Shares Series S then outstanding or any other preferred shares ranking on a parity with the Cumulative Preferred Shares with respect to payment of dividends or repayment of capital, unless the Consolidated Net Income earned during either (i) the immediately preceding fiscal year of the Corporation, or (ii) at the election of the Corporation, the period of any 12 consecutive months during the 18 consecutive months ending upon the last day of the last full calendar month immediately preceding the issue of any such shares, shall have been not less than two and one-half times the aggregate annual dividend requirements on all First Preferred Shares Series S and all other Cumulative Preferred Shares and all the \$2.80 Cumulative Redeemable First Preferred Shares and all other preferred shares ranking on a parity with the Cumulative Preferred Shares with respect to payment of dividends or repayment of capital to be outstanding on the 45th day after the issue of such additional shares.

Certain Definitions

7. In these First Preferred Shares Series S Provisions the following terms shall have the following respective meanings:

“**Adjustment Factor**” for any Month means the percentage per annum, positive or negative, based on the Calculated Trading Price of the First Preferred Shares Series S for the preceding Month, determined in accordance with the following table:

<u>If Calculated Trading Price for the preceding Month is</u>	<u>The Adjustment Factor as a percentage of Prime shall be</u>
\$51.00 or more than \$51.00	- 4.00%
Greater than or equal to \$50.75 and less than \$51.00	- 3.00%
Greater than or equal to \$50.50 and less than \$50.75	- 2.00%
Greater than or equal to \$50.25 and less than \$50.50	- 1.00%
Greater than \$49.75 and less than \$50.25	nil
Greater than \$49.50 and less than or equal to \$49.75	+ 1.00%
Greater than \$49.25 and less than or equal to \$49.50	+ 2.00%
Greater than \$49.00 and less than or equal to \$49.25	+ 3.00%
\$49.00 or less than \$49.00	+ 4.00%

The maximum Adjustment Factor for any Month will be $\pm 4.00\%$ of Prime. Despite anything to the contrary contained herein, if in any Month there is no trade of at least a board lot of the First Preferred Shares Series S on the Exchange, the Adjustment Factor for the following Month will be nil;

“**Annual Dividend Rate**” means the Annual Fixed Dividend Rate or the Annual Floating Dividend Rate, whichever is provided by this Article 7 to be applicable at the relevant time;

“**Annual Fixed Dividend Rate**” means 5.15% per annum;

“**Annual Floating Dividend Rate**” means for any Month the rate of interest expressed as a percentage per annum (rounded to the nearest one-thousandth (1/1000) of one percent) which is equal to Prime for such Month multiplied by the Designated Percentage for such Month;

“**Banks**” means any two of the Royal Bank of Canada, the Bank of Nova Scotia, the Toronto-Dominion Bank and the Canadian Imperial Bank of Commerce, or any successor of any of them, as may be designated from time to time by the Board of Directors by notice given to the transfer agent for the First Preferred Shares Series S, such notice to take effect on, and to be given at least two business days prior to, the commencement of a particular Dividend Period and, until such notice is first given, means the Royal Bank of Canada and the Bank of Nova Scotia;

“**Board of Directors**” means the Board of Directors of the Corporation;

“**Calculated Trading Price**” for any Month means:

(i) the aggregate of the Daily Adjusted Trading Value for all Trading Days in such Month;

divided by

(ii) the aggregate of the Daily Trading Volume for all Trading Days in such Month;

provided that in determining the Calculated Trading Price for any Month, all transactions of First Preferred Shares Series S by or on behalf of the Corporation or any of its affiliates (as defined in the Canada Business Corporations Act) shall be excluded;

“**Consolidated Net Income**” means the aggregate amount of Net Income of the Corporation and its Subsidiaries arrived at on a consolidated basis in accordance with generally accepted accounting principles; provided always that the Net Income of any Subsidiary for the purposes of this definition shall only include such part of the Net Income of such Subsidiary as under generally accepted accounting principles is applicable to those shares of such Subsidiary which are held by the Corporation or any other Subsidiary. If, at the time of

determining Consolidated Net Income for any period, the Corporation or any Subsidiary has acquired or has agreed to acquire any property or any shares of any other corporation (sufficient with any shares of such other corporations already owned by the Corporation or a Subsidiary to result in such other corporation becoming a Subsidiary) then the net earnings or net losses of such property or such other corporation for the same period (calculated in accordance with the provisions herein contained respecting Consolidated Net Income) shall, if in the opinion of the Corporation's auditors the Corporation has access to data sufficient to enable such auditors to determine such net earnings or net losses, be treated as net earnings or net losses as the case may be in the computation of the Consolidated Net Income. Consolidated Net Income shall be determined by the auditors of the Corporation whose determination shall be conclusive and binding on the Corporation and the holders of shares of every class;

“Daily Accrued Dividend Deduction” for any Trading Day means:

- (i) the product obtained by multiplying the dividend accrued or which would be accrued on a First Preferred Share Series S in respect of the Month in which the Trading Day falls by the number of days elapsed from but excluding the day prior to the Ex-Dividend Date immediately preceding such Trading Day to and including such Trading Day (or if such Trading Day is an Ex-Dividend Date, by one day);
divided by
- (ii) the number of days from and including such Ex-Dividend Date to but excluding the following Ex-Dividend Date;

“Daily Adjusted Trading Value” for any Trading Day means:

- (i) the aggregate dollar value of all transactions of First Preferred Shares Series S on the Exchange (made on the basis of the normal settlement period in effect on the Exchange) occurring during such Trading Day;
less
- (ii) the Daily Trading Volume for such Trading Day multiplied by the Daily Accrued Dividend Deduction for such Trading Day;

“Daily Trading Volume” for any Trading Day means the aggregate number of First Preferred Shares Series S traded in all transactions on the Exchange (made on the basis of the normal settlement period in effect on the Exchange) occurring during such Trading Day;

“Deemed Record Date” means the last Trading Day of a Month during the Floating Rate Period with respect to which no dividend is declared by the Board of Directors;

“Designated Percentage” for the Month of May, 2002 means eighty-five percent and for each Month thereafter means the Adjustment Factor for such Month plus the Designated Percentage for the preceding Month, provided that the Annual Floating Dividend Rate for any Month shall in no event be less than fifty percent of Prime for such Month or more than one hundred percent of Prime for such Month;

“Dividend Payment Date” means:

- (i) during the Fixed Rate Period, the fifteenth day of each of February, May, August and November in each year; and
- (ii) during the Floating Rate Period, the fifteenth day of each Month commencing with the month of June, 2002;

and the first Dividend Payment Date shall be August 15, 1998;

“Dividend Period” means:

- (i) during the Fixed Rate Period, the three calendar Month period commencing on the first day of each of February, May, August and November in each year; and
- (ii) during the Floating Rate Period, a Month;

“Exchange” means The Toronto Stock Exchange or the Montreal Exchange or such other exchange or trading market in Canada as may be determined from time to time by an officer of the Corporation as being the principal trading market for the First Preferred Shares Series S, and until any such determination is made, means The Toronto Stock Exchange;

“Ex-Dividend Date” means:

- (i) the Trading Day which, under the rules of normal practices of the Exchange, is designated or recognized as the ex-dividend date relative to any dividend record date for the First Preferred Shares Series S; or
- (ii) if the Board of Directors fails to declare a dividend in respect of a Month during the Floating Rate Period, the Trading Day which, under the rules or normal practices of the Exchange, would be recognized as the ex-dividend date relative to any Deemed Record Date for the First Preferred Shares Series S;

“First Preferred Shares Series S” means the Cumulative Redeemable First Preferred Shares Series S;

“First Preferred Shares Series T” means the Cumulative Redeemable First Preferred Shares Series T;

“Fixed Rate Period” means the period commencing with the date of issue of the First Preferred Shares Series S and ending on and including April 30, 2002;

“Floating Rate Period” means the period commencing immediately after the end of the Fixed Rate Period and continuing for so long as any of the First Preferred Shares Series S shall be outstanding (and, for greater certainty, if the Floating Rate Period terminates because First Preferred Shares Series S are no longer outstanding and First Preferred Shares Series S are subsequently reissued, such period shall recommence immediately upon the reissuance of First Preferred Shares Series S and shall continue thereafter for so long as any of the First Preferred Shares Series S shall be outstanding);

“Month” means a calendar month;

“Net Income” of the Corporation or any Subsidiary means all the gross earnings and income of such corporation from all sources less all administrative, selling and operating charges and expenses of every character, all interest and all fixed charges of such corporation (but excluding gains or losses on the disposal of investments and fixed assets) after proper allowance for depreciation, depletion and amortization, and after deduction of taxes actually paid or provisions for taxes actually payable during the period for which Net Income is being determined, on the income of such corporation or otherwise, under the applicable laws of any jurisdiction to which such corporation is subject, all determined in good faith and in accordance with generally accepted accounting principles. Net Income shall be determined by the auditors of the Corporation whose determination shall be conclusive and binding on the Corporation and the holders of shares of every class;

“Prime” for a Month means the average (rounded to the nearest one-thousandth (1/1000) of one percent) of the Prime Rate in effect on each day of such Month. Prime shall be determined from time to time by an officer of the Corporation. Such determination shall, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of First Preferred Shares Series S;

“Prime Rate” for any day means the average (rounded to the nearest one-thousandth (1/1000) of one percent) of the annual rates of interest announced from time to time by the Banks as the reference rates then in effect for such day for determining interest rates on Canadian dollar commercial loans made to prime commercial borrowers in Canada. If one of the Banks does not have such an interest rate in effect on a day, the Prime Rate for such day shall be such interest rate in effect for that day of the other Bank; if both Banks do not have such an interest rate in effect on a day, the Prime Rate for that day shall be equal to one and a half percent (1.5%) per annum plus the average yield expressed as a percentage per annum on 91-day Government of Canada Treasury Bills, as reported by the Bank of Canada, for the weekly tender for the week immediately preceding that day, and if both of such Banks do not have such an interest rate in effect on a day and the Bank of Canada does not report such average yield, the Prime Rate for that day shall be equal to the Prime Rate for the next preceding day. The Prime Rate shall be determined from time to time by an officer of the Corporation from quotations supplied by the Banks or otherwise publicly available. Such determination shall, in the absence of

manifest error, be final and binding upon the Corporation and upon all holders of First Preferred Shares Series S;

“**Subsidiary**” means any corporation of which at least a majority of the outstanding shares having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation, irrespective of whether or not at the time shares of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency, is at the time, directly or indirectly, owned by the Corporation or by one or more Subsidiaries of the Corporation, or by the Corporation and one or more Subsidiaries; and

“**Trading Day**” means, if the Exchange is a stock exchange in Canada, a day on which the Exchange is open for trading or, in any other case, a business day.

Modifications

8. The provisions attaching to the First Preferred Shares Series S as a series may be repealed, altered, modified or amended from time to time with such approvals as may then be required by the Canada Business Corporations Act or any statute that may be substituted therefor, any such approval to be given in accordance with Article 9.

None of the series provisions of the Articles of the Corporation relating to the First Preferred Shares Series S shall be amended or otherwise changed unless, contemporaneously therewith, the series provisions, if any, relating to the First Preferred Shares Series T are, to the extent deemed required by the Corporation, amended or otherwise changed in the same proportion and in the same manner, *mutatis mutandis*.

In the event that no First Preferred Shares Series S are issued and outstanding, the Corporation may not amend or otherwise change the series provisions of the Articles of the Corporation relating to the First Preferred Shares Series S unless such amendment or change is also approved by the holders of the First Preferred Shares Series T then outstanding, such approval to be given in accordance with Article 9 of the Articles of the Corporation relating to the First Preferred Shares Series T.

Approval of Holders of First Preferred Shares Series S

9. Any consent or approval given by the holders of First Preferred Shares Series S shall be deemed to have been sufficiently given if it shall have been given in writing by all the holders of the outstanding First Preferred Shares Series S or by a resolution passed at a meeting of holders of First Preferred Shares Series S duly called and held upon not less than 21 days notice at which the holders of at least a majority of the outstanding First Preferred Shares Series S are present or are represented by proxy and carried by the affirmative vote of not less than a majority of the votes cast at such meeting unless a higher level of approval is required under the Canada Business Corporations Act or another applicable statute or ruling in which case the higher level of approval shall be required. If at any such meeting the holders of at least 10% of the outstanding First Preferred Shares Series S are not present or represented by proxy within one-half hour after the time appointed for such meeting then the meeting shall be adjourned to such date not less than 15 days thereafter and to such time and place as may be designated by the chairman and announced at the time of such adjournment. At such adjourned meeting the holders of First Preferred Shares Series S present or represented by proxy may transact the business for which the meeting was originally convened and a resolution passed thereat by the affirmative vote of not less than a majority of the votes cast at such meeting shall constitute the consent or approval of the holders of First Preferred Shares Series S unless a higher level of approval is required under the Canada Business Corporations Act or another applicable statute or ruling in which case the higher level of approval shall be required. On every ballot taken at every such meeting every holder of First Preferred Shares Series S shall be entitled to one vote in respect of each First Preferred Share Series S held. Subject to the foregoing, the formalities to be observed in respect of the giving or waiving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders.

Tax Election

10. The Corporation shall elect, in the manner and within the time provided under section 191.2 of the Income Tax Act (Canada) or any successor or replacement provision of similar effect, to pay tax at a rate and take all other necessary action under such Act such that no holder of the First Preferred Shares Series S will be required to pay tax on dividends received on the First Preferred Shares Series S under section 187.2 of Part IV.1 of such Act or any successor or replacement provision of similar effect.

Notice of Annual Dividend Rate Applicable to the First Preferred Shares Series T

11. Within three business days of the determination of the Annual Dividend Rate (as defined in the Articles of the Corporation relating to the First Preferred Shares Series T) the Corporation shall give notice thereof to the holders of the First Preferred Shares Series S by publication once in the national edition of the Globe and Mail in the English language and once in the City of Montreal in both the French and English languages in a daily newspaper of general circulation in Montreal provided that if any such newspaper is not being generally circulated at that time, such notice shall be published in another equivalent publication.

Interpretation

12. (a) Subject to paragraph (b) hereof, any notice, cheque, or other communication from the Corporation herein provided for shall be sufficiently given if delivered or if sent by ordinary unregistered mail, postage prepaid, to the holders of the First Preferred Shares Series S at their respective addresses appearing on the securities register or registers for the First Preferred Shares Series S or, in the event of the address of any of such holders not so appearing, then at the last address of such holder known to the Corporation. In the case of joint holders, such notice, cheque, or other communication from the Corporation herein provided for shall be sufficiently given if mailed as set forth in the foregoing sentence to the address of that one whose name appears first on the securities register or registers for the First Preferred Shares Series S as one of such holders. Accidental or inadvertent failure to give any such notice or other communication to one or more holders of the First Preferred Shares Series S shall not affect the validity of the notices or other communications properly given or any action taken pursuant to such properly given notice or other communication but, upon such failure being discovered, the notice or other communication, as the case may be, shall be sent forthwith to such holder or holders.

(b) If there exists any actual or apprehended disruption of mail services in any jurisdiction in which there are holders of First Preferred Shares Series S whose addresses appear on the securities register or registers for the First Preferred Shares Series S to be in such jurisdiction, notice may (but need not) be given to the holders in such jurisdiction by means of publication once in each of two successive weeks in a newspaper of general circulation published or distributed in the capital city of such jurisdiction, or if the Corporation maintains a register of transfers for the First Preferred Shares Series S in such jurisdiction, then in the city in such jurisdiction where the register of transfers is maintained. Notice given by publication shall be deemed for all purposes to be proper notice.

(c) Notice given by mail shall be deemed to be given on the day upon which it is mailed unless on the day of, or the day following, such mailing an actual disruption of mail services has occurred in the jurisdiction in or to which such notice is mailed. Notice given by publication shall be deemed to be given on the day on which the first publication is completed in any city in which notice is published.

(d) If any day on which any dividend on the First Preferred Shares Series S is payable or on, or by, which any other action is required to be taken hereunder is not a business day, then such dividend shall be payable or such other action shall be required to be taken on the next succeeding day that is a business day; and “business day” means a day other than a Saturday, a Sunday or any other day that is a statutory or civic holiday in the place where the Corporation has its principal executive office at the relevant time.

(e) “**accrued and unpaid dividends**” means: (i) during the Fixed Rate Period, the aggregate of (A) all unpaid dividends on the First Preferred Shares Series S for any Dividend Period and (B) the amount calculated as though dividends on each First Preferred Share Series S had been accruing on a day-to-day basis from and including the first day of the current Dividend Period to but excluding the date to which the computation of

accrued dividends is to be made; and (ii) during the Floating Rate Period, the aggregate of (A) all unpaid dividends on the First Preferred Shares Series S for any Dividend Period and (B) the amount calculated as though dividends on each First Preferred Share Series S had been accruing on a day-to-day basis from and including the first day of the Month immediately following the Dividend Period with respect to which the dividend was or will be, as the case may be, payable to but excluding the date to which the computation of accrued dividends is to be made.

(f) “**close of business**” means, with respect to the deposit for redemption or conversion of any First Preferred Share Series S, the normal closing time of the office of the transfer agent for the First Preferred Shares Series S at which the holder of such share may and does deposit such share.

(g) For the purposes hereof, the use of the terms “**ranking in priority to**” or “**ranking on a parity with**” or “**ranking junior**” or similar terms, whether used independently or in combination, mean and refer to the ranking of shares of different classes or series in respect of the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

(h) “**transfer agent**” includes any agent of a transfer agent.

(i) All references herein to currency shall be to Canadian dollars.

(j) Despite anything to the contrary contained herein, in lieu of cheques, payment of monies may be made by such electronic or other means as may be approved by the Board of Directors. In such circumstances, such manner of payment to the registered holders of First Preferred Shares Series S shall be deemed to be payment and shall satisfy and discharge all liability for payment of such monies to the extent of the amounts represented thereby, unless such payment is not honoured by the Corporation.

CUMULATIVE REDEEMABLE FIRST PREFERRED SHARES SERIES T

The Cumulative Redeemable First Preferred Shares Series T (herein called the “First Preferred Shares Series T”) shall, in addition to the rights, privileges, restrictions and conditions attaching to the Cumulative Redeemable First Preferred Shares as a class (collectively and respectively the “Cumulative Preferred Shares Class Provisions” and the “Cumulative Preferred Shares”) carry and be subject to the following rights, privileges, restrictions and conditions (collectively, the “First Preferred Shares Series T Provisions”):

Dividends

1.1 **General:** The holders of the First Preferred Shares Series T shall have the right to receive fixed cumulative preferred cash dividends, as and when declared by the Board of Directors, out of monies of the Corporation properly applicable to the payment of dividends, in the amount per annum determined by multiplying the Annual Dividend Rate by \$50.00. Dividends on the First Preferred Shares Series T shall accrue from the first day of the relevant Fixed Dividend Rate Period and shall, subject to declaration by the Board of Directors, be payable quarterly, in arrears, on each Dividend Payment Date. The initial dividend, if declared, will be payable on August 15, 2002. Subject to declaration of the dividend by the Board of Directors, the record date for the purpose of determining holders of First Preferred Shares Series T entitled to receive dividends on each Dividend Payment Date during the Fixed Dividend Rate Period shall be the last Trading Day of the next preceding Fixed Dividend Rate Period. In the event of the redemption or purchase of the First Preferred Shares Series T during the Fixed Dividend Rate Period or the distribution of the assets of the Corporation during the Fixed Dividend Rate Period as contemplated by Article 2 hereof, the amount of the dividend which has accrued during the Fixed Dividend Rate Period in which such redemption, purchase or distribution occurs shall be the amount (rounded to the nearest one-thousandth (1/1000) of one cent) calculated by multiplying:

(i) the amount obtained by multiplying \$50.00 by one-quarter of the Annual Dividend Rate,

by

(ii) a fraction, the numerator of which is the number of days elapsed in the Fixed Dividend Rate Period in which such redemption, purchase or distribution occurs up to but not including the date of such event and the denominator of which is the number of days in that Fixed Dividend Rate Period.

Cheques of the Corporation drawn on a Canadian chartered bank and payable at par at any branch of such bank in Canada shall be issued in respect of such dividends to the holders of First Preferred Shares Series T entitled thereto. The mailing of such cheques to the registered holders of First Preferred Shares Series T shall be deemed to be payment and shall satisfy and discharge all liability for such dividends to the extent of the amounts represented thereby (plus any tax required to be and in fact deducted or withheld therefrom), unless such cheques are not paid on due presentation. If on any Dividend Payment Date dividends payable on such date are not paid in full on all First Preferred Shares Series T then outstanding, such dividends or the unpaid part thereof shall be paid on a subsequent date or dates determined by the Board of Directors on which the Corporation shall have sufficient monies properly applicable to the payment of the same. The holders of First Preferred Shares Series T shall not be entitled to any dividends other than or in excess of the cash dividends herein provided for. A dividend which is represented by a cheque which has not been duly presented for payment within six years after it was issued or that otherwise remains unclaimed for a period of six years from the date on which it was declared to be payable and set apart for payment shall be forfeited to the Corporation.

1.2 **Calculation of Annual Dividend Rate:** The Corporation shall calculate on the 21st day prior to the first day of each Fixed Dividend Rate Period the Annual Dividend Rate for such Fixed Dividend Rate Period based upon the Selected Percentage Rate and the Government of Canada Yield in effect at 1000 hrs. (Eastern Standard Time) on the said 21st day prior to the first day of each Fixed Dividend Rate Period and give notice thereof: (i) within one business day to all stock exchanges in Canada on which the First Preferred Shares Series T are listed for trading or, if the First Preferred Shares Series T are not listed on a stock exchange in Canada, to the Investment Dealers Association of Canada; and (ii) within three business days to, except in relation to the initial Fixed Dividend Rate Period, the holders of the First Preferred Shares Series T by publication once in the national edition of the Globe and Mail in the English language and once in the City of Montreal in both the French and English languages in a daily newspaper of general circulation in Montreal;

provided that if any such newspaper is not being generally circulated at that time, such notice shall be published in another equivalent publication.

Rights on Liquidation

2. In the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the First Preferred Shares Series T, in accordance with the Cumulative Preferred Shares Class Provisions, shall be entitled to receive in lawful money of Canada \$50.00 per First Preferred Share Series T together with an amount equal to all accrued and unpaid cumulative preferred dividends thereon, whether or not declared, calculated to but excluding the date of payment or distribution, the whole to be paid before any amount is paid or any property or assets of the Corporation are distributed to the holders of any shares ranking junior to the First Preferred Shares Series T. Upon payment to the holders of the First Preferred Shares Series T of the amount so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Corporation.

Redemption at the Option of the Corporation

3.1 **Right of Redemption:** The Corporation may not redeem any of the First Preferred Shares Series T prior to May 1, 2007. Subject to applicable law and Article 5 hereof, upon giving notice as hereinafter provided, the Corporation may, on May 1, 2007 and on May 1 in every fifth year thereafter, redeem all, but not less than all, of the outstanding First Preferred Shares Series T on payment of \$50.00 for each such share to be redeemed together with accrued and unpaid cumulative preferred dividends thereon, whether or not declared, calculated up to but excluding the date fixed for redemption, the whole constituting the redemption price.

3.2 **Redemption Procedure:** The Corporation shall give notice in writing not less than 45 days nor more than 60 days prior to the date on which the redemption is to take place to each person who at the date of giving such notice is the holder of First Preferred Shares Series T to be redeemed of the intention of the Corporation to redeem such shares. Such notice shall set out the redemption price and shall also set out the date on which the redemption is to take place, and on and after the date so specified for redemption the Corporation shall pay or cause to be paid to the holders of such First Preferred Shares Series T to be redeemed the redemption price (less any tax required to be deducted or withheld therefrom) on presentation and surrender at any place or places within Canada designated by such notice, of the certificate or certificates for such First Preferred Shares Series T so called for redemption; such payment shall be made by cheque payable at par at any branch in Canada of the Corporation's bankers; from and after the date specified in any such notice, the First Preferred Shares Series T called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be duly made by the Corporation, in which event the rights of the holder shall remain unaffected; at any time after notice of redemption is given as aforesaid, the Corporation shall have the right to deposit the redemption price of any or all First Preferred Shares Series T called for redemption with any chartered bank or banks or with any trust company or trust companies in Canada named in the notice of redemption to the credit of a special account or accounts in trust, for the respective holders of such shares, to be paid to them respectively upon surrender to such bank or banks or trust company or trust companies of the certificate or certificates representing the same, and upon such deposit or deposits being made, such shares shall be deemed to have been redeemed on the redemption date specified in the notice of redemption; after the Corporation has made a deposit as aforesaid with respect to any shares, the holders thereof shall not, from and after the redemption date, be entitled to exercise any of the rights of shareholders in respect thereof and the rights of the holders thereof shall be limited to receiving the proportion of the amounts so deposited applicable to such shares, without interest (less any tax required to be deducted or withheld therefrom); any interest allowed on such deposit shall belong to the Corporation.

Conversion of First Preferred Shares Series T

4.1 **Conversion at the Option of the Holder:** Holders of First Preferred Shares Series T shall have the right, at their option, on May 1, 2007 and on May 1 in every fifth year thereafter (a "Conversion Date") to convert, subject to the terms and provisions hereof, all or any First Preferred Shares Series T registered in their name

into First Preferred Shares Series S of the Corporation on the basis of one First Preferred Share Series S for each First Preferred Share Series T. The Corporation shall give notice in writing to the then holders of the First Preferred Shares Series T of the Selected Percentage Rate determined by the Board of Directors to be applicable to the First Preferred Shares Series T for the next succeeding Fixed Dividend Rate Period and of the conversion right provided for herein. Such notice shall set out the Conversion Date and shall be given not less than 45 days nor more than 60 days prior to the applicable Conversion Date.

If the Corporation gives notice as provided in Article 3 to the holders of the First Preferred Shares Series T of the redemption of all the First Preferred Shares Series T, the Corporation shall not be required to give notice as provided in this section 4.1 to the holders of the First Preferred Shares Series T of the Selected Percentage Rate or of the conversion right and the right of any holder of First Preferred Shares Series T to convert such First Preferred Shares Series T as herein provided shall cease and terminate in that event.

Holders of First Preferred Shares Series T shall not be entitled to convert their shares into First Preferred Shares Series S if, following the close of business on the 14th day preceding a Conversion Date, the Corporation determines that there would be outstanding on the Conversion Date less than 500,000 First Preferred Shares Series S after taking into account all First Preferred Shares Series T tendered for conversion into First Preferred Shares Series S and all First Preferred Shares Series S tendered for conversion into First Preferred Shares Series T. The Corporation shall give notice in writing thereof to all affected holders of First Preferred Shares Series T at least seven days prior to the applicable Conversion Date and will issue and mail, prior to such Conversion Date, at the expense of the Corporation, to such holders of First Preferred Shares Series T who have surrendered for conversion any certificate or certificates representing First Preferred Shares Series T, new certificates representing the First Preferred Shares Series T represented by any certificate or certificates surrendered as aforesaid, or alternatively return by mailing, prior to such Conversion Date, at the expense of the Corporation, to such holders of First Preferred Shares Series T who have surrendered for conversion any certificate or certificates representing First Preferred Shares Series T, such certificates surrendered as aforesaid.

4.2 Conversion Procedure: The conversion of First Preferred Shares Series T may be effected by surrender of the certificate or certificates representing the same not earlier than 45 days prior to a Conversion Date but not later than the close of business on the 14th day preceding a Conversion Date during usual business hours at any office of any transfer agent of the Corporation at which the First Preferred Shares Series T are transferable accompanied by: (i) payment or evidence of payment of the tax (if any) payable as provided in this section 4.2; and (ii) a written instrument of surrender in form satisfactory to the Corporation duly executed by the holder, or his attorney duly authorized in writing, in which instrument such holder may also elect to convert part only of the First Preferred Shares Series T represented by such certificate or certificates not theretofore called for redemption (but in such event a holder of First Preferred Shares Series T shall not be entitled to convert less than 100 First Preferred Shares Series T), in which event the Corporation shall issue and mail to such holder, at the expense of the Corporation, a new certificate representing the First Preferred Shares Series T represented by such certificate or certificates which have not been converted.

In the event all remaining outstanding First Preferred Shares Series T are required to be converted into First Preferred Shares Series S on the applicable Conversion Date as provided for in section 4.3 any First Preferred Shares Series T which the holders have not elected to convert shall be converted on the Conversion Date into First Preferred Shares Series S and the holders thereof shall be deemed to be holders of First Preferred Shares Series S at the close of business on the Conversion Date and shall be entitled, upon surrender during usual business hours at any office of any transfer agent of the Corporation at which the First Preferred Shares Series T were transferable of the certificate or certificates representing First Preferred Shares Series T not previously surrendered for conversion, to receive a certificate or certificates representing the same number of First Preferred Shares Series S in the manner and subject to the terms and provisions as provided in this section 4.2.

As promptly as practicable after the Conversion Date, the Corporation shall issue and mail to or upon the written order of the holder of the First Preferred Shares Series T so surrendered, a certificate or certificates issued in the name of, or in such name or names as may be directed by, such holder representing the number of fully-paid and non-assessable First Preferred Shares Series S and the number of remaining First Preferred Shares Series T, if any, to which such holder is entitled. Such conversion shall be deemed to have been made at

the close of business on the Conversion Date, so that the rights of the holder of such First Preferred Shares Series T as the holder thereof shall cease at such time and the person or persons entitled to receive First Preferred Shares Series S upon such conversion shall be treated for all purposes as having become the holder or holders of record of such First Preferred Shares Series S at such time.

The holder of any First Preferred Share Series T on the record date for any dividend declared payable on such share shall be entitled to such dividend notwithstanding that such share is converted into First Preferred Shares Series S after such record date and on or before the date of the payment of such dividend.

The issuance of certificates for the First Preferred Shares Series S upon the conversion of First Preferred Shares Series T shall be made without charge to the converting holders of First Preferred Shares Series T for any fee in respect of the issuance of such certificates or the First Preferred Shares Series S represented thereby. The converting holder or a transferee shall be required to pay any governmental or other tax imposed on such converting holder or transferee in respect of such transaction, and the Corporation may require any such tax to be paid or may require evidence of such payment.

4.3 Automatic Conversion: If following the close of business on the 14th day preceding a Conversion Date the Corporation determines that there would be outstanding on the Conversion Date less than 500,000 First Preferred Shares Series T after taking into account all First Preferred Shares Series T tendered for conversion into First Preferred Shares Series S and all First Preferred Shares Series S tendered for conversion into First Preferred Shares Series T, then all, but not part, of the remaining outstanding First Preferred Shares Series T shall automatically be converted into First Preferred Shares Series S on the basis of one First Preferred Share Series S for each First Preferred Share Series T at the close of business on the applicable Conversion Date and the Corporation shall give notice in writing thereof to the holders of such remaining First Preferred Shares Series T at least seven days prior to the Conversion Date.

4.4 Status of Converted First Preferred Shares Series T: All First Preferred Shares Series T converted into First Preferred Shares Series S on a Conversion Date shall not be cancelled but shall be restored to the status of authorized but unissued First Preferred Shares Series T of the Corporation as at the close of business on the Conversion Date.

Restrictions on Dividends and Retirement of Shares

5. So long as any of the First Preferred Shares Series T are outstanding the Corporation shall not:
- (a) declare or pay or set apart for payment any dividends on the common shares or any other shares of the Corporation ranking junior to the First Preferred Shares Series T with respect to payment of dividends,
 - (b) call for redemption, purchase, redeem or otherwise pay off any shares of the Corporation ranking junior to the First Preferred Shares Series T with respect to repayment of capital or with respect to the payment of dividends,
 - (c) call for redemption, purchase, redeem or otherwise pay off less than all of the First Preferred Shares Series T then outstanding, or
 - (d) call for redemption, purchase, redeem or otherwise pay off (except in connection with the exercise of any retraction privilege or any mandatory redemption obligation attaching thereto) any shares of any class or series ranking on a parity with the First Preferred Shares Series T,

unless all dividends up to and including the dividend payable on the last preceding respective dividend payment date on all \$2.80 Cumulative Redeemable First Preferred Shares, the First Preferred Shares Series T and all other Cumulative Redeemable Preferred Shares and on all other preferred shares ranking on a parity with the said shares with respect to the payment of dividends then outstanding shall have been declared and paid at the date of any such action referred to in the foregoing subsections (a) and (b).

Issue of Additional First Preferred Shares

6. The Corporation may issue additional series of First Preferred Shares ranking on a parity with the First Preferred Shares Series T without the authorization of the holders of the First Preferred Shares Series T.

Certain Definitions

7. For the purposes hereof, the following capitalized terms shall have the following meanings, unless the context otherwise requires:

- (a) “**Annual Dividend Rate**” means for any Fixed Dividend Rate Period the rate expressed as a percentage per annum (rounded to the nearest one-thousandth (1/1000) of one percent) which is equal to the Government of Canada Yield multiplied by the Selected Percentage Rate for such Fixed Dividend Rate Period;
- (b) “**Board of Directors**” means the Board of Directors of the Corporation;
- (c) “**Dividend Payment Date**” means the fifteenth day of each of February, May, August and November in each year. The initial dividend, if declared, will be payable on August 15, 2002;
- (d) “**First Preferred Shares Series T**” means the Cumulative Redeemable First Preferred Shares Series T and “**First Preferred Shares Series S**” means the Cumulative Redeemable First Preferred Shares Series S;
- (e) “**Fixed Dividend Rate Period**” means for the initial Fixed Dividend Rate Period, the period commencing on May 1, 2002 and ending on and including April 30, 2007 and, for each succeeding Fixed Dividend Rate Period, the period commencing on the day immediately following the end of the immediately preceding Fixed Dividend Rate Period and ending on and including April 30 in the fifth year immediately thereafter;
- (f) “**Government of Canada Yield**” on any day shall mean the average of the yields determined by two registered Canadian investment dealers, selected by the Board of Directors, as being the yield to maturity on such date compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada Bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity of five years; and
- (g) “**Selected Percentage Rate**” for a Fixed Dividend Rate Period means the rate, expressed as a percentage of the Government of Canada Yield, determined by the Board of Directors to be applicable for such Fixed Dividend Rate Period, which rate shall be not less than 80% of the Government of Canada Yield determined on the twenty-first day preceding the first day of the applicable Fixed Dividend Rate Period.

Modifications

8. The provisions attaching to the First Preferred Shares Series T as a series may be repealed, altered, modified or amended from time to time with such approvals as may then be required by the Canada Business Corporations Act or any statute that may be substituted therefor, any such approval to be given in accordance with Article 9.

None of the series provisions of the Articles of the Corporation relating to the First Preferred Shares Series T shall be amended or otherwise changed unless, contemporaneously therewith, the series provisions, if any, relating to the First Preferred Shares Series S are, to the extent deemed required by the Corporation, amended or otherwise changed in the same proportion and in the same manner, *mutatis mutandis*.

In the event that no First Preferred Shares Series T are issued and outstanding, the Corporation may not amend or otherwise change the series provisions of the Articles of the Corporation relating to the First Preferred Shares Series T unless such amendment or change is also approved by the holders of the First Preferred Shares Series S then outstanding, such approval to be given in accordance with Article 9 of the Articles of the Corporation relating to the First Preferred Shares Series S.

Approval of Holders of First Preferred Shares Series T

9. Any consent or approval given by the holders of First Preferred Shares Series T shall be deemed to have been sufficiently given if it shall have been given in writing by all the holders of the outstanding First

Preferred Shares Series T or by a resolution passed at a meeting of holders of First Preferred Shares Series T duly called and held upon not less than 21 days notice at which the holders of at least a majority of the outstanding First Preferred Shares Series T are present or are represented by proxy and carried by the affirmative vote of not less than a majority of the votes cast at such meeting unless a higher level of approval is required under the Canada Business Corporations Act or another applicable statute or ruling in which case the higher level of approval shall be required. If at any such meeting the holders of at least 10% of the outstanding First Preferred Shares Series T are not present or represented by proxy within one-half hour after the time appointed for such meeting then the meeting shall be adjourned to such date not less than 15 days thereafter and to such time and place as may be designated by the chairman and announced at the time of such adjournment. At such adjourned meeting the holders of First Preferred Shares Series T present or represented by proxy may transact the business for which the meeting was originally convened and a resolution passed thereat by the affirmative vote of not less than a majority of the votes cast at such meeting shall constitute the consent or approval of the holders of First Preferred Shares Series T unless a higher level of approval is required under the Canada Business Corporations Act or another applicable statute or ruling in which case the higher level of approval shall be required. On every ballot taken at every such meeting every holder of First Preferred Shares Series T shall be entitled to one vote in respect of each First Preferred Share Series T held. Subject to the foregoing, the formalities to be observed in respect of the giving or waiving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders.

Tax Election

10. The Corporation shall elect, in the manner and within the time provided under section 191.2 of the Income Tax Act (Canada) or any successor or replacement provision of similar effect, to pay tax at a rate and take all other necessary action under such Act such that no holder of the First Preferred Shares Series T will be required to pay tax on dividends received on the First Preferred Shares Series T under section 187.2 of Part IV.1 of such Act or any successor or replacement provision of similar effect.

Interpretation

11. (a) Subject to paragraph (b) hereof, any notice, cheque, or other communication from the Corporation herein provided for shall be sufficiently given if delivered or if sent by ordinary unregistered mail, postage prepaid, to the holders of the First Preferred Shares Series T at their respective addresses appearing on the securities register or registers for the First Preferred Shares Series T or, in the event of the address of any of such holders not so appearing, then at the last address of such holder known to the Corporation. In the case of joint holders, such notice, cheque, or other communication from the Corporation herein provided for shall be sufficiently given if mailed as set forth in the foregoing sentence to the address of that one whose name appears first on the securities register or registers for the First Preferred Shares Series T as one of such holders. Accidental or inadvertent failure to give any such notice or other communication to one or more holders of the First Preferred Shares Series T shall not affect the validity of the notices or other communications properly given or any action taken pursuant to such properly given notice or other communication but, upon such failure being discovered, the notice or other communication, as the case may be, shall be sent forthwith to such holder or holders.

(b) If there exists any actual or apprehended disruption of mail services in any jurisdiction in which there are holders of First Preferred Shares Series T whose addresses appear on the securities register or registers for the First Preferred Shares Series T to be in such jurisdiction, notice may (but need not) be given to the holders in such jurisdiction by means of publication once in each of two successive weeks in a newspaper of general circulation published or distributed in the capital city of such jurisdiction, or if the Corporation maintains a register of transfers for the First Preferred Shares Series T in such jurisdiction, then in the city in such jurisdiction where the register of transfers is maintained. Notice given by publication shall be deemed for all purposes to be proper notice.

(c) Notice given by mail shall be deemed to be given on the day upon which it is mailed unless on the day of, or the day following, such mailing an actual disruption of mail services has occurred in the jurisdiction in or

to which such notice is mailed. Notice given by publication shall be deemed to be given on the day on which the first publication is completed in any city in which notice is published.

(d) If any day on which any dividend on the First Preferred Shares Series T is payable or on, or by, which any other action is required to be taken hereunder is not a business day, then such dividend shall be payable or such other action shall be required to be taken on the next succeeding day that is a business day; and “business day” means a day other than a Saturday, a Sunday or any other day that is a statutory or civic holiday in the place where the Corporation has its principal executive office at the relevant time.

(e) “**accrued and unpaid dividends**” means the aggregate of: (i) all unpaid dividends on the First Preferred Shares Series T for any quarterly period; and (ii) the amount calculated as though dividends on each First Preferred Share Series T had been accruing on a day-to-day basis from and including the last Dividend Payment Date to but excluding the date to which the computation of accrued dividends is to be made.

(f) “**close of business**” means, with respect to the deposit for redemption or conversion of any First Preferred Share Series T, the normal closing time of the office of the transfer agent for the First Preferred Shares Series T at which the holder of such share may and does deposit such share.

(g) For the purposes hereof, the use of the terms “**ranking in priority to**” or “**ranking on a parity with**” or “**ranking junior**” or similar terms, whether used independently or in combination, means and refer to the ranking of shares of different classes or series in respect of the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

(h) “**transfer agent**” includes any agent of a transfer agent.

(i) All reference herein to currency shall be to Canadian dollars.

(j) Despite anything to the contrary contained herein, in lieu of cheques, payments of monies may be made by such electronic or other means as may be approved by the Board of Directors. In such circumstances, such manner of payment to the registered holders of First Preferred Shares Series T shall be deemed to be payment and shall satisfy and discharge all liability for payment of such monies to the extent of the amounts represented thereby, unless such payment is not honoured by the Corporation.

SCHEDULE "C"

DIRECTORS OF TRANSCANADA AFTER ARRANGEMENT

Richard F. Haskayne, O.C., F.C.A.
— *Chairman of the Board*
Gerald J. Maier
— *Chairman Emeritus of the Board*
Harry G. Schaefer
— *Vice Chairman of the Board*
Ronald B. Coleman
Sir J. Graham Day
Wendy Dobson
Kerry L. Hawkins
J. Joseph Healy
Harley N. Hotchkiss, O.C.
The Hon. Donald S. Macdonald, P.C., C.C.
J.M. (Jack) MacLeod
Harold P. Milavsky, F.C.A.
James R. Paul
Cedric E. Ritchie, O.C.
Allan Richard Taylor
Joseph D. Thompson
George W. Watson
Anne Wexler

SCHEDULE "D"

DIRECTORS OF NOVA CHEMICALS AFTER ARRANGEMENT

James M. Edward (Ted) Newall, O.C.

— *Chairman of the Board*

Gerald J. Maier

— *Vice Chairman of the Board*

Dr. F. Peter Boer

Robert E. Dineen, Jr.

L. Yves Fortier, C.C., Q.C.

Kerry L. Hawkins

Jeffrey M. Lipton

Dr. Nicholas Pappas

Robert L. Pierce, Q.C.

Janice G. Rennie, F.C.A.

Joseph D. Thompson

Margaret K. Witte

APPENDIX C — INTERIM ORDER

Action No. 9801-06653

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE OF CALGARY**

IN THE MATTER OF section 186 of the *BUSINESS CORPORATIONS ACT*, S.A. 1981, c.B-15, AS AMENDED

AND IN THE MATTER OF section 192 of the *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985, c.C-44, AS AMENDED

AND IN THE MATTER OF an Arrangement proposed by NOVA Corporation and TransCanada PipeLines Limited and 3399508 Canada Ltd. involving NOVA Corporation and its holders of Common Shares and Preferred Shares and TransCanada PipeLines Limited and its holders of Common Shares and 3399508 Canada Ltd.

BEFORE THE HONOURABLE
CHIEF JUSTICE W.K. MOORE
IN CHAMBERS

AT THE COURT HOUSE, IN THE CITY OF
CALGARY, ALBERTA, ON TUESDAY, THE
19th DAY OF MAY, 1998

ORDER

UPON THE JOINT APPLICATION of NOVA Corporation ("NOVA") pursuant to section 186 of the Business Corporations Act, S.A. 1981, c.B-15, as amended, (the "ABCA") and TransCanada Pipelines Limited ("TransCanada") and 3399508 Canada Ltd. ("ArrangeCo.") pursuant to section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended, (the "CBCA") for certain orders and directions in connection with a proposed arrangement under the provisions of the ABCA and CBCA;

UPON BEING ADVISED that the Executive Director of the Alberta Securities Commission (the "Executive Director") has been given notice of this application by NOVA as required by section 186(8) of the ABCA and has advised that he does not intend to appear in person or by counsel or make any representations;

UPON BEING ADVISED that the Director appointed under section 260 of the CBCA (the "Director") has been given notice of this application by TransCanada and ArrangeCo. as required by section 192(5) of the CBCA and has advised that she does not intend to appear in person or by counsel or make any representations;

AND UPON HEARING READ the Affidavit of Albert Terence Poole of NOVA, which sets forth a form of Joint Management Information Circular (the "Circular") at Exhibit "A", and the Affidavit of Marcel R. Coutu of TransCanada;

AND UPON HEARING Counsel for NOVA and TransCanada:

IT IS HEREBY ORDERED AND DIRECTED THAT:

NOVA Special Meeting

1. NOVA shall in conjunction with its annual and special meeting of the holders (the "NOVA Common Shareholders") of its common shares (the "NOVA Common Shares") call, hold and conduct a special meeting (the "NOVA Special Meeting") of the NOVA Common Shareholders and the holders (the "NOVA Preferred Shareholders") of its preferred shares (the "NOVA Preferred Shares") to be held at the City of Calgary in the Province of Alberta at the Calgary Convention Centre, 120 - 9 Avenue, S.E. Calgary, Alberta, at 10:30 a.m. (Calgary time) on the 29th day of June, 1998, for the purpose of (i) considering and, if deemed advisable, approving with or without variation, a special resolution substantially in the form of the NOVA Corporation Special Resolution set forth in Appendix A to the Circular (the "NOVA Special Resolution") approving a

proposed arrangement (the "Arrangement") involving NOVA and the NOVA Common Shareholders and the NOVA Preferred Shareholders and TransCanada and the holders (the "TransCanada Common Shareholders") of its common shares (the "TransCanada Common Shares") on the terms and conditions set forth in the Plan of Arrangement annexed as Schedule "A" to the Amending Arrangement Agreement made May 19, 1998, amending the Arrangement Agreement made January 24, 1998 (as so amended, the "Arrangement Agreement"); and (ii) transacting such other business as may properly be brought before the NOVA Special Meeting.

2. The NOVA Common Shareholders and the NOVA Preferred Shareholders (collectively the "NOVA Shareholders") shall vote on the NOVA Special Resolution together as a single class. The votes of NOVA Common Shareholders and the votes of the NOVA Preferred Shareholders shall be recorded separately and the results shall be available to the Court on the application by NOVA and TransCanada to approve the Arrangement.

Notices

3. NOVA shall mail the Notice of the NOVA annual and special meeting (which shall include notice of the NOVA Special Meeting), the Notice to NOVA Shareholders of Petition to the Court of Queen's Bench of Alberta, appropriate forms of Proxy, the Management Information Circular, the Circular (in substantially the form set forth at Exhibit "A" to the Affidavit of Albert Terence Poole with such amendments as are not inconsistent with the provisions of this Order) and this Order to the NOVA Common Shareholders and the NOVA Preferred Shareholders as shown on the register or registers of shareholders at the close of business on May 27, 1998 (the "NOVA Record Date") by mailing same by prepaid Canada Post Corporation's Expedited Ground Service to such shareholders at the latest address for such shareholders as shown in the records of NOVA or its registrar and transfer agent, and to the Executive Director at the address of an office of the Alberta Securities Commission, at least 21 days prior to the date of the NOVA Special Meeting, excluding the date of mailing and excluding the date of the NOVA Special Meeting.

4. The accidental omission or delay in giving notice of the NOVA Special Meeting or the non-receipt by any person of such notice shall not invalidate any resolution passed or proceedings taken at the NOVA Special Meeting.

Conduct of NOVA Special Meeting

5. The NOVA Special Meeting shall be called, held and conducted in accordance with the By-laws of NOVA and the ABCA, subject to the provisions of this Order and to such modifications as may be adopted at the NOVA Special Meeting.

6. Each NOVA Common Shareholder entitled to vote on the NOVA Special Resolution shall be entitled to one vote for each NOVA Common Share held and each NOVA Preferred Shareholder entitled to vote on the NOVA Special Resolution shall be entitled to one vote for each NOVA Preferred Share held.

7. A quorum at the NOVA Special Meeting shall be the holders of not less than 10% in aggregate of the NOVA Common Shares and NOVA Preferred Shares entitled to vote on the NOVA Special Resolution present, in person or by proxy, at the NOVA Special Meeting, provided that if no quorum is present within 30 minutes of the appointed time of the NOVA Special Meeting, such meeting shall stand adjourned 24 hours at the same time and place, for which adjourned meeting no further notice shall be required to be given, and the NOVA Common Shareholders and the NOVA Preferred Shareholders present, in person or by proxy, entitled to vote on the NOVA Special Resolution shall constitute a quorum for the adjourned meeting.

8. The NOVA Special Meeting, once commenced, may be adjourned from time to time and no further notice of such adjournment or the holding of any adjourned meeting or meetings need be given thereafter.

9. The majority required to pass the NOVA Special Resolution at the NOVA Special Meeting shall be not less than two-thirds (2/3) of the votes cast by the NOVA Common Shareholders and the NOVA Preferred Shareholders (voting together) who voted, in person or by proxy, in respect of the NOVA Special Resolution.

10. The only persons entitled to vote at the NOVA Special Meeting, either in person or by proxy, shall be the registered NOVA Common Shareholders and NOVA Preferred Shareholders, as at the close of business on the NOVA Record Date, subject to the provisions of the ABCA with respect to persons who become registered holders of such securities after that date.

11. The only persons entitled to attend and speak at the NOVA Special Meeting shall be the NOVA Shareholders or their authorized representatives, together with NOVA's directors and officers and its auditors, advisors and counsel and the Executive Director.

NOVA Dissent Rights

12. A NOVA Shareholder shall have the right to dissent from the NOVA Special Resolution in accordance with the provisions of section 184 of the ABCA, as if that section applied to the proposed Arrangement, as modified by this Order, including:

- a. for any NOVA Shareholder to be entitled to dissent, the written objection of that NOVA Shareholder under section 184(5) to the NOVA Special Resolution must be received on or before 5:00 p.m. on June 26 (Calgary time) by the Corporate Secretary of NOVA in care of CIBC Mellon Trust Company at The Dome Tower, 333 - 7 Avenue, S.W., Calgary, Alberta, T2P 2Z1, or delivered to the Chairman of the NOVA Special Meeting before the commencement of the NOVA Special Meeting;
- b. an application may not be made to the Court under section 184(6) until the later of the date the certificate of arrangement issued to TransCanada and ArrangeCo. in respect of the Arrangement pursuant to the CBCA becomes effective, or the date the certificate of amendment issued to NOVA in respect of the Arrangement pursuant to the ABCA becomes effective;
- c. dissent proceedings shall be discontinued, in addition to the grounds specified in section 184(16), where:
 - i) the Arrangement Agreement is terminated; or
 - ii) the application by NOVA and TransCanada to this Court for approval of the Arrangement is refused and all appeal rights in respect of such refusal have been exhausted without success.
- d. all notices and documents required or permitted to be sent by a NOVA Shareholder or NOVA under section 184 may be sent in the manner provided for the sending of notices and documents to the NOVA Shareholder or NOVA, as the case may be, under the ABCA; and
- e. a dissenting shareholder is entitled to appear at the hearing of the application by NOVA and TransCanada to the Court for approval of the Arrangement, provided that such dissenting shareholder has filed and served a notice of intention to appear in accordance with paragraph 28 of this Order.

13. Notice to the NOVA Shareholders of their right to dissent with respect to the NOVA Special Resolution and to receive, subject to the provisions of this Order, the fair value of their NOVA Common Shares and NOVA Preferred Shares, as the case may be, shall be good and sufficiently given by including information with respect thereto in the Circular to be sent to the NOVA Shareholders in accordance with paragraph 3 of this Order.

TransCanada Special Meeting

14. TransCanada shall in conjunction with its annual and special meeting of TransCanada Common Shareholders call, hold and conduct a special meeting (the "TransCanada Special Meeting") of the TransCanada Common Shareholders to be held at the City of Calgary in the Province of Alberta at The Westin Calgary, 320 - 4 Avenue, S.W., Calgary, Alberta, Canada, at 1:30 p.m. (Calgary time) on the 29th day of June, 1998, for the purpose of (i) considering and, if deemed advisable, approving with or without variation, a special resolution substantially in the form of the TransCanada PipeLines Limited Special Resolution set forth in Appendix A to the Circular (the "TransCanada Special Resolution") approving the Arrangement and (ii) transacting such other business as may properly be brought before the TransCanada Special Meeting.

Notices

15. TransCanada shall mail the Notice of the TransCanada annual and special meeting (which shall include notice of the TransCanada Special Meeting), the Notice to TransCanada Shareholders of Petition to the Court of Queen's Bench of Alberta, appropriate forms of Proxy, the Management Information Circular, the Circular (in substantially the form set forth at Exhibit "A" to the Affidavit of Albert Terence Poole with such amendments as are not inconsistent with the provisions of this Order) and this Order to the holders of TransCanada Common Shares at the close of business on May 27, 1998 (the "TransCanada Record Date") by mailing same by prepaid Canada Post Corporation's Expedited Ground Service to such shareholders at the latest address for such shareholders as shown in the records of TransCanada or its registrar and transfer agent, at least 21 days prior to the date of the TransCanada Special Meeting, excluding the date of mailing and excluding the date of the TransCanada Special Meeting.

16. The accidental delay or omission in giving notice of the TransCanada Special Meeting, or the non-receipt of such notice by any person shall not invalidate any resolution passed or proceedings taken at the TransCanada Special Meeting.

Conduct of TransCanada Special Meeting

17. The TransCanada Special Meeting shall be called, held and conducted in accordance with the By-laws of TransCanada and the CBCA, subject to the provisions of this Order and to such modifications as may be adopted at the TransCanada Special Meeting.

18. Each TransCanada Common Shareholder entitled to vote on the TransCanada Special Resolution shall be entitled to one vote for each TransCanada Common Share held.

19. A quorum at the TransCanada Special Meeting shall be two or more persons, present in person or by proxy, holding or representing at least 20% of the TransCanada Common Shares entitled to vote at the TransCanada Special Meeting, provided that if no quorum is present within 30 minutes of the appointed time of the TransCanada Special Meeting, such meeting shall stand adjourned to 24 hours at the same time and place, for which adjourned meeting no further notice shall be required to be given and the TransCanada Common Shareholders present, in person or by proxy, entitled to vote at the TransCanada Special Meeting shall constitute a quorum for the adjourned meeting.

20. The TransCanada Special Meeting, once commenced, may be adjourned from time to time and no further notice of such adjournment or the holding of any adjourned meeting or meetings need be given thereafter.

21. The majority required to pass the TransCanada Special Resolution shall be, subject to further order of this Court, not less than two-thirds (2/3) of the votes cast in person or by proxy at the TransCanada Special Meeting on the TransCanada Special Resolution.

22. The only persons entitled to vote at the TransCanada Special Meeting, either in person or by proxy, shall be the registered TransCanada Common Shareholders, as at the close of business on the TransCanada Record Date, subject to the provisions of the CBCA with respect to persons who become registered holders of such securities after that date.

23. The only persons entitled to attend and speak at the TransCanada Special Meeting shall be the TransCanada Common Shareholders or their authorized representatives, together with TransCanada's directors and officers and its auditors, advisors and counsel and the Director under the CBCA.

TransCanada Dissent Rights

24. A TransCanada Common Shareholder shall have the right to dissent from the TransCanada Special Resolution approving the Arrangement in accordance with the provisions of section 190 of the CBCA, except as modified by this Order, including:

- a. for any shareholder to be entitled to dissent, that shareholder must send to TransCanada a written objection to the TransCanada Special Resolution, which written objection must be received by the

Secretary of TransCanada in the care of Montreal Trust Company of Canada at 600, 530 - 8 Avenue, S.W., Calgary, Alberta, T2P 2S8, or delivered to the Chairman of the TransCanada Special Meeting at or before the commencement of the TransCanada Special Meeting;

- b. the steps under subsections 190(6) and (7), and following, are only required or available if a certificate of arrangement has been issued by the Director and has become effective;
- c. a dissenting shareholder's rights as a shareholder will be reinstated under subsection 190(11), in addition to the grounds specified in that subsection, where:
 - i) the Arrangement Agreement is terminated; or
 - ii) the application for the Final Order is refused and all appeal rights in respect of such refusal have been exhausted without success.
- d. the action approved by the resolution referred to in subsections 190(12), (15) and (23) means the issuance of the Certificate of Arrangement;
- e. the court for the purposes of section 190 and as referred to therein means this Court;
- f. all notices required or permitted under section 190 may be given by prepaid registered mail; and
- g. a dissenting shareholder is entitled to appear at the application for the final order, provided that a notice of intention to appear has been filed and served in accordance with paragraph 28 of this Order.

25. Notice to the TransCanada Common Shareholders of their right to dissent with respect to the TransCanada Special Resolution and to receive, subject to the provisions of this Order, the fair value of their TransCanada Common Shares shall be good and sufficiently given by including information with respect thereto in the Circular to be sent to the TransCanada Shareholders in accordance with paragraph 15 of this Order.

Application by NOVA and TransCanada for Final Order

26. Upon approval of the NOVA Special Resolution and the holding of the TransCanada Special Meeting in the manner set forth in this Order, NOVA and TransCanada may apply to this Court for approval of the Arrangement, which application shall be heard at the Court House, 611 - 4th Street, S.W., Calgary, Alberta on the 30th day of June, 1998 at 9:00 a.m. (Calgary time), or so soon thereafter as counsel may be heard.

27. The mailing of the materials referred to in paragraphs 3 and 15 above in accordance with the provisions of this Order shall constitute good and sufficient service of the within proceedings, this Order, and the application for the final order approving the Arrangement upon all persons who are entitled to receive such notice pursuant to this Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings and service of the Petition and the Affidavit of Albert Terence Poole and the Affidavit of Marcel R. Coutu, filed herein, is dispensed with except as to service of the Petition and the Affidavit of Albert Terence Poole on the Executive Director in the case of NOVA and service of the Petition and the Affidavit of Marcel R. Coutu on the Director in the case of TransCanada.

28. Persons desiring to appear at the hearing on June 30, 1998, are required to file with the Court and serve on NOVA, TransCanada and ArrangeCo. on or before June 23, 1998, a notice of their intention to appear, including their addresses for service in Calgary, Alberta (or alternatively a telecopier number for service by telecopy), together with any evidence or material which is to be presented to the Court. Service on NOVA is to be effected by delivery to the solicitors for NOVA at:

Howard, Mackie
1000 Canterra Tower
400 Third Avenue, S.W.
Calgary, Alberta T2P 4H2
Attention: Frank R. Foran, Q.C.

Service on TransCanada or ArrangeCo. is to be effected by delivery to the solicitors for TransCanada and ArrangeCo. at:

Bennett Jones Verchere
4500 Bankers Hall
855 - 2 Street, S.W.
Calgary, Alberta T2P 4K7
Attention: A. L. Friend, Q.C.

29. In the event that the application for final approval of the Arrangement on June 30, 1998 is adjourned, then, subject to further order of this Court, only those persons having previously served a notice of intention to appear in accordance with paragraph 28 hereof shall have to be given notice of the adjournment date.

30. In addition to service of this Order in accordance with paragraphs 3 and 15 above, service of this Order shall be made upon all such persons who appeared on this application either by counsel or in person and upon the Executive Director and the Director.

Variation of Order

31. NOVA, TransCanada and ArrangeCo. (and such other persons as this Court may consider to be affected by the Arrangement) may at any time seek leave to vary this Order upon such terms and the giving of such notice as this Court may direct.

“W.K. Moore”
W.K. Moore, C.J.
C.J.C.Q.B.A.

ENTERED at the City of Calgary,
in the Province of Alberta, this
19th day of May, 1998.

(signed) Clerk of the Court of Queen’s Bench of Alberta
Clerk of the Court

IN THE COURT OF QUEEN'S BENCH
OF ALBERTA
JUDICIAL CENTRE OF CALGARY

IN THE MATTER OF section 186 of the
BUSINESS CORPORATIONS ACT, S.A. 1981,
c.B-15, AS AMENDED.

AND IN THE MATTER OF section 192 of the
CANADA BUSINESS CORPORATIONS ACT,
R.S.C. 1985, c.C-44, AS AMENDED.

AND IN THE MATTER OF an Arrangement
proposed by NOVA Corporation and TransCanada
PipeLines Limited and 3399508 Canada Ltd.
involving NOVA Corporation and its holders of
Common Shares and Preferred Shares and
TransCanada PipeLines Limited and its holders of
Common Shares and 3399508 Canada Ltd.

ORDER

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**APPENDIX D — PROCEDURE TO EXERCISE DISSENT
RIGHT UNDER THE ABCA**

Pursuant to the Interim Order, NOVA Shareholders have the right to dissent to the Arrangement. Such right of dissent is described in the Joint Management Information Circular. See “NOVA Shareholder Rights of Dissent” for full details of the right to dissent and the procedure for compliance with the right of dissent. The full text of Section 184 of the *Business Corporations Act (Alberta)* is set forth below. Note that certain provisions of Section 184 have been modified by the Interim Order attached to the Joint Management Information Circular as Appendix C.

SECTION 184 OF THE *BUSINESS CORPORATIONS ACT (ALBERTA)*

184(1) Subject to sections 185 and 234, a holder of shares of any class of a corporation may dissent if the corporation resolves to

- (a) amend its articles under section 167 or 168 to add, change or remove any provisions restricting or constraining the issue or transfer of shares of that class,
 - (b) amend its articles under section 167 to add, change or remove any restrictions on the business or businesses that the corporation may carry on,
 - (c) amalgamate with another corporation, otherwise than under section 178 or 180.1,
 - (d) be continued under the laws of another jurisdiction under section 182, or
 - (e) sell, lease or exchange all or substantially all its property under section 183.
- (2) A holder of shares or any class or series of shares entitled to vote under section 170, other than section 170(1)(a), may dissent if the corporation resolves to amend its articles in a manner described in that section.
- (3) In addition to any other right he may have, but subject to subsection (20), a shareholder entitled to dissent under this section and who complies with this section is entitled to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the last business day before the day on which the resolution from which he dissents was adopted.
- (4) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
- (5) A dissenting shareholder shall send to the corporation a written objection to a resolution referred to in subsection (1) or (2)
- (a) at or before any meeting of shareholders at which the resolution is to be voted on, or
 - (b) if the corporation did not send notice to the shareholder of the purpose of the meeting or of his right to dissent, within a reasonable time after he learns that the resolution was adopted and of his right to dissent.
- (6) An application may be made to the Court by originating notice after the adoption of a resolution referred to in subsection (1) or (2),
- (a) by the corporation, or
 - (b) by a shareholder if he has sent an objection to the corporation under subsection (5),
- to fix the fair value in accordance with subsection (3) of the shares of a shareholder who dissents under this section.
- (7) If an application is made under subsection (6), the corporation shall, unless the Court otherwise orders, send to each dissenting shareholder a written offer to pay him an amount considered by the directors to be the fair value of the shares.

- (8) Unless the Court otherwise orders, an offer referred to in subsection (7) shall be sent to each dissenting shareholder
 - (a) at least 10 days before the date on which the application is returnable, if the corporation is the applicant, or
 - (b) within 10 days after the corporation is served with a copy of the originating notice, if a shareholder is the applicant.
- (9) Every offer made under subsection (7) shall
 - (a) be made on the same terms, and
 - (b) contain or be accompanied by a statement showing how the fair value was determined.
- (10) A dissenting shareholder may make an agreement with the corporation for the purchase of his shares by the corporation, in the amount of the corporation's offer under subsection (7) or otherwise, at any time before the Court pronounces an order fixing the fair value of the shares.
- (11) A dissenting shareholder
 - (a) is not required to give security for costs in respect of an application under subsection (6), and
 - (b) except in special circumstances shall not be required to pay the costs of the application or appraisal.
- (12) In connection with an application under subsection (6), the Court may give directions for
 - (a) joining as parties all dissenting shareholders whose shares have not been purchased by the corporation and for the representation of dissenting shareholders who, in the opinion of the Court, are in need of representation,
 - (b) the trial of issues and interlocutory matters, including pleadings and examinations for discovery,
 - (c) the payment to the shareholder of all or part of the sum offered by the corporation for the shares,
 - (d) the deposit of the share certificates with the Court or with the corporation or its transfer agent,
 - (e) the appointment and payment of independent appraisers, and the procedures to be followed by them,
 - (f) the service of documents, and
 - (g) the burden of proof on the parties.
- (13) On an application under subsection (6), the Court shall make an order
 - (a) fixing the fair value of the shares in accordance with subsection (3) of all dissenting shareholders who are parties to the application,
 - (b) giving judgment in that amount against the corporation and in favour of each of those dissenting shareholders, and
 - (c) fixing the time within which the corporation must pay that amount to a shareholder.
- (14) On
 - (a) the action approved by the resolution from which the shareholder dissents becoming effective,
 - (b) the making of an agreement under subsection (10) between the corporation and the dissenting shareholder as to the payment to be made by the corporation for his shares, whether by the acceptance of the corporation's offer under subsection (7) or otherwise, or
 - (c) the pronouncement of an order under subsection (13),

whichever first occurs, the shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares in the amount agreed to between the corporation and the shareholder or in the amount of the judgment, as the case may be.

- (15) Subsection (14)(a) does not apply to a shareholder referred to in subsection (5)(b).
- (16) Until one of the events mentioned in subsection (14) occurs,
- (a) the shareholder may withdraw his dissent, or
 - (b) the corporation may rescind the resolution,
- and in either event proceedings under this section shall be discontinued.
- (17) The Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder, from the date on which the shareholder ceases to have any rights as a shareholder by reason of subsection (14) until the date of payment.
- (18) If subsection (20) applies, the corporation shall, within 10 days after
- (a) the pronouncement of an order under subsection (13), or
 - (b) the making of an agreement between the shareholder and the corporation as to the payment to be made for his shares,
- notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.
- (19) Notwithstanding that a judgment has been given in favour of a dissenting shareholder under subsection (13)(b), if subsection (20) applies, the dissenting shareholder, by written notice delivered to the corporation within 30 days after receiving the notice under subsection (18), may withdraw his notice of objection, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder, failing which he retains a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of the creditors of the corporation but in priority to its shareholders.
- (20) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that
- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due, or
 - (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

APPENDIX E — PROCEDURE TO EXERCISE DISSENT RIGHT UNDER THE CBCA

Pursuant to the Interim Order, TransCanada Shareholders have the right to dissent to the Arrangement. Such right of dissent is described in the Joint Management Information Circular. See “TransCanada Common Shareholder Rights of Dissent” for full details of the right to dissent and the procedure for compliance with the right of dissent. The full text of Section 190 of the *Canada Business Corporations Act* is set forth below. Note that certain provisions of Section 190 have been modified by the Interim Order attached to the Joint Management Information Circular as Appendix C.

SECTION 190 OF THE *CANADA BUSINESS CORPORATIONS ACT*

190. (1) Right to dissent — Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to

- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;
 - (b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;
 - (c) amalgamate otherwise than under section 184;
 - (d) be continued under section 188; or
 - (e) sell, lease or exchange all or substantially all of its property under subsection 189(3).
- (2) **Further right** — A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.
- (3) **Payment for shares** — In addition to any other right he may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which he dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.
- (4) **No partial dissent** — A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
- (5) **Objection** — A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of his right to dissent.
- (6) **Notice of resolution** — The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn his objection.
- (7) **Demand for payment** — A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if he does not receive such notice, within twenty days after he learns that the resolution has been adopted, send to the corporation a written notice containing
- (a) his name and address;
 - (b) the number and class of shares in respect of which he dissents; and
 - (c) a demand for payment of the fair value of such shares.

- (8) **Share certificate** — A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which he dissents to the corporation or its transfer agent.
- (9) **Forfeiture** — A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.
- (10) **Endorsing certificate** — A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.
- (11) **Suspension of rights** — On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under this section except where
 - (a) the dissenting shareholder withdraws his notice before the corporation makes an offer under subsection (12),
 - (b) the corporation fails to make an offer in accordance with subsection (12) and the dissenting shareholder withdraws his notice, or
 - (c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9),in which case his rights as a shareholder are reinstated as of the date he sent the notice referred to in subsection (7).
- (12) **Offer to pay** — A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice
 - (a) a written offer to pay for his shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or
 - (b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.
- (13) **Same terms** — Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.
- (14) **Payment** — Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.
- (15) **Corporation may apply to court** — Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as the court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.
- (16) **Shareholder application to court** — If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.
- (17) **Venue** — An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.
- (18) **No security for costs** — A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

- (19) **Parties** — On an application to a court under subsection (15) or (16),
- (a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and
 - (b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel.
- (20) **Powers of court** — On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.
- (21) **Appraisers** — A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.
- (22) **Final order** — The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the Court.
- (23) **Interest** — A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.
- (24) **Notice that subsection (26) applies** — If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.
- (25) **Effect where subsection (26) applies** — If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may
- (a) withdraw his notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder; or
 - (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.
- (26) **Limitation** — A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that
- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or
 - (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

APPENDIX F — FAIRNESS OPINIONS

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Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated	F-10

May 19, 1998

The Board of Directors
NOVA Corporation
801 Seventh Avenue S.W.
Calgary, Alberta
T2P 2N6

To the Board:

RBC Dominion Securities Inc. ("RBC DS") understands that NOVA Corporation (the "Company") and TransCanada PipeLines Limited ("TransCanada") have entered into an agreement (the "Arrangement Agreement") dated January 24, 1998, as amended May 19, 1998, to complete a merger of equals (the "Transaction") by way of plan of arrangement. As part of the Transaction, the merged entity ("MergeCo") will split off, to its common shareholders, as part of a reorganization of capital, all of the common shares of the Company (the "Common Shares"). At the time of such split off the only material asset of the Company will be all of the common shares of NOVA Chemicals Ltd. As a result, we refer herein to the Common Shares immediately after the Transaction as common shares of "ChemCo". As a result of the Transaction, the holders of Common Shares will receive 0.52 common shares of MergeCo and for each common share of MergeCo held as a result thereof, 0.2 common shares of ChemCo. As a result of the Transaction, the preferred shares of the Company (the "Preferred Shares") will become preferred shares of MergeCo, ranking equally in all material respects with the existing first preferred shares of TransCanada. We understand that the Transaction will be a taxable disposition for holders of Common Shares. The terms of the Transaction will be more fully described in a joint management information circular to be dated May 19, 1998 (the "Circular"), which will be mailed to shareholders of the Company in connection with the Transaction.

The Company has retained RBC DS to provide advice and assistance to the Company in evaluating the Transaction, including the preparation and delivery to the board of directors (the "Board") of the Company of RBC DS' opinion as to the fairness of the Transaction from a financial point of view to the holders of Common Shares and Preferred Shares (the "Fairness Opinion"). RBC DS has not prepared a valuation of the Company or TransCanada or any of their respective securities or assets and the Fairness Opinion should not be construed as such.

Engagement

The Company engaged RBC DS as of November 10, 1997 to advise the Company on the proposed separation of the Company into two separate publicly traded entities, one comprising the Company's energy services businesses ("EnergyCo"), the other being ChemCo (the "SplitCo Transaction"). Through an agreement between the Company and RBC DS (the "Engagement Agreement") dated as of December 4, 1997, the Company retained RBC DS to advise on a possible merger of equals with TransCanada. RBC DS consents to the inclusion of the Fairness Opinion in its entirety and a summary thereof in the Circular and to the filing thereof, as necessary, by the Company with the securities commissions or similar regulatory authorities in each province of Canada.

Relationship with Interested Parties

Neither RBC DS, nor any of its affiliates is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario) (the "Act")) of the Company, TransCanada or any of their respective associates or affiliates. RBC DS has not been engaged to provide any financial advisory services for the Company, TransCanada or any of their respective associates or affiliates, within the past two years, other than the services provided under the Engagement Agreement. RBC DS was lead manager of a \$200 million public offering of preferred shares for the Company in March 1997, co-lead manager of the initial public offering of TransCanada Power L.P. in June 1997 and is a regular participant in the medium term note programs of the Company's subsidiaries and TransCanada. Other than the Engagement Agreement and the engagement of RBC DS by the Company regarding the SplitCo Transaction, and an engagement of RBC DS by the Company to review ChemCo as a stand alone company, there are no understandings, agreements or commitments between RBC DS and the Company, TransCanada or any of their respective associates or affiliates with respect to any future business dealings. RBC DS may, in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the Company, TransCanada or any of their respective associates or affiliates. The Royal Bank of Canada, controlling shareholder of RBC DS, provides banking services to the Company and TransCanada in the normal course of business.

RBC DS acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have had and may in the future have positions in the securities of the Company, TransCanada or any of their respective associates or affiliates and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it received or may receive compensation. As an investment dealer, RBC DS conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company, TransCanada or the Transaction.

Credentials of RBC Dominion Securities

RBC DS is one of Canada's largest investment banking firms, with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Fairness Opinion expressed herein represents the opinion of RBC DS and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

Scope of Review

In connection with our Fairness Opinion, we have reviewed and relied upon or carried out, among other things, the following:

1. the Arrangement Agreement including the plan of arrangement attached thereto;
2. audited financial statements of the Company, NOVA Chemicals Ltd. and TransCanada for each of the four years ended December 31, 1997;
3. the unaudited interim reports of the Company, NOVA Chemicals Ltd. and TransCanada for the three months ended March 31, 1998;
4. annual reports of the Company and TransCanada for each of the two years ended December 31, 1996;
5. the Notice of Annual Meeting of Shareholders and Management Information Circulars of the Company and TransCanada for each of the two years ended December 31, 1996;
6. a draft of the Joint Management Information Circular with respect to the Arrangement involving the Company and TransCanada to be dated May 19, 1998;

7. annual information forms of the Company, NOVA Chemicals Ltd. and TransCanada for each of the two years ended December 31, 1996;
8. historical segmented financial statements of the Company and TransCanada by business unit for the four years ended December 31, 1997;
9. internal management budgets of the Company and TransCanada on a consolidated basis and segmented by business unit for the year ending December 31, 1998;
10. unaudited projected financial statements for the Company and TransCanada on a consolidated basis and segmented by business unit prepared by management of the Company and TransCanada respectively for the years ending December 31, 1998 through December 31, 2000;
11. discussions with senior management of the Company and TransCanada;
12. discussions with the Company's and TransCanada's auditors and legal counsel;
13. public information relating to the business, operations, financial performance and stock trading history of the Company, TransCanada and other selected public companies considered by us to be relevant;
14. public information with respect to other transactions of a comparable nature considered by us to be relevant;
15. public information regarding the energy services and chemical industries;
16. discussions with the financial advisors to TransCanada;
17. representations contained in certificates addressed to us, dated as of the date hereof, from senior officers of the Company and TransCanada as to the completeness and accuracy of the information upon which the Fairness Opinion is based; and
18. such other corporate, industry and financial market information, investigations and analyses as RBC DS considered necessary or appropriate in the circumstances.

RBC DS has not, to the best of its knowledge, been denied access by the Company and TransCanada to any information requested by RBC DS.

Assumptions and Limitations

With the Board's approval and as provided for in the Engagement Agreement, RBC DS has relied upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions or representations obtained by it from public sources, senior management of the Company and TransCanada and their consultants and advisors (collectively, the "Information"). The Fairness Opinion is conditional upon such completeness, accuracy and fair presentation of such Information. Subject to the exercise of professional judgment and except as expressly described herein, we have not attempted to verify independently the completeness, accuracy or fair presentation of any of the Information.

Senior officers of the Company have represented to RBC DS in a certificate delivered as of the date hereof, among other things, that (i) the Information (as defined above) provided orally by, or in the presence of, an officer of the Company or in writing by the Company or any of its subsidiaries or their respective agents to RBC DS relating to the Company or any of its subsidiaries or to the Transaction, for the purpose of preparing the Fairness Opinion was, at the date the Information was provided to RBC DS, and is, except as has been disclosed to RBC DS, complete, true and correct in all material respects, and did not, except as has been disclosed to RBC DS, and does not, contain any untrue statement of a material fact in respect of the Company, its subsidiaries or the Transaction, and did not, except as has been disclosed to RBC DS, and does not, omit to state a material fact in respect of the Company, its subsidiaries or the Transaction necessary to make the

Information not misleading in light of the circumstances under which the Information was made or provided; and that (ii) since the dates on which the Information was provided to RBC DS, except as disclosed to RBC DS, or as publicly disclosed by the Company, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the Company or any of its subsidiaries and no material change has occurred in the Information or any part thereof which would have, or which would reasonably be expected to have, a material effect on the Fairness Opinion. Senior officers of TransCanada have made the same representations to RBC DS in a separate certificate delivered as of the date hereof.

In preparing the Fairness Opinion, RBC DS has made several assumptions, including that all of the conditions required to implement the Transaction will be met.

The Fairness Opinion is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Company, TransCanada and their respective subsidiaries and affiliates, as they were reflected in the Information and as they have been represented to RBC DS in discussions with management of the Company and TransCanada. In its analyses and in preparing the Fairness Opinion, RBC DS made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of RBC DS or any party involved in the Transaction.

The Fairness Opinion has been provided for the use of the Board. The Fairness Opinion is given as of the date hereof and RBC DS disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to RBC DS' attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, RBC DS reserves the right to change, modify or withdraw the Fairness Opinion.

RBC DS believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Fairness Opinion is not to be construed as a recommendation to any shareholder of the Company as to whether to vote in favour of the Transaction.

Fairness Analysis

Approach to Fairness

In considering the fairness of the Transaction from a financial point of view to the holders of Common Shares, RBC DS compared the consideration to be received by holders of Common Shares (being 0.52 common shares of MergeCo and for each common share of MergeCo held as a result thereof, 0.2 common shares of ChemCo) to (i) the market trading value of the Common Shares in early January 1998 prior to market speculation regarding the potential announcement of the Transaction; and (ii) the value likely to be received by holders of Common Shares as a result of the SplitCo Transaction. We have also considered the recent market trading of the common shares and preferred shares of the Company and the common shares of TransCanada. We also compared the relative contribution of earnings, cash flow and assets by the Company and TransCanada to MergeCo to the relative ownership of MergeCo to be received by the holders of Common Shares and the holders of common shares of TransCanada. We did not believe it would be appropriate and hence did not complete an en bloc value analysis of the Company given that the Transaction is a merger of equals and holders of Common Shares will receive common shares of MergeCo and ChemCo, with the opportunity to participate in any en bloc transactions involving these companies in the future.

In considering the fairness of the Transaction from a financial point of view to the holders of Preferred Shares, RBC DS compared certain proforma credit ratios for the Preferred Shares under the Transaction and

the business prospects and risks faced by MergeCo to the current credit ratios for the Preferred Shares and the business prospects and risks faced by the Company. We also considered the potential impact of the Transaction on the credit ratings of the Preferred Shares.

Fairness Conclusion

Based upon and subject to the foregoing, RBC DS is of the opinion that, as of the date hereof, the Transaction is fair from a financial point of view to the holders of Common Shares and to the holders of Preferred Shares.

Yours very truly,

“RBC DOMINION SECURITIES INC.”
RBC DOMINION SECURITIES INC.

May 19, 1998

The Board of Directors
TransCanada PipeLines Limited
111 - 5th Avenue S.W.
Calgary, Alberta
T2P 3Y6

To The Board of Directors:

We understand that TransCanada PipeLines Limited ("TransCanada") has entered into a merger agreement (the "Agreement") dated January 24, 1998, amended May 19, 1998, with NOVA Corporation ("NOVA") pursuant to which TransCanada and NOVA have agreed to enter into a Plan of Arrangement (the "Arrangement") that, subject to certain tax and regulatory clearances and the approval of the shareholders of both companies, will result in the formation of two publicly traded companies, EnergyCo. ("Energy") and NOVA Chemicals ("NOVA Chemicals") (the "Transaction"). Under the terms of the Agreement, NOVA shareholders will exchange each NOVA share for 0.52 TransCanada shares and NOVA Chemicals will be immediately distributed to the combined shareholders. TransCanada and NOVA will each appoint one-half of the directors, and their respective shareholders will own approximately one half of the shares, of Energy and NOVA Chemicals. The Transaction will be accounted for on a pooling of interests basis.

The terms and conditions of the Arrangement and the required approvals, information concerning the Agreement, TransCanada and NOVA, and pro-forma information describing Energy and NOVA Chemicals will be included in a joint management information circular (the "Circular") that will be sent to all shareholders of TransCanada and NOVA in advance of shareholder meetings that will be held to consider the Arrangement.

The Board of Directors of TransCanada (the "Board") has retained Nesbitt Burns Inc. ("Nesbitt Burns") to provide financial and strategic advice to the Board and our opinion (the "Opinion") as to the fairness of the Transaction from a financial point of view to the shareholders of TransCanada. We consent to the references to this Opinion and its inclusion in the Circular. Our Opinion is not, and should not be construed as, a valuation of TransCanada, NOVA or any of their respective assets.

Credentials of Nesbitt Burns

Nesbitt Burns is one of Canada's largest investment banking firms, with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading, investment research and investment management. The Opinion expressed herein is the opinion of Nesbitt Burns and the form and content herein have been approved for release by a committee of its directors and officers, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

Scope of Review

In connection with rendering the Opinion, we have reviewed and relied upon, or carried out, among other things, the following:

- (i) the Agreement dated January 24, 1998;
- (ii) a draft of the amendment to the Agreement dated May 17, 1998;

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- (iii) the draft Circular dated May 17, 1998;
- (iv) discussions with the managements of TransCanada and NOVA regarding the Transaction and the expected combination benefits, cost reductions and incremental revenue opportunities that will result;
- (v) the audited annual financial statements and the interim reports, Annual Reports, Annual Information Forms and Proxy Statements for each of the three consecutive fiscal years ended December 31, 1996 of TransCanada and NOVA;
- (vi) the audited annual financial statements and the interim reports for the fiscal year ended December 31, 1997 of TransCanada and NOVA;
- (vii) the interim report for the first quarter of fiscal 1998 for each of TransCanada and NOVA;
- (viii) the fiscal 1998 budgets prepared by the managements of TransCanada and NOVA;
- (ix) financial and operating information and plans relating to the expected future performance of TransCanada and NOVA and their major business units and investments;
- (x) certain confidential information and discussions with the managements of TransCanada and NOVA regarding, among other things, their respective assets, liabilities, operations, investments and business prospects;
- (xi) tax information prepared by the managements of TransCanada and NOVA and discussions with TransCanada's tax counsel regarding the tax implications of the Transaction;
- (xii) discussions with TransCanada's legal counsel with respect to various matters relating to the Transaction and the Arrangement;
- (xiii) discussions with the auditors of TransCanada and NOVA with respect to pooling of interests accounting and their opinions recommending such accounting treatment for the Transaction;
- (xiv) public information relating to the business, operations, financial performance and stock trading history of TransCanada, NOVA and other selected public companies that we considered relevant;
- (xv) data with respect to other transactions of a comparable nature that we considered relevant;
- (xvi) letters of representation as to certain factual matters, addressed to us and dated the date hereof, provided by senior officers of each of TransCanada and NOVA; and
- (xvii) such other information, investigations and analyses as we considered appropriate in the circumstances.

Assumptions and Limitations

We have relied upon, and have assumed the completeness, accuracy and fair representation of all financial and other information, data, advice, opinions and representations obtained by us from public sources or provided to us by TransCanada, NOVA and their respective affiliates or advisors or otherwise pursuant to our engagement and the Opinion is conditional upon such completeness, accuracy and fair representation. Subject to the exercise of professional judgment and except as expressly described herein, we have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. The senior managements of TransCanada and NOVA have represented to us, in letters delivered as at the date hereof, amongst other things, that the information, data, opinions and other materials (the "Information") provided to us by or on behalf of TransCanada and NOVA respectively, are complete and correct at the date the Information was provided to us and that since the date of the Information, there has been no material change, financial or otherwise, in the position of TransCanada or NOVA, or in their respective assets, liabilities (contingent or otherwise), business or operations and there has been no change of any material fact which is of a nature as to render the Information untrue or misleading in any material respect.

The Opinion is rendered on the basis of securities markets, economic and general business and financial conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of TransCanada and NOVA as they were reflected in the information and documents reviewed by us and as they

were represented to us in our discussions with the managements of TransCanada and NOVA. In our analyses and in connection with the preparation of the Opinion, we made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Transaction.

Conclusion

Based upon and subject to the foregoing, it is our opinion as of the date hereof that the Transaction is fair from a financial point of view to the shareholders of TransCanada.

Yours truly,

“NESBITT BURNS INC.”

NESBITT BURNS INC.



Merrill Lynch Canada Inc.
Alberta Stock Exchange Tower
Suite 1850, 300 Fifth Avenue S.W.
Calgary, Alberta T2P 3C4
Tel: (403) 571-2890
Fax: (403) 571-2895

May 19, 1998

Board of Directors
TransCanada PipeLines Limited
TransCanada PipeLines Tower
111 - Fifth Avenue S.W.
P.O. Box 1000, Station M
Calgary, Alberta T2P 4K5

Members of the Board of Directors:

TransCanada PipeLines Limited ("TransCanada"), NOVA Corporation ("NOVA") and Arrangeco, a newly formed, wholly owned subsidiary of TransCanada (the "Merger Sub"), have entered into an Arrangement Agreement and a Plan of Arrangement, each dated as of January 24, 1998, as amended May 19, 1998, (together, the "Agreements"), pursuant to which each of NOVA's outstanding common shares, no par value (the "NOVA Shares"), will be converted into the right to receive 0.52 (the "Exchange Ratio") of a common share, no par value, of TransCanada (the "TransCanada Shares") (together, the "Transaction"). Also, immediately following the Transaction, a Capital Reorganization (as such term is defined in the Agreements) shall occur in which all of the NOVA Chemicals Common Shares (as such term is defined in the Agreements and which represent, generally, NOVA's chemical business) shall be issued to the shareholders of TransCanada (including those who become shareholders as a result of the Transaction).

You have asked us whether, in our opinion, the Exchange Ratio is fair from a financial point of view to the common shareholders of TransCanada.

In arriving at the opinion set forth below, we have, among other things:

- (1) Reviewed certain publicly available business and financial information relating to NOVA and TransCanada that we deemed to be relevant;
- (2) Reviewed certain information, including financial and operating information and plans relating to the expected future performance of the business, earnings, cash flow, assets, liabilities and prospects of NOVA and TransCanada, as well as the amount and timing of the cost savings, revenue enhancements and related expenses expected to result from the Transaction (the "Expected Synergies") furnished to us by NOVA and TransCanada;
- (3) Conducted discussions with members of senior management and representatives of NOVA and TransCanada concerning the matters described in clauses 1 and 2 above, as well as their respective businesses and prospects before and after giving effect to the Transaction;
- (4) Reviewed the market prices and implied valuation multiples for the NOVA Shares and the TransCanada Shares and compared them with those of certain publicly traded companies that we deemed to be relevant;
- (5) Reviewed the results of operations of NOVA and TransCanada and compared them with those of certain publicly traded companies that we deemed to be relevant;
- (6) Participated in certain discussions and negotiations among representatives of NOVA and TransCanada and their respective financial and legal advisors;
- (7) Reviewed the potential pro forma impact of the Transaction on TransCanada;
- (8) Reviewed the draft joint management information circular pertaining to the Transaction;

- (9) Reviewed the Agreements; and
- (10) Reviewed such other financial studies and analyses and took into account such other matters as we deemed necessary, including our assessment of general economic, market and monetary conditions.

In preparing our opinion, we have assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available, and we have not assumed any responsibility for independently verifying such information or undertaken an independent evaluation or appraisal of any of the assets or liabilities of NOVA or TransCanada or have been furnished with any such evaluation or appraisal. In addition, we have not assumed any obligation to conduct any physical inspection of the properties or facilities of NOVA or TransCanada. With respect to the financial and operating information and plans relating to the expected future performance and the Expected Synergies furnished to or discussed with us by NOVA or TransCanada, we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of NOVA's or TransCanada's management as to the expected future financial performance of NOVA or TransCanada, as the case may be, and the Expected Synergies. We have further assumed that the Transaction will be accounted for as a pooling of interests under Canadian generally accepted accounting principles and will be tax-free to TransCanada shareholders under Canadian federal income tax laws.

Our opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date hereof. We have assumed that, in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the Transaction, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the Transaction, including the Expected Synergies, or the future financial performance of TransCanada and NOVA on a combined basis.

In connection with the preparation of this opinion, we have not been authorized by TransCanada or the Board of Directors to solicit, nor have we solicited, third party indications of interest for a transaction involving all or any part of TransCanada.

We are acting as financial advisor to TransCanada in connection with the Transaction and will receive a fee from TransCanada for our services, a significant portion of which is contingent upon the execution of the Agreements and the consummation of the Transaction. In addition, TransCanada has agreed to indemnify us for certain liabilities arising out of our engagement. We have, in the past, provided financial advisory and financing services to TransCanada and NOVA and may continue to do so and we have received, and may receive, fees for the rendering of such services. In addition, in the ordinary course of our business, we may actively trade the NOVA Shares and other securities of NOVA, as well as the TransCanada Shares and other securities of TransCanada, for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

This opinion is for the use and benefit of the Board of Directors of TransCanada. Our opinion does not address the merits of the underlying decision by TransCanada to engage in the Transaction, the fairness of the Capital Reorganization or the prices at which any shares referred to herein will trade in the future. Our opinion also does not constitute a recommendation to any shareholder of TransCanada as to how such shareholder should vote on the proposed Transaction or any matter related thereto.

On the basis of and subject to the foregoing, we are of the opinion that, as of the date hereof, the Exchange Ratio is fair from a financial point of view to the common shareholders of TransCanada.

Very truly yours,

“MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED”

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

APPENDIX G — INFORMATION RELATING TO NOVA

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April 16, 1998



ANNUAL INFORMATION FORM



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REFERENCE INFORMATION

Regulatory Authorities	CERCLA	U.S. Comprehensive Environmental Response, Compensation and Liability Act
	EPA	U.S. Environmental Protection Agency
	ERCB	Alberta Energy Resources Conservation Board
	EUB	Alberta Energy and Utilities Board
	FERC	U.S. Federal Energy Regulatory Commission
	GUA	Gas Utilities Act (Alberta)
	NEB	National Energy Board of Canada
	NPA	Northern Pipeline Agency
	PUB	Public Utilities Board of Alberta

Imperial Unit

lb	=	pound
Mbbls	=	thousand barrels
Mcf	=	thousand cubic feet
MMcf	=	million cubic feet
MMm ³	=	million cubic metres
Bcf	=	billion cubic feet
Tcf	=	trillion cubic feet
MMlbs	=	million pounds

Metric Conversion Table

1 mile	=	1.609 kilometres
1 lb	=	0.453592 kilograms
1 Mbbls	=	158.9825 cubic metres
*1 Mcf	=	28.17399 cubic metres
*1 MMcf	=	28.17399 × 10 ³ cubic metres
*1 Bcf	=	28.17399 × 10 ⁶ cubic metres
*1 Tcf	=	28.17399 × 10 ⁹ cubic metres
1 MMLbs	=	453,592 kilograms

* Conversion based on natural gas at 60°F. and 14.7 psi(a) converted at 15°C and 101.325 kilopascals

FORWARD LOOKING INFORMATION

The information in this material contains forward-looking statements with respect to NOVA Corporation, its subsidiaries or affiliated companies. By their nature, these forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. These risks and uncertainties include commodity chemicals and feedstock prices, regulatory and competitive developments affecting the Alberta pipeline, cost levels in both the chemicals and energy services operations, completion of the previously announced merger with TransCanada PipeLines Limited and split-off of NOVA Chemicals Ltd. as an independent publicly listed company, Canadian/U.S. exchange rates and other risks detailed from time to time in the publicly filed disclosure documents and other securities commissions reports of NOVA Corporation and its subsidiaries or affiliated companies.

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THE CORPORATION

NOVA Corporation (“NOVA”) is a major Canadian corporation headquartered in Calgary, Alberta. NOVA’s principal business operations are energy services, including the gathering, processing, transmission and marketing of natural gas and natural gas liquids, and production and marketing of petrochemicals. NOVA’s operations are conducted through three principal operating subsidiaries:

NOVA GAS TRANSMISSION LTD. (“NOVA Gas Transmission”) which owns and operates an Alberta based regulated gas pipeline business;

NOVA GAS INTERNATIONAL LTD. (“NOVA Gas International”) which directly and through various affiliates holds NOVA’s other pipeline-related investments and conducts NOVA’s energy services business in Canada and internationally;

NOVA CHEMICALS LTD. which conducts the petrochemicals and polymers business directly and through various affiliates (collectively “NOVA Chemicals”).

When used in this Annual Information Form, “NOVA” and the “Corporation” mean NOVA Corporation or NOVA Corporation together with its subsidiaries and affiliates, depending on the context.

Historical Development

NOVA Corporation of Alberta was incorporated in 1954 by Special Act of the Legislative Assembly of the Province of Alberta (the “Incorporating Act”), which was amended from time to time and then repealed in two stages in 1994 and early 1995. It continued under the *Business Corporations Act* (Alberta) (the “ABCA”) with the result that both the Incorporating Act and the ABCA applied to it until May 10, 1994. Its Articles of Incorporation were amended twice prior to May 10, 1994, first on April 25, 1989 to permit its elected directors to be elected for one, two or three year terms of office, and second on April 22, 1992 to delete this provision and return to electing all elected directors each year for one year terms.

On May 10, 1994 NOVA Corporation of Alberta filed articles of arrangement to complete a reorganization (the “Reorganization”) pursuant to which it became a wholly-owned subsidiary of NOVA and changed its name to NOVA Gas Transmission; its common shareholders became the common shareholders of NOVA. At the same time NOVA also became the parent corporation of each of NOVA Chemicals and the predecessor corporations of NOVA Gas International.

At the time of the Reorganization, NOVA’s common shareholders approved a shareholder rights plan (the “Rights Plan”). Rights under the Rights Plan are triggered upon the commencement or announcement of a take-over bid for NOVA’s common shares, or if a person acquires 15% or more of NOVA’s common shares. The Rights Plan remains in effect for five years from May 6, 1994, the date of its adoption.

NOVA represents a continuation of all the business and financial interests of NOVA Corporation of Alberta, the assets, liabilities and operations of which became the assets, liabilities and operations of NOVA on a consolidated basis. Accordingly, the historical information provided herein for NOVA prior to the Reorganization is that of NOVA Corporation of Alberta.

Historically, NOVA’s involvement in the energy services industry concentrated on regulated Canadian pipelines, with some involvement in gas marketing, international consulting, and investments related to natural gas services. NOVA is committed to pursuing growth in the energy services business to take advantage of attractive investment opportunities. The energy services business includes natural gas transmission serving producers in the Western Canada Sedimentary Basin (the “WCSB”), which is conducted by NOVA Gas Transmission (see “NOVA Gas Transmission”), and Canadian and international gas services, which is conducted by NOVA Gas International. The natural gas services portion of the business includes natural gas gathering, transmission, processing and natural gas liquids sales and is conducted in Canada by Novagas Canada Limited Partnership and through NOVA’s investment in Foothills Pipe Lines Ltd. (“Foothills”), and in the United States principally through NOVA’s indirect investment in NGC Corporation (“NGC”).

NOVA Chemicals is Canada’s largest petrochemicals company with production facilities in Canada and the United States. NOVA Chemicals operates two principal businesses: olefins/polyolefins and styrenics. The

olefins/polyolefins business produces ethylene, polyethylene and a variety of chemical and energy products, while the styrenics business produces styrene and styrenic polymers. In addition, NOVA Chemicals owns approximately 27% of Methanex Corporation ("Methanex"), the world's largest producer and marketer of methanol and approximately 26% of NGC, a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom.

In January 1994, NOVA Chemicals completed a series of transactions whereby it exchanged its methanol assets for common shares of Methanex and purchased additional Methanex common shares and common share installment receipts. As a result, NOVA Chemicals became the largest single shareholder of Methanex, holding approximately 24% of its common equity. NOVA Chemicals has not participated in Methanex's share buyback programs, with the result that its ownership position in Methanex has increased to approximately 27%.

During the second quarter of 1994, NOVA Chemicals acquired the St. Clair River linear low-density and high-density polyethylene facility from DuPont Canada Inc. ("DuPont Canada") for approximately \$45 million plus working capital. In the second quarter of 1995, a subsidiary of NOVA Chemicals sold its polypropylene plant in Marysville, Michigan for \$60 million.

On February 29, 1996 NOVA and Union Carbide Corporation ("Union Carbide") announced their intention to build a 2 billion pounds-per-year ethylene plant ("EIII") in Joffre, Alberta. NOVA announced on April 16, 1997 that the planned initial capacity had been increased to 2.8 billion pounds-per-year. The plant, including all commissioning and start-up costs, is currently estimated to cost \$1.1 billion, as spent. NOVA Chemicals and Union Carbide Canada Inc. ("Union Carbide Canada") will jointly own the plant on an approximately equal ownership basis. The facility is scheduled for completion in the year 2000. On the same day, NOVA also announced its intention to build a new polyethylene plant at Joffre utilizing NOVA's Advanced SCLAIRTECH™ polyethylene technology. This proprietary technology, first announced in December, 1996, yields high performance polyethylene resins with key advantages over traditional polyethylene resins. The plant's current estimated construction, commissioning and start-up costs are \$385 million as spent with a planned capacity of 850 MMlbs-per-year. The start up date in the year 2000 would correspond with the completion of the new ethylene plant.

On September 30, 1996, NOVA Chemicals Inc. acquired the plastics business of ARCO Chemical Company ("ARCO Chemicals") for approximately U.S.\$160 million including working capital.

On April 16, 1997, NOVA Chemicals and Amoco Canada Petroleum Company Ltd ("Amoco") announced Amoco's plans to construct a linear alpha olefins ("LAO") plant on NOVA Chemicals' Joffre site. NOVA Chemicals will be the ethylene feedstock supplier to and a major customer of products produced by the LAO plant which is planned to start up in the year 2000. Construction of the LAO plant is subject to receipt of final regulatory approvals.

On July 8, 1997 NOVA Chemicals announced that it would begin the regulatory application process for a possible cogeneration power plant at its Joffre site. NOVA Chemicals is proceeding with plans to develop and share ownership in a cogeneration plant having an electrical capacity of approximately 400 megawatts per hour. All of the steam and electrical requirements of the Joffre site (approximately 110 megawatts per hour of electricity) would be supplied from the cogeneration facility. Excess electrical power would be sold to the Alberta power pool.

During the past five years, NOVA has sold various assets, following a decision to focus on its core businesses of natural gas services and petrochemicals. During the second quarter of 1993, NOVA sold its remaining 31.7% interest in Grove Italia S.p.A., a valve manufacturer in Italy. Early in 1994, NOVA sold its 50% interest in the TQM Pipeline Partnership, which owns and operates a natural gas pipeline system in Quebec, and completed the sale of Novalta Resources Inc., an Alberta-based natural gas exploration and production company.

In late 1993 and early 1994, NOVA pursued a number of new investment opportunities in its gas services businesses. In January 1994, a predecessor of NOVA Gas International completed the acquisition of a 36.5% partnership interest in Natural Gas Clearinghouse, a major independent United States gas services business. During the third quarter of 1994, NOVA's interest was increased to 39.1%. In March 1995, Natural Gas Clearinghouse combined operations with Trident NGL Holding, Inc. to form NGC. As part of this combination SCLAIRTECH™ is a trademark of NOVA Chemicals.

NOVA contributed \$95 million and retained a 33.3% interest in NGC. On August 31, 1996, most of the United States (except Alaska) natural gas gathering, processing and marketing assets of Chevron Corporation ("Chevron") were merged with NGC. NOVA currently owns approximately 26% of the common shares of the merged NGC.

In early 1994, NOVA and NGC jointly established a new Canadian joint venture limited partnership, Novagas Clearinghouse Limited Partnership ("NCLP"), to provide natural gas services in the Canadian market. In June 1995, NCLP acquired the shares of Pan-Alberta Gas Ltd. ("Pan-Alberta"). On October 16, 1996, NOVA and NGC announced a reorganization of NCLP. Prior to reorganizing NCLP, NGC and NOVA Gas International each owned approximately 50% of NCLP. The reorganization was completed on June 26, 1997. The natural gas marketing business of NCLP (excluding the natural gas marketing business of Pan-Alberta) was sold by NCLP to a Canadian subsidiary of NGC. NOVA Gas International acquired the partnership interest of NGC in NCLP such that NCLP became wholly-owned by NOVA Gas International. NCLP retained the midstream asset business which involves natural gas gathering, processing and natural gas liquids. NCLP has subsequently been renamed Novagas Canada Limited Partnership.

In 1992, NOVA acquired, through an affiliate, an 11.3% interest in Transportadora de Gas del Norte S.A. ("TGN") which operates a natural gas pipeline system in Argentina. In 1994, NOVA increased its interest in TGN to 14.4% and in the fourth quarter of 1996 to 19.1%. Also in 1994, NOVA acquired, through an investment in an affiliate, a 25% interest in the Moomba-Sydney natural gas pipeline in Australia.

In 1995, a NOVA Gas International affiliate secured contracts permitting the construction of a U.S.\$325 million pipeline project from Argentina to Chile (the "GasAndes Project"). The GasAndes Project was completed on time, within budget and placed into service in August, 1997. NOVA Gas International currently has a 56.5% interest in the GasAndes Project. This interest is expected to be reduced in 1998 to 46.5% as a result of the purchase of certain of NOVA Gas International's interests in the pipeline by other shareholders under the terms of the existing Shareholders' Agreement.

On January 21, 1998, NOVA Gas International announced its intention, as part of a consortium of companies, to proceed with Gasoducto del Pacifico, a U.S.\$400 million integrated natural gas project including a U.S.\$342 million 530-kilometre natural gas pipeline from Argentina to Concepcion, Chile. The parties to the consortium executed definitive commercial agreements on February 14, 1998. NOVA Gas International holds a 30% interest in the project.

Recent Developments

Plan of Arrangement with TransCanada PipeLines Limited

On January 26, 1998 NOVA and TransCanada PipeLines Limited ("TransCanada") announced their intention to complete a merger of equals by way of a plan of arrangement (the "Arrangement"). Under the terms of the Arrangement shareholders of NOVA will exchange each NOVA common share for 0.52 TransCanada common shares. As part of the Arrangement, the merged entity will distribute, to its common shareholders which will include the former shareholders of NOVA, all of the common shares of NOVA. At the time of such split-off of NOVA the only material asset of NOVA will be all of the common shares of NOVA Chemicals. The Arrangement requires the approval of the shareholders of NOVA and TransCanada as well as tax, judicial and a variety of regulatory approvals.

Accord with CAPP and SEPAC

On April 7, 1998 NOVA, NOVA Gas Transmission and TransCanada reached an historic accord with the Canadian Association of Petroleum Producers ("CAPP") and the Small Explorers and Producers Association of Canada ("SEPAC") to promote a competitive environment, greater customer choice, and to recognize the importance of maintaining their alignment of interest in the WCSB. Three guiding principles were endorsed by the signatories.

- (1) support for competition and greater customer choice;

- (2) the need to construct competitive incremental pipeline capacity from the WCSB by both new competitors and existing pipelines alike in a timely, safe and cost effective manner; and
- (3) the need to effect regulatory changes that will provide existing and new pipelines equal opportunity to compete, recognizing that such competition is desirable and in the best interests of all industry stakeholders.

NOVA, NOVA Gas Transmission, TransCanada, SEPAC and CAPP will pursue several action items in 1998, including the development of:

- a generic pipeline interconnection policy to provide shippers with the option of reasonable access to competing transmission systems and to minimize duplication of facilities;
- new regulatory frameworks for consideration by the NEB and the EUB that would address the need of existing pipelines to have the appropriate tools with which they can compete; and
- a process acknowledging the industry's desire to maintain adequate separation between pipeline companies' regulated and non-regulated businesses.

The Accord also provides that if during the first 5 years from the initial coming into service of the Alliance pipeline project, any underutilization of the NOVA Gas Transmission system results, the cost of such underutilized capacity will be included in NOVA Gas Transmission's cost of service, provided NOVA Gas Transmission makes a good faith offer to Alliance to provide Alliance service on the NOVA Gas Transmission system and NOVA Gas Transmission uses its best efforts to maximize the utilization of such capacity.

To ensure the intent of the accord is implemented in a timely manner, a steering committee was established made up of senior executives representing each signatory. In light of the accord, CAPP and SEPAC announced that they would support the approvals required to effect the proposed Arrangement between NOVA and TransCanada. CAPP represents approximately 170 companies which find, develop and produce 95% of Canada's natural gas and crude oil. SEPAC represents over 420 companies which explore for and produce approximately 10% of Western Canada's natural gas and crude oil.

Business Segments

In its financial statements, NOVA reports its operations in the following three principal business operations:

1. NOVA Gas Transmission — the regulated natural gas pipeline transmission system in Alberta.
2. NOVA Gas International — a range of domestic and international energy services, including gathering, processing, transmission and marketing of natural gas and natural gas liquids.
3. NOVA Chemicals — production and marketing of various petrochemical and polymer products.

Financial information for NOVA's business segments for each of the last three fiscal years is contained in Note 1 to the Consolidated Financial Statements as at December 31, 1997 incorporated by reference into this Annual Information Form.

NOVA Gas Transmission Ltd.

NOVA Gas Transmission is an Alberta-wide natural gas transmission system which collects and transports natural gas for use in Alberta and for delivery to connecting pipelines at Alberta borders for export to eastern Canada and to the United States. As at December 31, 1997, this system included main trunk lines and laterals of approximately 22,200-kilometres ranging in diameter from two inches to 48 inches, 47 compressor stations, 967 receipt meter stations, 172 delivery stations and other related facilities (the "Pipeline System"). The Pipeline System has been developed at a cost, to December 31, 1997, of approximately \$6.4 billion. Actual capital expenditures in any year are dependent upon requests for increased transportation service by customers. Capital expenditures on the Pipeline System were \$391 million in 1997. NOVA Gas Transmission is anticipating 1998 capital spending of \$430 million, with a further \$430 million planned for 1999, assuming no material bypass proposals are approved.

In 1997, the Pipeline System transported approximately 4.5 Tcf of natural gas with a market value of almost \$9 billion, up 1% over 1996, making 1997 the eleventh consecutive year in which a transportation volume record was set. NOVA Gas Transmission is the largest volume carrier of natural gas in North America transporting approximately 80% of Canadian natural gas production and approximately 18% of the natural gas produced in North America in 1997.

NOVA Gas Transmission believes the WCSB contains about 73 Tcf of conventional marketable natural gas reserves, equating to about 13 years of supply at 1997 production rates. While Canadian gas production has doubled from 2.8 Tcf in 1987 to 5.6 Tcf in 1997, reserve volumes in the WCSB have remained relatively constant. Virtually all of Canada's gas production comes from this well-defined basin and estimates of resource potential have grown steadily as the WCSB matures. The trend of technological improvements is expected to continue to reduce costs and further expand the resource base.

NOVA Gas Transmission forecasts continued growth in demand for natural gas as the clean-burning, cost-efficient fuel of choice over the long term at annual rates of approximately 1.7% in the United States and 2.4% in Canada. NOVA Gas Transmission's role in meeting this demand is to provide proven transportation value to producers in Alberta. This facilitates the producers' response to demand growth and helps make the WCSB the supply basin of choice for North American consumers of natural gas. This basin is among the least-explored and most rapidly expanding conventional natural gas producing basins in North America. Each year, NOVA Gas Transmission's customers submit to NOVA Gas Transmission requests for transportation service on the Pipeline System. Requests for increased capacity usually arise on the discovery and exploitation of new natural gas production, or from increased production from existing reserves. Historically, requests for new service are considered a good indicator of the natural gas industry's intention to connect new and incremental natural gas supplies to the Pipeline System. Customer service requests submitted to NOVA Gas Transmission in 1997 relating to transportation services in 1998 came in at a level comparable to service requests submitted in 1996.

The year-end investment base for the Pipeline System is expected to increase to approximately \$5.3 billion by December 31, 1998 from \$5.1 billion at December 31, 1997. The investment base includes facilities in service and facilities under construction.

Regulation of NOVA Gas Transmission

Prior to June 1994, NOVA Gas Transmission was a utility regulated under the Incorporating Act.

Between June 1994 and December 31, 1994, the Legislative Assembly of Alberta repealed the Incorporating Act in stages. On January 1, 1995 NOVA Gas Transmission became fully regulated under the GUA. On February 16, 1995, legislation creating the EUB was proclaimed into force. This legislation also provided that, after that date, all matters which were previously within the jurisdiction of the PUB or the ERCB would be within the exclusive jurisdiction of the EUB, and that all matters before the PUB or the ERCB on that date would be continued before or by the EUB.

1995 General Rate Application. NOVA Gas Transmission is required to apply to the EUB for orders fixing and approving just and reasonable rates, tolls and charges; and just and reasonable terms and conditions of service. Accordingly, on January 12, 1995, NOVA Gas Transmission filed the 1995 General Rate Application ("GRA") with the PUB (now the EUB) for an order fixing and approving its rates, tolls and charges and its terms and conditions of service for 1995.

The EUB held hearings in respect of that portion of the 1995 GRA which related to NOVA Gas Transmission's 1995 rates, tolls and charges ("Phase I") in August and September 1995, and rendered a decision in respect of Phase I on January 4, 1996. The EUB fixed NOVA Gas Transmission's 1995 operating return at 9.945%. Included in this rate of return was an 11.5% after-tax return on a deemed common equity component of 32%.

On February 16, 1996 the EUB issued an order amending certain portions of its January 4, 1996 decision, which resulted in an increase to NOVA Gas Transmission's approved 1995 revenue requirement. The total revenue requirement after the amendment was \$1.065 billion. The EUB order authorized NOVA Gas Transmission to recover the increase to its 1995 revenue requirement from its customers of record in 1995.

In January 1996 the EUB held hearings on the remaining issues of the 1995 GRA not considered in Phase I, which included issues relating to NOVA Gas Transmission's rate design, and NOVA Gas Transmission's terms and conditions of service ("Phase II"). A decision by the EUB on Phase II was given on June 12, 1996, affirming the postage-stamp rate design. (A postage-stamp rate design is one where a set rate is paid per volume transported, regardless of distance.)

Foothills Zone 7. In June 1994, a complaint was filed with the PUB by SEPAC in respect of a portion of the tolls charged by Foothills to NOVA Gas Transmission for transportation on mainline facilities provided by Foothills under two agreements with NOVA Gas Transmission (the "Foothills Agreements"), which charges are included in NOVA Gas Transmission's tolls. Following a hearing in February and March of 1995, the EUB issued an order on July 28, 1995 requiring that NOVA Gas Transmission refund to its customers the portion of its tolls relating to charges under the Foothills Agreements for the period from November 1, 1993 to December 31, 1994, amounting to approximately \$9 million. In late September 1995, NOVA Gas Transmission made applications to the EUB for a review and variance of the EUB's original decision and for a stay of the EUB's original decision until final disposition of the application for review and variance. NOVA Gas Transmission also made an application to the Alberta Court of Appeal for leave to appeal the original decision of the EUB. On October 16, 1995, the EUB granted NOVA Gas Transmission's application for a stay of the EUB's original decision, and in late October and early November 1995, the EUB received written submissions on whether it should review its original decision. On December 4, 1997, the EUB issued its decision granting NOVA Gas Transmission's application for review and variance of the July 28, 1995 order. The EUB set May 20, 1998 for a hearing as to the merits of varying its decision. The application to the Alberta Court of Appeal was adjourned without a fixed date for hearing.

As a part of NOVA Gas Transmission's 1995 GRA, the EUB approved inclusion (in NOVA Gas Transmission's 1995 revenue requirement) of the charges for transportation on Foothills Zone 7 facilities. The EUB decision permitted NOVA Gas Transmission to recover fully the Foothills Zone 7 charges from January 1, 1995 onward. On February 1, 1996 SEPAC filed an application with the Alberta Court of Appeal seeking leave to appeal to that court, and on February 14, 1996 SEPAC, acting jointly with CAPP, filed an application with the EUB seeking a review and variance of the January 4, 1996 decision of the EUB insofar as it relates to the EUB's approval of the inclusion of the Foothills Zone 7 charges in NOVA Gas Transmission's 1995 revenue requirement. The application to the Alberta Court of Appeal has been adjourned without a fixed date for hearing and no hearing has been held in respect of the application to the EUB.

Cost-efficiency Incentive Settlement. On August 2, 1996, NOVA Gas Transmission filed an application with the EUB requesting approval of rates, tolls and charges resulting from the Cost-efficiency Incentive Settlement (the "Settlement"), which had received support on July 31, 1996 from certain of NOVA Gas Transmission's customers and other interested parties. Approval of the Settlement was received from the EUB on December 12, 1996 and was effective from January 1, 1996. On December 19, 1996, NOVA Gas Transmission filed an amendment to the Settlement with the EUB, which resulted in the approval of a Capital-efficiency Incentive Mechanism effective January 1, 1997.

The primary intent of the Settlement is to provide a mechanism which will encourage NOVA Gas Transmission to minimize operating and capital costs, without compromising safe, reliable and flexible pipeline operations. The Settlement provides a formula to establish NOVA Gas Transmission's recoverable costs through its transportation tolls from January 1, 1996 to December 31, 2000. The formula in the Settlement creates two distinct cost streams represented by base costs and new capacity capital costs, which together with capital and income taxes, comprise NOVA Gas Transmission's total recoverable costs.

Base costs are all reasonable and necessary costs incurred in providing natural gas transportation services on the Pipeline System. These include, among other things, interest expense related to the Pipeline System investment at January 1, 1996, and operating costs for the Pipeline System. Included in the base costs are net earnings of \$173 million which are fixed for the term of the Settlement. For 1996, base costs were negotiated to be approximately \$1.1 billion. Reduction of base costs is encouraged by a 50/50 sharing mechanism between NOVA Gas Transmission and its customers on annual variances between computed costs and actual total recoverable costs. The customers' share of any cost variance is added to, or subtracted from, billings for the

subsequent year. Base costs in the years 1997 to 2000 are calculated based on the previous year's actual costs and are adjusted by an annual escalation factor of 2%.

Depreciation was negotiated at a composite rate of 3% for 1996, escalating annually to 3.5% in 2000. Income and capital taxes flow through to the customer.

The capacity capital costs, which are principally the operating return and depreciation, relate to the annual cost of new capital facility investments added over the term of the Settlement. The rate of return on common equity for new capacity capital was negotiated at 11.5% for 1996. Beginning in 1997, the rate of return will be established each year based on the methodology established by the NEB in Decision RH-2-94 for determination of rate of return on common equity. This formula includes a risk premium adjustment to a forecasted long-term Government of Canada interest rate. For 1997, the rate of return on common equity for new capacity capital was 10.67%. The cost of debt was fixed at 8.765% for the term of the Settlement. Reduction of capacity capital costs is encouraged by a 50/50 sharing mechanism between NOVA Gas Transmission and its customers on any savings realized primarily through lower actual debt costs. Collection of prudently incurred capacity capital costs for facilities placed into transmission service within a given year are deferred to the subsequent year and include carrying charges.

The Settlement also includes a Capital-efficiency Incentive Mechanism, which was approved by the EUB in 1997. This mechanism is effective from January 1, 1997 through December 31, 2000. This mechanism, which is the first of its kind in the Canadian natural gas pipeline industry, sets an annual capacity capital investment performance target based on the historical ratio of capital costs for facilities placed into service, relative to incremental contracted capacity volume for firm transportation service. A reward or penalty is calculated based on the variance between the performance target and actual performance being either favourable or unfavourable. Annual rewards and penalties are amortized in equal amounts annually over the remaining term of the Settlement and are added to, or subtracted from, total recoverable costs.

To protect the interests of both NOVA Gas Transmission and its customers, provisions are included in the Settlement for non-routine adjustments (which are additions to, or subtractions from, the total recoverable costs), resulting from specifically defined circumstances such as changes to recoverable costs as ordered by the EUB, and changes to the legislative regime. Also, prior to normal expiry of the Settlement, any party to the Settlement has the option to request termination of the Settlement in the event that any one of a number of specifically defined circumstances should occur. Regulatory approval of bypass pipelines and significant changes to NOVA Gas Transmission's rate design are two examples of such circumstances. For more information in this regard, see "Competition".

New Service-level Options and Prices. Recognizing both the limitations of the current postage-stamp tolling methodology and the need for change, NOVA Gas Transmission has been developing new service-level options and prices which would apply broadly throughout the province over the longer term.

During 1997, NOVA Gas Transmission also worked collaboratively with a multi-stakeholder industry/government task force to advance a new rate-design methodology that introduces service choices, increases customer accountability for facilities used, and is responsive to the continuing evolution away from the postage-stamp pricing methodology. Approaches examined included zonal and point-specific differentiated pricing, and service-level and term length differentiated pricing at certain receipt points. Although the task force was disbanded without reaching complete consensus, NOVA Gas Transmission filed an application for new service level options and prices with the EUB on April 6, 1998.

Other Regulation. In addition to requiring application to the EUB for orders fixing and approving its rates and terms of service, the GUA requires that gas utilities must apply to the EUB for orders authorizing, among other things, any issuance of any shares or debt securities. An order exempting NOVA Gas Transmission from the application of these provisions of the GUA was granted on June 17, 1996 to the extent that common shares are issued to NOVA, and that debt securities relate to the Pipeline System.

The construction and operation of the Pipeline System within Alberta is regulated by the EUB under the *Energy Resources Conservation Act* (Alberta) and the *Pipeline Act* (Alberta). NOVA Gas Transmission is required to obtain from the EUB both a permit to construct, and a license to operate pipeline facilities. Under the

provisions of the *Pipeline Act*, the EUB addresses matters relating to economic and orderly development, design, construction practices, acquisition of pipeline rights-of-way and environmental impact. In addition to requirements under the *Pipeline Act*, the construction and operation of natural gas pipelines in Alberta is subject to certain provisions of, and requires certain approvals under, the *Environmental Protection and Enhancement Act* (Alberta) and other provincial and federal environmental legislation. For a discussion of the environmental regulation of NOVA Gas Transmission see “Environmental Protection”.

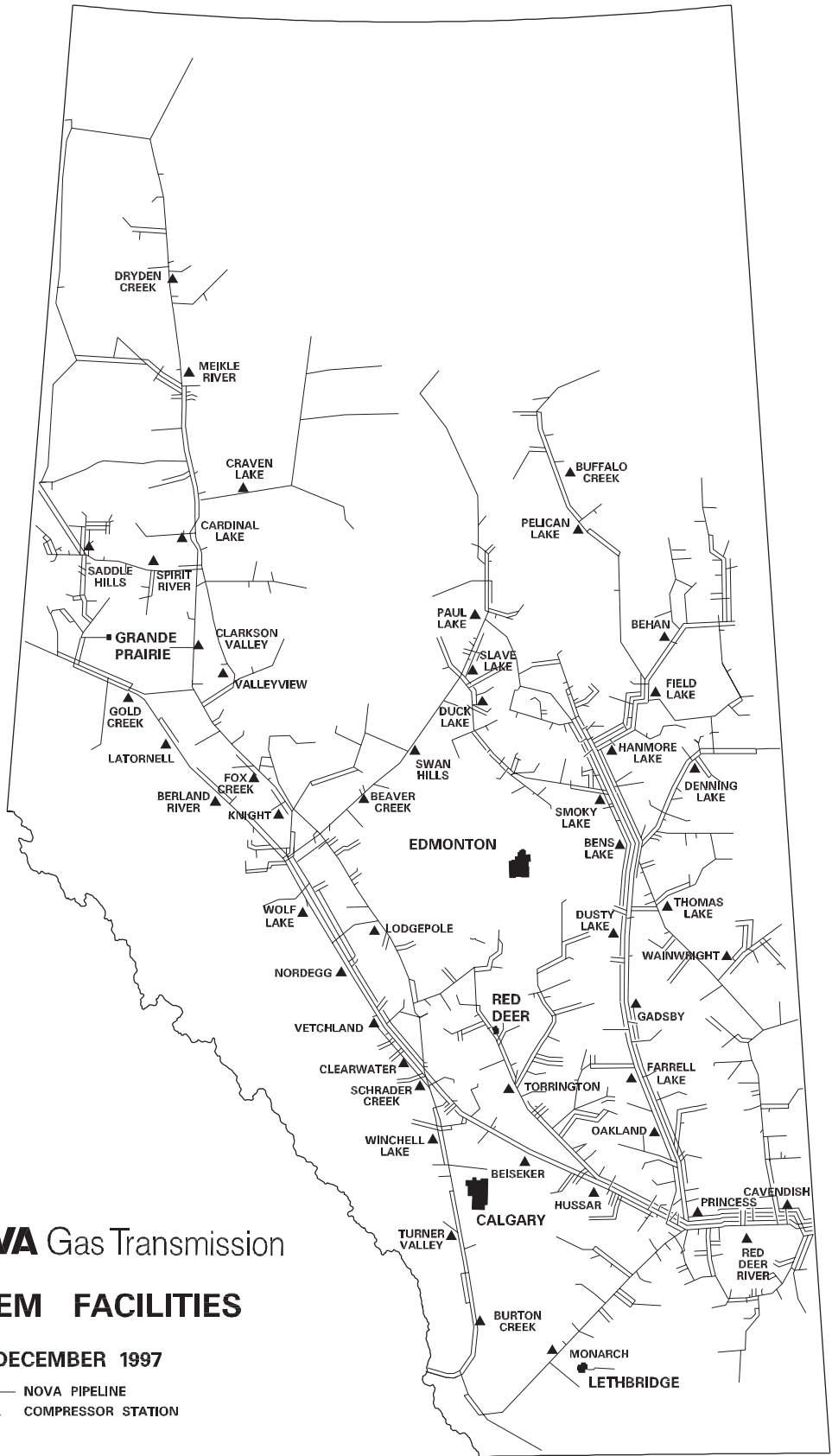
The EUB, pursuant to the *Gas Resources Preservation Act* (Alberta), also regulates the production of natural gas and, with the approval of the Government of Alberta, its removal from Alberta. Furthermore, the NEB regulates the removal of natural gas from Canada. While NOVA Gas Transmission is not a natural gas producer, requests for service on the Pipeline System could be affected by the ability of its customers to obtain production and removal permits.

Natural Gas Transportation Contracts

NOVA Gas Transmission provides natural gas transmission services under a gas transportation tariff which provides for recovery of its costs as determined under the Settlement. As a transporter of natural gas, NOVA Gas Transmission’s income is generated almost entirely by a return on investment base rather than through the purchase and resale of natural gas, and therefore its income is not directly affected by fluctuations in the commodity price of natural gas. NOVA Gas Transmission does not have any take-or-pay obligations.

While the Pipeline System is a long-term asset, the transportation contracts supporting the Pipeline System are of a shorter term. As of December 31, 1997 the weighted average remaining term of transportation contracts was approximately 3.5 years. This number represents a decrease from the average weighted remaining term on December 31, 1996 which was approximately 3.9 years. These contracts are renewable by the customer by providing notice to NOVA Gas Transmission at least six months prior to the expiry of the current contract term.

The level of natural gas shipments through the Pipeline System depends on the volume of natural gas produced and sold in Alberta and in market areas outside of Alberta and the construction of other pipeline capacity. Removal of natural gas from Alberta is regulated by both the Government of Alberta and, if the natural gas is to be exported to the United States, by the Government of Canada. The principal markets for natural gas transported on the Pipeline System are the United States (primarily the western, midwestern and northeastern regions), Eastern Canada, and Alberta. During 1997, 3.8 Tcf of natural gas was carried for export from Alberta through the Pipeline System, compared with 3.7 Tcf carried in 1996. Of this amount, approximately 1,861 Bcf was transported to Eastern Canada and the eastern United States, approximately 1,018 Bcf to the midwestern United States and approximately 942 Bcf to the western United States and other destinations outside of Alberta. Approximately 655 Bcf of natural gas was transported through the Pipeline System for use within Alberta in 1997.



NOVA Gas Transmission

SYSTEM FACILITIES

DECEMBER 1997

- NOVA PIPELINE
- ▲ COMPRESSOR STATION

Nova Gas International Ltd.

Effective January 1, 1995 Novacorp International Inc. and NOVA Gas Services Ltd. amalgamated and continued as Novacorp International Inc. Effective April 17, 1995, Novacorp International Inc. changed its name to NOVA Gas International. This entity conducts the business previously carried on separately by its two predecessors.

NOVA Gas International Ltd.

NOVA Gas International pursues investment opportunities in gas transmission pipelines and other natural gas services businesses domestically and internationally. In support of this strategy, NOVA Gas International provides project development, facility operations, consulting and commercial services in global gas services ventures.

NOVA Gas International has a 19.1% indirect interest in TGN. TGN operates a natural gas pipeline system in Argentina with a total length of approximately 4,860 kilometres and a delivery capacity of approximately 37 MMm³/day. A wholly-owned subsidiary of NOVA Gas International is the technical operator of the system.

NOVA Gas International holds a 56.5% interest in the companies (the "GasAndes Companies") that developed the 465-kilometre GasAndes natural gas pipeline from Argentina to Santiago, Chile. The pipeline was completed on time, within budget and placed into service in August, 1997. In February, 1997 the GasAndes Companies obtained a three-year credit facility for U.S.\$225 million to fund the construction of the GasAndes Project. The credit facility has been guaranteed by the shareholders of the GasAndes Companies pro-rata to their shareholdings. NOVA Gas International's interest in the GasAndes Companies is expected to be reduced in 1998 to approximately 46.5% as a result of other shareholders in those companies exercising options to purchase certain of NOVA Gas International's equity interest.

On January 21, 1998, NOVA Gas International announced its intention in partnership with El Paso Energy, Compañía de Consumidores de Gas S.A., Empresa Nacional del Petróleo and YPF S.A., to proceed with Gasoducto del Pacifico, a U.S.\$400 million integrated natural gas project including a U.S.\$342 million 530-kilometre pipeline transporting natural gas from Loma de la Lata, Argentina to Concepcion, Chile with laterals serving areas north and south of that city. The project also includes the establishment of a natural gas transportation and marketing company as well as an investment in a commercial and residential distribution system to serve customers in the region. The consortium executed definitive commercial agreements on February 14, 1998. NOVA Gas International holds a 30% interest in the pipeline which is currently expected to be placed in operation late in 1999.

NOVA Gas International has a 25.48% indirect interest in East Australian Pipeline Limited ("EAPL"). EAPL owns and operates the 1,935-kilometre Moomba-Sydney natural gas pipeline and operates the 1,400-kilometre Moomba-Botany ethane pipeline in Australia. NOVA Gas International provides personnel to perform marketing services on behalf of EAPL.

NOVA Gas International and Petroliam Nasional Berhad are joint shareholders in an engineering and technical services company based in Malaysia called OGP Technical Services Sdn. Bhd. ("OGP Technical Services"). NOVA Gas International, through a wholly-owned Malaysian subsidiary, owns 40% of OGP Technical Services which pursues consulting opportunities primarily in southeast Asia.

On February 11, 1998 NOVA Gas International completed the purchase of all minority interests in Arcan Ingenieria y Construcciones S.A., an Argentine pipeline engineering firm which pursues pipeline consulting and management opportunities in the southern cone of South America.

NOVA Gas International personnel are currently working in Australia, Indonesia, Malaysia, Thailand, China, Argentina, Chile, Mexico and Venezuela, and are actively pursuing natural gas investment and consulting projects in a number of other countries.

Novagas Canada Ltd. ("NCL")

On October 16, 1996, NOVA and NGC announced a reorganization of NCLP which was completed June 26, 1997. Prior to the re-organization NGC and NOVA Gas International each owned approximately 50%

of NCLP. NCLP provided natural gas gathering, processing and transportation; and, natural gas liquids marketing, exchange, purchase, sale, gathering, processing, transportation and storage services to Canadian customers. As a result of the reorganization, NCLP's natural gas marketing business (excluding the natural gas marketing business of Pan-Alberta) was sold to a Canadian subsidiary of NGC. NCLP was renamed Novagas Canada Limited Partnership which continues to conduct the natural gas and natural gas liquids gathering, processing and transportation business of NCLP. Novagas Canada Limited Partnership is managed by NCL, a wholly-owned subsidiary of NOVA Gas International. As well, Novagas Canada Limited Partnership continues to own 100% of Pan-Alberta.

In October, 1997, NCL reached an agreement with Mobil Oil Canada (Mobil) and other working interest owners in the Harmattan natural gas plant in west-central Alberta that saw NCL assume operation and control of the Harmattan facility in March 1998. Harmattan is one of Alberta's largest natural gas processing facilities, with a licensed capacity of 490 MMcf-per-day. NCL sees great potential for the Harmattan facility to become a central provider of low-sulphur gas processing.

Also, in October, NCL announced it had received approval from the Government of British Columbia to build a \$50 million natural gas extraction plant at Taylor, British Columbia. However, in early March, 1998, NCL reached an agreement with Taylor Gas Liquids Fund and PanCanadian Petroleum Limited for NCL to purchase a 43.3% working interest in the Younger gas processing facility at Taylor for approximately \$30 million. With this agreement, NCL terminated the construction of the previously announced 350 MMcf-per-day extraction plant and will instead pay its equivalent share to expand the Younger plant's processing capability by an additional 350 MMcf-per-day. The decision to expand an existing plant rather than build a new facility is consistent with NCL's strategy of consolidating existing facilities to increase the overall efficiency of the midstream business in Canada.

In December 1997, NCL announced it had made application to the British Columbia Government to build a \$92 million natural gas processing plant, and associated pipelines, in the West Stoddart area, 50 kilometres northwest of Fort St. John. NCL is currently awaiting approval from the British Columbia Environmental Assessment Office.

Early in 1998, NCL and Suncor Energy Inc. (Suncor) announced an agreement for NCL to develop a \$164 million hydrocarbon liquids conservation facility that will separate natural gas liquids and olefins from "off-gas", a by-product of the oilsands upgrading process. Suncor will supply the off-gas stream from its oilsands facility near Fort McMurray, Alberta. NCL will build a liquids recovery system in the vicinity to remove the natural gas liquids and olefins from the off-gas. NCL will then build a pipeline to its Redwater, Alberta fractionation facility. At Redwater, the recovered liquids and olefins will be processed into value-added products such as ethane, propane, propylene, butane and condensate. Subject to regulatory approval, the project is expected to be completed by the third quarter of 1999.

Pan-Alberta Gas Ltd.

Pan-Alberta markets natural gas, acquired at field delivery points in Alberta and British Columbia, and transports this natural gas to markets primarily outside Alberta, on a net-back basis. In addition to these traditional net-back activities, Pan-Alberta has contracts for firm transportation capacity on the facilities of NOVA Gas Transmission to 2010, and Alberta Natural Gas Company Ltd. and Pacific Gas Transmission Company to 2023, representing a total transportation cost commitment of approximately U.S.\$10.5 million per year. This transportation capacity is currently being utilized to transport natural gas sold under short term gas contracts or has been sold in the capacity re-lease market.

Nine producers in the Pan-Alberta gas aggregation pool have filed a statement of claim in the Alberta Court of Queen's Bench against Pan-Alberta claiming inter alia damages of approximately \$75 million. The claim alleges that Pan-Alberta has breached contractual, regulatory and fiduciary obligations that deprived these producers of the best available prices for their natural gas production. Pan-Alberta is vigorously defending against the claim, which is in its preliminary stages. On September 4, 1997, the action was directed by the Alberta Court of Queen's Bench to continue as a representative action whereby the plaintiffs will represent all producers having long term gas contracts with Pan-Alberta. A motion was heard on April 9, 1998 before the

Alberta Court of Queen's Bench to amend the relief claimed and to add NOVA as a party. The presiding judge has reserved his decision on the motion.

On December 2, 1997 the Pan-Alberta Board of Directors approved in principle the decision to offer for sale the business of Pan-Alberta.

Foothills Pipe Lines Ltd.

NOVA Gas International owns 50% of Foothills. Foothills is responsible for the planning, construction and operation of the Canadian segment and is a partner in the Alaska segment of the Alaska Natural Gas Transportation System (the "ANGTS"). The ANGTS was selected by the governments of Canada and the United States as the pipeline system to transport natural gas produced from reserves at Prudhoe Bay, Alaska to the continental United States with provision for Canadian frontier reserves. Foothills has filed two proposals to transport northern Canadian natural gas to southern markets. At current prices for natural gas it would be uneconomic to transport Alaskan or Canadian Arctic natural gas to southern markets.

Foothills' current system is a prebuild of the southern ANGTS, which transports approximately 2.6 Bcf per day of western Canadian natural gas to connecting pipelines for transportation to major markets in the United States. Foothills operates on a cost-of-service basis and is regulated by the NEB and the NPA. In 1997, Foothills earned 10.67% on a 30% common equity component of rate base. The return on common equity is based upon an NEB formula. The 1998 return on common equity has been determined by the NEB at 10.21%. NOVA Gas International's share of Foothills' rate base averaged approximately \$334 million in 1997 and is expected to average \$336 million in 1998.

On July 19, 1996, Foothills filed with its Canadian regulators for approval to construct an expansion to its Eastern Leg system to commence service in November, 1998. The applications were approved on January 20, 1997. The expansion has an estimated capital cost of \$174 million and is designed to move an additional 700 MMcf-per-day to the United States midwest market in conjunction with an expansion of the Northern Border Pipe Line Company and Natural Gas Pipeline Company of America pipeline systems in the United States. Construction has commenced on the projects in both Canada and the United States.

The NEB permits Foothills to collect a pre-tax amortization (currently 2%) and a pre-tax rate of return equivalent to the allowed return on common equity, on approximately \$61 million (originally \$124 million) of the ANGTS project preliminary expenditures (the "Special Charge"). NOVA's proportionate share of the Special Charge was originally \$72 million and was approximately \$35 million at December 31, 1997. NEB authorization is required to continue the Special Charge past the year 2000. NOVA's share of the unamortized portion will be approximately \$31 million in the year 2000.

As a result of a decision of the NEB, Foothills commenced the draw-down of its deferred income tax balance in January, 1996. Foothills is drawing down the \$135 million balance over a ten year period. The amount drawn down each year is added to rate base.

Other Operations

NOVA Gas International also owns and operates special purpose pipelines in Alberta to provide customers with hydrocarbon transportation facilities on a non-regulated basis. The system consists of approximately 400 kilometres of pipeline varying from 3 to 8 inches in diameter, plus related metering stations and pumping station facilities. NOVA Gas International also has a 25% interest in the Empress II ethane and natural gas liquids extraction plant.

Historical Financial Summary

For a summary of revenue, operating income, capital expenditures, assets and contribution to net income for NOVA Gas International see "Management Discussion and Analysis — NOVA Gas International" and Note 1 to the Consolidated Financial Statements as at December 31, 1997, each incorporated by reference into this Annual Information Form.

NOVA Chemicals Ltd.

Business

General

NOVA Chemicals operates two principal businesses: olefins/polyolefins and styrenics. The olefins/polyolefins business produces ethylene, polyethylene and a variety of chemical and energy products, while the styrenics business produces styrene and styrenic polymers. NOVA Chemicals operates major production facilities in Joffre, Alberta and in the Sarnia area of Ontario, as well as polystyrene manufacturing facilities in Montreal, Quebec; Beaver Valley, Pennsylvania; Painesville, Ohio; Decatur, Alabama; and Springfield, Massachusetts.

Ethylene and styrene are basic petrochemicals used to manufacture a wide variety of polymers and other chemical products. NOVA Chemicals produces polyethylene and polystyrene resins, primarily from its internal ethylene and styrene production, respectively, and sells the surplus ethylene and styrene to third parties. Polyethylene and polystyrene are used in a wide range of applications including rigid and flexible packaging, containers, multipurpose plastic bags, pipe, video and audio components, housewares and other industrial and consumer goods.

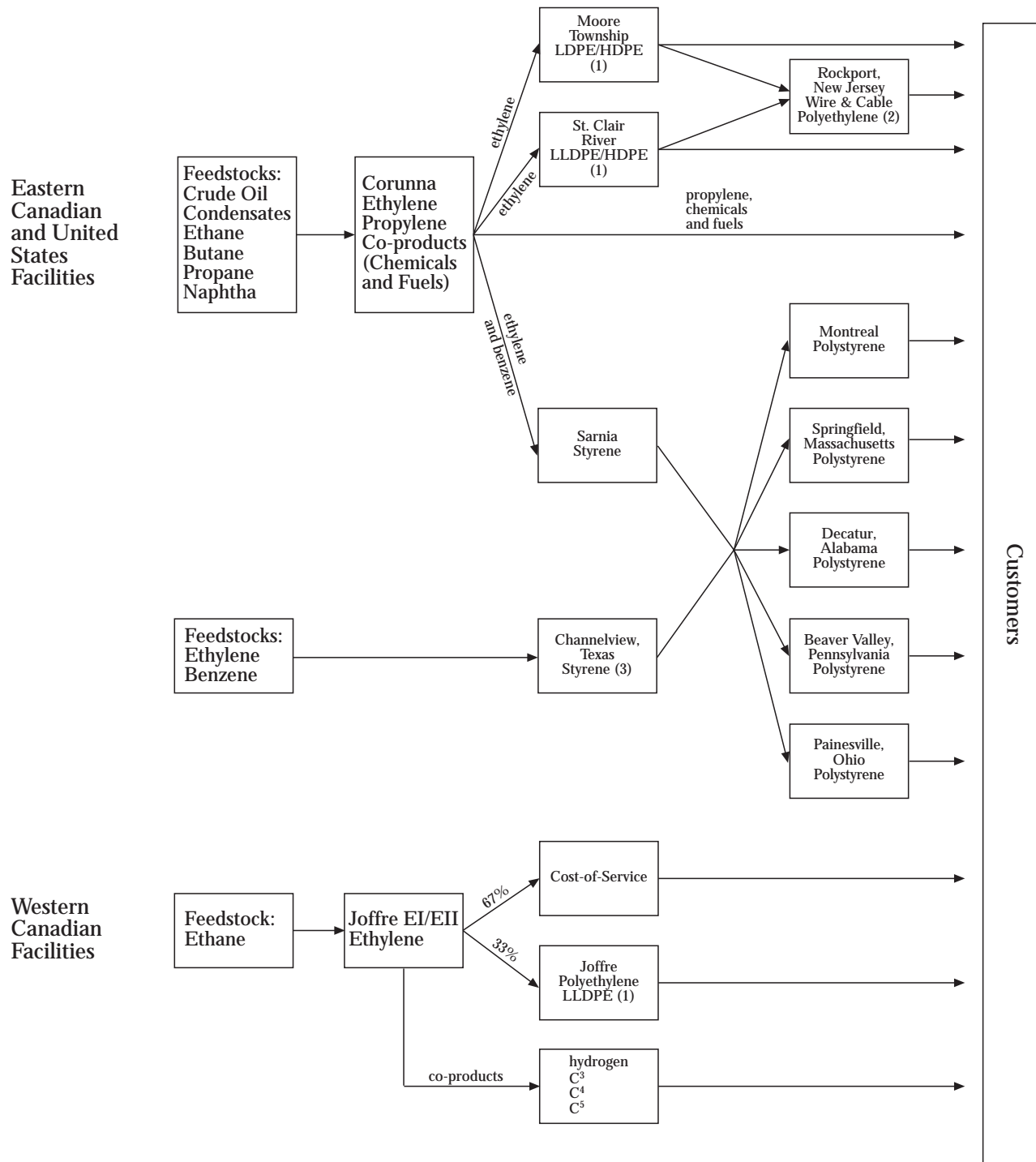
NOVA Chemicals' 1997 capital expenditures were approximately \$328 million, which included \$106 million on the olefins business, \$129 million on the polyolefins business, and \$87 million on the styrenics business. NOVA Chemicals' capital expenditures are currently expected to be in the order of \$500 million for 1998.

NOVA Chemicals also owns approximately 27% of Methanex, the world's largest producer and marketer of methanol, and approximately 26% of the common shares of NGC, a leading marketer of natural gas, natural gas liquids and power in North America and the United Kingdom. NGC is also engaged in electrical power generation and natural gas gathering, processing and transportation. Income from Methanex and NGC is reported in the consolidated NOVA Chemicals financial statements.

Production Facilities

The following two pages show NOVA Chemicals' production facilities as of December 31, 1997, the interrelationship between them and their principal products.

Product Flow Chart



Notes:

- (1) "LLDPE" is linear low-density polyethylene, "HDPE" is high-density polyethylene and "LDPE" is low-density polyethylene.
- (2) NOVA Chemicals owns 50% of NOVA-Borealis Compounds LLC which owns this facility.
- (3) NOVA Chemicals owns a minority interest in the facility and receives styrene monomer as a result of this interest. NOVA Chemicals also entered into a tolling arrangement for additional styrene monomer from this facility as part of the acquisition of ARCO Chemicals' polymers business.

Facility Profile

Site	Feedstocks	Principal Products	1997 Rated Capacity ⁽¹⁾ <small>(Millions of pounds/year)</small>	Markets	Principal End-Use Products
Joffre, Alberta	Ethane Ethane Ethane	Ethylene (EI) Ethylene (EII) Co-products ⁽⁴⁾	1,600 1,800 — ⁽³⁾	Canada	Polyethylene resin, ethylene glycol, ethylene dichloride, styrene, vinyl acetate
Corunna, Ontario	Crude oil, condensates, ethane, butane, propane, naphtha	Ethylene	1,600 ⁽²⁾	Canada, United States	Polyethylene, styrene
Sarnia, Ontario Channelview, Texas ⁽⁵⁾	Ethylene, benzene	Propylene Co-products ⁽⁴⁾ Styrene	650 to 835 ⁽²⁾ — ⁽³⁾ 1,400	Canada, United States Canada, United States Canada, United States, Europe, Pacific Rim	Polypropylene, isopropyl alcohol, propylene oxides Gasoline, fuel additives and other energy related products Polystyrene resin, synthetic rubber, acrylonitrile butadiene styrene resin
Joffre, Alberta	Ethylene	Linear low-density polyethylene	1,200	Canada, United States, Pacific Rim, Europe, Latin America	Polyethylene bags, polyethylene films, pipe, toys, plastic containers and compounding resins
Moore Township, Ontario	Ethylene	High-density polyethylene, low-density polyethylene	720	Canada, United States, Pacific Rim, Europe, Latin America	Polyethylene bags, polyethylene films, pipe, large blow moulded drums, plastic containers
St. Clair River, Ontario	Ethylene	Linear low-density polyethylene, high-density polyethylene	600	Canada, United States, Pacific Rim, Europe, Latin America	Polyethylene bags, polyethylene films, pipe, large blow moulded drums, plastic containers
Rockport, New Jersey ⁽⁶⁾	Polyethylene	Wire and cable polyethylene products	25	North and South America	Wire, cable and fibre optic cables insulated and/or jacketed with polyethylene
Montreal, Quebec Springfield, Massachussets, Decatur, Alabama	Styrene	Polystyrene resins	740	Canada, United States, Europe, Pacific Rim	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys
Beaver Valley, Pennsylvania	Styrene Maleic anhydride	Polystyrene resins and styrene maleic anhydride copolymer (SMA)	440	Canada, United States, Europe, Pacific Rim	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys, automotive parts and foamed packing
Painesville, Ohio	Styrene	Polystyrene resins	75	Canada, United States, Europe, Pacific Rim	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys and foamed packing

Notes:

- (1) Capacity at December 31, 1997.
- (2) Variable depending on feedstock used.
- (3) Joffre and Corunna co-product capacity is not rated.
- (4) Co-products include butadiene, butylenes, C₅ dienes, dicyclopentadiene ("DCPD"), aromatics, C₉ resin oils, hydrogen and fuels.
- (5) NOVA Chemicals owns a minority interest in the facility and receives styrene monomer as a result of this interest. NOVA Chemicals also entered into a tolling arrangement for additional styrene monomer from this facility as part of the acquisition of ARCO Chemicals' plastics business.
- (6) NOVA Chemicals owns 50% of NOVA-Borealis Compounds LLC which owns this facility.

Olefins/Polyolefins

The olefins/polyolefins business manufactures ethylene and polyethylene. As part of NOVA Chemicals' ethylene production process, a number of chemical and energy products are also manufactured, including propylene, butadiene, butylenes, C₅ dienes, aromatics, C₉ resin oils, DCPD and hydrogen. Olefins and polyolefins revenue was \$2.66 billion in 1997, which represented 70% of NOVA Chemicals' total revenue (before intersegment eliminations).

Ethylene

NOVA Chemicals has an annual production capacity of approximately 5.0 billion pounds of ethylene, a commodity chemical produced from natural gas and crude oil derived feedstocks. Ethylene is used in the manufacture of polymers such as polyethylene, polystyrene and polyvinyl chloride, as well as chemical intermediates such as styrene, ethylene oxide, ethylene glycol, ethylene dichloride and vinyl acetate. NOVA Chemicals produced approximately 4.8 billion pounds of ethylene in 1997 at its facilities in Joffre, Alberta and Corunna, Ontario.

Joffre Facility

NOVA Chemicals' EI and EII ethylene plants at Joffre have a combined annual production capacity of approximately 3.4 billion pounds. The respective production capacity of EI and EII is approximately 1.6 billion pounds-per-year and approximately 1.8 billion pounds-per-year. Since the commissioning of EI in 1979 and EII in 1984, ethylene produced in those plants has been sold under 20-year cost-of-service ethylene sales contracts with unaffiliated third parties covering approximately 67% of EI and EII production, with the balance of the production consumed by NOVA Chemicals. These cost-of-service contracts are based on pricing formulae which allow NOVA Chemicals to recover, from third parties, approximately 67% of the EI and EII operating costs (including ethane feedstock and fuel together with depreciation) and financing costs (including debt amortization) plus a contractually-based 20% after-tax return on a 46% weighted average deemed equity component. The rate base as at December 31, 1997 was \$281 million. The cost-of-service contracts for EI expire at the end of December, 1998 and the cost-of-service contracts for EII expire on June 30, 2004. The cost-of-service contracts historically insulated the underlying ethylene production from the price and margin fluctuations inherent in the market for ethylene.

At the time the cost-of-service arrangements for EI expire the original cost of the plant will be substantially depreciated. NOVA Chemicals entered into new ethylene sales agreements for 100% of the ethylene production capacity of EI which will not be utilized internally by NOVA Chemicals. These new agreements are based on a variety of pricing mechanisms, some of which include market related elements, that ensure NOVA Chemicals recovers the cost of ethylene production plus a variable margin based on market prices.

As a requirement of the original construction financing for the EI and EII facilities, NOVA Chemicals and the predecessor to NOVA Gas Transmission entered into certain ethylene purchase and sale agreements. NOVA is obligated contractually to indemnify NOVA Gas Transmission for any losses which NOVA Gas Transmission may incur under these contracts. NOVA Chemicals and NOVA Gas Transmission anticipate that these arrangements will be modified to remove NOVA Gas Transmission in the first half of 1998.

As part of the ethylene production process, a number of co-products are also manufactured, including hydrogen and C₃, C₄, and C₅ diene streams. Under an agreement which expires June 30, 2004, NOVA Chemicals sells up to 176 MMlbs of hydrogen annually to Agrium Inc. ("Agrium"). NOVA Chemicals is paid a demand and commodity charge in respect of hydrogen sold to Agrium.

In April 1997 NOVA announced that the planned ethylene plant, EIII, in Joffre, to be jointly owned, on an approximately equal ownership basis, by NOVA Chemicals and Union Carbide Canada will have an initial design capacity of 2.8 billion pounds-per-year. The expected cost of the plant including commissioning and start-up costs is currently estimated to be \$1.1 billion as spent. Detailed design and the early phases of construction are currently underway with completion scheduled in mid-year 2000 followed closely by commissioning and operation in the third quarter of 2000. Ethylene produced by EIII will be shared by NOVA Chemicals and Union Carbide Canada. NOVA Chemicals will utilize its share of ethylene produced by EIII to support polyethylene production in the new Advanced SCLAIRTECH plant planned at Joffre as well as to support new ethylene sales agreements negotiated in 1997.

EI and EII use ethane as a raw material feedstock which is supplied under long-term ethane supply agreements with owners of natural gas liquids extraction plants located in Alberta. NOVA Chemicals has re-negotiated a certain number of

these agreements which expire at the end of 1998 and now has agreements in place to satisfy the ethane requirements of EI and EII and a significant portion of the requirements of EIII, through to the year 2004. It is possible that new pipelines will be constructed which will transport natural gas liquids, including ethane, out of the province, potentially affecting the supply of ethane in Alberta.

NOVA Chemicals also owns interests in ethane and ethylene gathering pipelines in Alberta, and ethane and ethylene storage facilities in Alberta and Ontario. NOVA Chemicals also owns a 20% interest in the Cochin Pipeline, which principally transports ethane, ethylene and propane from Alberta to markets in Ontario and the United States.

Corunna Facility

The Corunna facility, located near Sarnia, Ontario, has an annual production capacity of approximately 1.6 billion pounds of ethylene. The Corunna facility has the ability to process a wide range of hydrocarbon feedstocks including crude oil, condensates, ethane, propane, butane, naphtha and other gas oils, and thereby produce a broad range of primary petrochemicals which are consumed by the downstream operations of NOVA Chemicals as well as by other petrochemical producers. NOVA Chemicals benefits from co-products production from the plant's crude oil processing operations which help to offset increases that may occur in crude oil prices. Virtually all ethylene production from the Corunna facility is used internally by NOVA Chemicals.

The feedstock selection determines the range of co-products obtained, with heavier feedstocks such as naphtha producing more co-products. Co-products include benzene (used by NOVA Chemicals in the production of styrene), propylene, a mixed isobutylene/normal butylene/butadiene stream and other energy products.

Raw materials for the Corunna facility are obtained from a wide variety of sources. Crude oil, the main feedstock, is supplied predominantly under contract with Western Canadian producers and delivered via the Interprovincial Pipe Line Inc. pipeline system. Ethane, propane, butane and naphtha are sourced from western Canadian and local producers.

The Corunna facility experienced difficulty restarting after a planned major maintenance shutdown in the second half of 1997. This resulted in lower production volumes which negatively impacted earnings by \$13 million after-tax.

Polyethylene

NOVA Chemicals has an annual production capacity of approximately 2.5 billion pounds of polyethylene. Polyethylene is a polymer produced from ethylene and is used in a wide number of applications such as packaging, pipe, blow-molded drums and plastic containers. NOVA Chemicals produced approximately 2.3 billion pounds of polyethylene in 1997. NOVA Chemicals produces polyethylene at three facilities in Canada, and all of its ethylene requirements are supplied from its Joffre and Corunna ethylene facilities.

NOVA Chemicals' polyethylene plant located at Joffre has an annual production capacity of approximately 1.2 billion pounds and produces linear low-density polyethylene ("LLDPE") from ethylene supplied from EI and EII. The plant utilizes UNIPOL® technology licensed from Union Carbide. NOVA Chemicals has assumed the responsibility for sustaining and developing this technology as used in the NOVA Chemicals facilities. Production from the Joffre facility is marketed in North American and international markets.

NOVA Chemicals' polyethylene plant located at Moore Township, Ontario has an annual production capacity of approximately 720 MMlbs and produces both low-density ("LDPE") and high-density ("HDPE") polyethylene. Ethylene feedstock is supplied from the Corunna facility. This plant also uses the UNIPOL technology under license from Union Carbide.

In June 1994, NOVA Chemicals purchased DuPont Canada's polyethylene business. Assets of the business included a polyethylene plant located on the St. Clair River site, Ontario, the proprietary SCLAIRTECH technology and a global SCLAIRTECH technology licensing business. This facility has an annual production capacity of approximately 600 MMlbs and NOVA Chemicals' Corunna facility supplies 100% of its ethylene requirements. NOVA Chemicals is committed to further developing the SCLAIRTECH technology and announced on December 5, 1996 that it has developed an Advanced SCLAIRTECH technology. Advanced SCLAIRTECH technology yields high performance polyethylene resins with several advantages over traditional polyethylene resins. NOVA Chemicals intends to construct a new polyethylene plant using

UNIPOL® is a registered trademark of Union Carbide Corporation.

Advanced SCLAIRTECH technology at Joffre, Alberta. The plant is expected to come on stream in the year 2000 with a planned capacity of 850 MMlbs-per-year and an anticipated cost of \$385 million, as spent.

NOVA-Borealis Compounds LLC (“NOVA-Borealis”) commenced operations on January 1, 1997. NOVA-Borealis is a limited liability company owned equally by NOVA Chemicals Inc. (“NCI”) and Borealis Compounds, Inc., a subsidiary of Borealis A/S of Denmark. NOVA-Borealis operates a facility in Rockport, New Jersey which manufactures polyethylene wire and cable products, using Borealis A/S technology and NOVA Chemicals polyethylene resins, for sale in North and South America. Wire and cable polyethylene products are principally used as insulation or jacketing for wire, cable and fibre optic cables.

Styrenics

NOVA Chemicals’ styrenics business produces both styrene and styrenic polymers which are used in a number of applications including injection molding, synthetic rubber, food packaging, housewares and toys. The business generated revenue of \$829 million in 1997, which represented 30% of NOVA Chemicals’ revenues (before intersegment eliminations). NOVA Chemicals has annual polystyrene production capacity of approximately 1.3 billion pounds.

NOVA Chemicals’ Sarnia, Ontario facility has an annual styrene production capacity of approximately 600 MMlbs. Styrene is produced from ethylene and benzene. All of the ethylene and the majority of the benzene requirements for the Sarnia styrene facility are supplied from NOVA Chemicals’ Corunna ethylene facility. The balance of the benzene feedstocks are obtained from nearby refinery and industrial operations.

NOVA Chemicals has commenced an upgrade project at the Sarnia styrene facility which is expected to be completed by the third quarter of 1998. Upon completion, this upgrade is expected to add approximately 350 MMlbs of annual styrene capacity at the Sarnia facility. In addition, 100 MMlbs of annual ethylene capacity has been added at the Corunna facility to support the new capacity at the Sarnia facility.

NOVA Chemicals has access to approximately 800 MMlbs-per-year of styrene monomer in addition to that produced at the Sarnia facility. Approximately 400 MMlbs-per-year of styrene monomer is provided under a long-term supply agreement from an ARCO Chemicals operated styrene plant in Channelview, Texas, in which NOVA Chemicals has a minority interest position. As part of the acquisition of ARCO Chemicals’ polymers business in 1996, NOVA Chemicals entered into a tolling agreement for an additional 400 MMlbs-per-year of styrene monomer from the Channelview plant.

Styrene supply from NOVA Chemicals’ Sarnia facility and ARCO Chemicals’ Channelview facilities provide a long-term supply of styrene monomer for NOVA Chemicals’ downstream polystyrene facilities. Of the total styrene monomer produced at Channelview and Sarnia, approximately 80% is used in NOVA Chemicals’ polystyrene business with the balance being sold into the merchant market.

NOVA Chemicals’ Montreal facility produces high- and medium-impact polystyrene and has an annual production capacity of approximately 130 MMlbs. The styrene operation in Sarnia supplies the styrene feedstock to this facility.

NOVA Chemicals’ Beaver Valley, Pennsylvania facility produces expandable polystyrene and DYLARK® which is a styrene maleic anhydride copolymer. This site has an annual production capacity of approximately 440 MMlbs.

NOVA Chemicals had polystyrene production capacity at plants located in the United States as at December 31, 1997 of approximately 1.2 billion pounds-per-year. NOVA Chemicals has plants in Springfield, Massachusetts; Decatur, Alabama; Beaver Valley, Pennsylvania; and Painesville, Ohio. NOVA Chemicals’ plant in Springfield, Massachusetts has completed Phase I and Phase II of a three-phase debottlenecking. Springfield had a crystal polystyrene capacity of 280 MMlbs-per-year at the end of 1997. A decision has been made not to proceed with the Phase III debottlenecking. In 1997, NOVA Chemicals allowed a tolling arrangement to expire under which it purchased 80 MMlbs-per-year of polystyrene from Bayer Corporation.

Methanol

Prior to January 1994, NOVA Chemicals operated a methanol facility at Medicine Hat, Alberta with an annual production capacity of approximately 370 million U.S. gallons. On January 14, 1994, NOVA Chemicals completed a series of transactions whereby it exchanged this facility for common shares of Methanex and purchased additional Methanex

DYLARK® is a registered trademark of NOVA Chemicals Inc.

common shares and common share installment receipts. As a result of these transactions, NOVA Chemicals became the largest shareholder in Methanex owning approximately 24% of its common equity. Methanex has purchased for cancellation a portion of its shares under a series of normal course issuer bids. NOVA Chemicals has not participated in these share buybacks, and its ownership of Methanex has increased to approximately 27%.

Methanex is the world's largest producer and marketer of methanol, which is used in the manufacture of formaldehyde, methyl tertiary butyl ether (which is a gasoline additive) and acetic acid. Methanex produces methanol at facilities located in North America, New Zealand and Chile and has an equity interest in a plant in Trinidad.

NGC Corporation

NOVA Chemicals, through a subsidiary, owns approximately 26% of the common shares of NGC, a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom. NGC conducts its operations in three business segments: natural gas and electric power marketing; natural gas liquids, crude oil and gas transmission; and power generation.

NOVA Chemicals through its subsidiary, NOVA Gas Services (U.S.) Inc., together with BG Holdings, Inc. (a subsidiary of BG plc) and Chevron U.S.A. Inc., each of which also owns approximately 26% of the common shares of NGC, have entered into a shareholders agreement which relates to certain voting arrangements, transfer restrictions, corporate governance and other matters. NOVA Chemicals, through such subsidiary, has the right to nominate three representatives to the 13-member NGC board of directors.

Distribution of Products

NOVA Chemicals' products are marketed primarily through its sales force, although in some off-shore markets more emphasis is placed upon sales through established distributors and traders. When products produced in Canada are sold into the United States market, NOVA Chemicals sells such products to its wholly-owned subsidiary, NCI, for resale into that market through distribution arrangements which generally provide that NOVA Chemicals will receive a market price less a commission for its products. NCI's commission rates are comparable to third-party agreements in the industry. Approximately 12% of NOVA Chemicals' sales are made through distributors other than NCI. European and Asian sales are made by NOVA Chemicals' Swiss subsidiary, NOVA Chemicals (International) S.A. NOVA Chemicals also sells polyethylene wire and cable products produced at its production facilities in Canada to NOVA-Borealis for resale to customers in Canada and to NCI for resale to NOVA-Borealis elsewhere in North and South America through distribution arrangements which generally provide that NOVA Chemicals will receive a market price less a commission for its products.

Aside from the cost-of-service ethylene contracts relating to EI and EII previously described, no significant portion of NOVA Chemicals' business is dependent upon a single customer. Sales to Canadian and United States federal, state, provincial and local governmental bodies account for less than 1% of annual sales. For a breakdown of sales into geographic segments, see "Geographic Distribution of Revenue by Segment".

NOVA Chemicals leases approximately 4,260 railcars from various companies for use in transportation and delivery of its petrochemicals and polymers to customers.

Competition

NOVA Gas Transmission

NOVA Gas Transmission is the primary transporter of natural gas within the Province of Alberta and to provincial boundary points and, as such, is subject to rate-design regulation by the EUB. By the end of 1997, seven proposals were discussed publicly for alternative pipelines that, if approved and constructed, would bypass portions of the existing Pipeline System, resulting in under-utilization of some parts of the Pipeline System.

Six of the seven bypass proposals were for short-haul projects founded on perceived inequities in the long-standing postage-stamp tolling method, which sets rates independent of distance of haul. The other proposal (the Alliance project, described below) has been promoted, in part as a response to perceived capacity constraints on pipeline systems downstream of the Pipeline System.

The Palliser Project (Suspended) The Palliser pipeline supporters ("Palliser"), led by PanCanadian Petroleum Limited, filed an application with the NEB in November 1996 to construct a pipeline system that would bypass NOVA Gas

Transmission facilities in southeastern Alberta. Palliser suspended its NEB application in December 1996, however, and accepted a restricted Load-retention Service (“LRS”) offering from NOVA. In January 1997 NOVA Gas Transmission applied to the EUB for approval of a restricted LRS Rate of 15.5 cents per Mcf on a total of 732 MMcf/day, a rate intended to retain Palliser volumes and to limit the price increase to other NOVA Gas Transmission customers to less than one cent per Mcf. The LRS will provide a significant contribution to fixed costs, and will thereby minimize the rate charges that other customers would have been required to pay if the Palliser pipeline had been built.

A hearing in respect of the LRS was held by the EUB in June 1997 and a decision rendered on November 14, 1997. In its decision, the EUB approved the LRS application with certain modifications, granting Palliser shippers new LRS rates beginning January 1, 1998. The EUB decision also required NOVA Gas Transmission to contribute 25% of the revenue shortfall (resulting from the Palliser LRS rates) for the three years remaining in the Settlement. The amount of contribution from NOVA Gas Transmission is estimated at approximately \$3 million per-year net after-tax.

The Alliance Pipeline Project (Proposed) Alliance Pipeline Ltd., as a general partner for Alliance Pipeline Limited Partnership in Canada, and Alliance Pipeline Inc. as managing general partner for Alliance Pipeline L.P. in the United States (“Alliance”), has proposed a pipeline system that would transport natural gas and entrained natural gas liquids from Alberta and northeastern British Columbia to the U.S. midwest. In December 1996, Alliance filed an application with FERC and a preliminary environmental submission with the NEB. In July 1997 Alliance filed its facilities application with the NEB. The formal NEB hearing commenced on January 6, 1998 and is expected to end in April or May 1998. NOVA Gas Transmission has filed evidence and has fully participated at the hearing. It is the evidence of NOVA Gas Transmission that if built, Alliance’s Alberta facilities will duplicate receipt and transportation facilities of the Pipeline System, will transport gas already flowing on the Pipeline System and would result in under-utilized facilities for a period of six or more years before sufficient incremental supply develops to fill both systems. NOVA Gas Transmission contends that this diversion of gas from the Pipeline System to Alliance would result in a reduction in fixed cost contribution to NOVA Gas Transmission from Alliance shippers which could exceed \$140 million annually. In the event that the Alliance tolls are approved by the NEB as being just and reasonable, it is expected that this loss in fixed costs contribution from Alliance shippers will be borne by the remaining shippers utilizing the Pipeline System.

The Alberta Pipeline Project (Cancelled) The Alberta Pipeline Project — originally consisting of ATCO Gas Services Limited, Shell Canada Limited and Amoco Canada Petroleum Co. Ltd., — announced in December 1996 intentions to develop a short-haul pipeline system that would bypass NOVA Gas Transmission facilities in south-central Alberta. The project was cancelled in July 1997 on the basis that it failed to receive sufficient customer support.

The Crownsnest Pipeline Project (Suspended) The Crownsnest Pipeline Project, led by Shell Canada Limited and CU Gas Limited, announced in November 1996 its intention to install a 79-kilometre short-haul pipeline in the extreme southwestern area of Alberta. This project filed an application in May 1997 before the NEB which was later suspended by its proponents.

Other Bypass Proposals

- In May 1997, Northstar Energy Corporation filed an application with the NEB for approval to construct a 7.2-kilometre bypass pipeline (the Coleman Pipeline) in the extreme southwestern area of Alberta. The total initial contracted capacity and Northstar initial throughput is 37 MMcf/day. The NEB hearing on this project concluded April 6, 1998, and a decision is pending.
- In September 1997, AEC Suffield Gas Pipelines Inc. filed an application with the NEB for approval of a 130 kilometre, 200 MMcf/day bypass pipeline (the Suffield Pipeline) in the southeastern area of Alberta. The NEB hearing on this project is scheduled to begin on May 25, 1998.
- Advantage Pipeline Company Inc. filed an application with the EUB on November 18, 1997 for approval to construct a 5.6-kilometre 48 inch diameter bypass pipeline in the extreme southwestern area of Alberta. The application does not indicate if the applicant has entered into any transportation agreements with potential shippers. The application is currently pending.

NOVA Gas International

The natural gas marketing, gathering and processing businesses in the United States and Canada are highly competitive. NCL manages a natural gas gathering and processing business in a very competitive marketplace. NCL's competitors include natural gas producers, pipeline affiliated marketers and gatherers, independent processors, marketing and processing businesses of major integrated oil and gas producers, transportation and marketing companies, local distribution companies and other independent marketing, gathering and brokerage companies.

NCL has commenced the implementation of its natural gas liquids business that includes the acquisition, fractionation, and storage of natural gas liquids in Western Canada and will include the selling and distribution of specification ethane, propane, butane and condensate to a very competitive marketplace within Canada and the United States. NCL competes with other natural gas liquids producers and marketers on the basis of price, service and performance.

Pan-Alberta operates a natural gas aggregation and marketing business in a highly competitive environment. In its aggregation activities, it competes with other aggregators and marketing companies. In its marketing activities, its competitors include other aggregators, marketing operations of natural gas producers and independent marketing and brokerage companies.

Foothills operates as a transporter of natural gas within its markets subject to government regulation. Foothills is subject to competition similar to that of NOVA Gas Transmission.

The international gas services business is very competitive, with many new pipeline projects being awarded by way of international tender. NOVA Gas International's competition in these fields is comprised of both international gas services companies and local gas services companies in the countries where these projects are located.

NOVA Chemicals

NOVA Chemicals competes with other commodity chemical producers and marketers primarily on the basis of price, service, product quality and performance. Markets for most petrochemical products are global. While most of NOVA Chemicals' production capacities are among the largest in size compared to the relevant business units of its competitors, several of NOVA Chemicals' competitors are larger and have greater financial resources than NOVA Chemicals. Among NOVA Chemicals' competitors are some of the world's largest chemical companies and major integrated petroleum companies that have their own raw material resources.

Prices for NOVA Chemicals' petrochemicals and polymers products are determined by market factors that are beyond NOVA Chemicals' control and as such NOVA Chemicals generally sells these products at prevailing market prices. However, one exception to product sales being made at prevailing market related pricing is the ethylene business conducted at EI and EII which operates on a cost-of-service basis such that NOVA Chemicals recovers approximately 67% of EI and EII operating costs (including ethane feedstock, fuel and depreciation) and financing costs (including debt amortization) from third parties. NOVA Chemicals' cost-of-service arrangements for EI expire at the end of December 1998.

Government Regulation

Pipelines

Canada

For a discussion of the regulation of the transportation of natural gas by NOVA Gas Transmission in Canada see "NOVA Gas Transmission — Regulation of NOVA Gas Transmission". For a discussion of the environmental regulation of NOVA Gas Transmission see "Environmental Protection".

The operations of Foothills and its subsidiaries are regulated by the NEB and the NPA. Under the terms of the National Energy Board Act (Canada), the NEB regulates the construction and operation of interprovincial pipelines (including consideration of the environmental and social impacts of proposed pipeline projects), the setting of tolls, the approval of tariffs and, with the approval of the Government of Canada, the licensing of the import and export of natural gas. Under the terms of the Northern Pipeline Act, the NPA regulates the construction of facilities related to the ANGTS, including prebuild portions.

United States

By the authority granted under the Natural Gas Act (United States) and the Department of Energy Organization Act (United States), the movement of natural gas from Canada into the United States is subject to regulation by the U.S. Department of Energy and the FERC.

Other Natural Gas Services

The removal from Alberta, the export from Canada, the import into the United States and the transportation of gas, the construction, operation and maintenance of gas gathering, storage and processing facilities, and the conduct of other aspects of the business of NOVA Gas International and its affiliates is subject to various federal, state, provincial and local laws and regulations, including environmental laws and regulations which are discussed in more detail under "Environmental Protection".

Petrochemicals

The construction, operation and maintenance of NOVA's petrochemicals facilities are subject to federal, state, provincial and local laws and regulations, including environmental laws and regulations which are discussed in more detail under "Environmental Protection".

Patents, Licenses and Trademarks

NOVA owns directly or through its wholly-owned subsidiaries a large number of patents in Canada, the United States and other countries, which relate to the products, product uses and processes of its petrochemicals business. NOVA has also acquired certain rights under licenses from others for use in the petrochemicals business. NOVA's subsidiaries and affiliates own a number of trademarks worldwide which are used to identify various natural gas services and petrochemicals business products. NOVA's patents, licenses and trademarks constitute valuable assets; however, NOVA does not regard any single patent, license or trademark as being material to its operations, viewed as a whole.

Research and Development Activities

NOVA spent \$45.7 million, \$55 million and \$71 million in the years 1997, 1996 and 1995, respectively, on research and development activities. NOVA also spent \$10.5 million, \$15 million and \$13 million in the years 1997, 1996 and 1995, respectively, on technical support and activities relating to improvements of existing products, services and techniques.

Year 2000

Certain computerized hardware, process control systems, and software systems and applications used by NOVA are date sensitive, and their ability to perform properly may be adversely affected by the year 2000. In a process that began in 1996, NOVA continues to address the issue by preparing an inventory of all systems and equipment, analyzing risks, determining compliance levels, selecting practical remediation options, and testing most implemented solutions. This program approach seeks to minimize the potential risk of year 2000 business disruption. NOVA also continues to assess the year 2000 capabilities of customers, critical suppliers and key service providers to determine, to the extent possible, that NOVA's businesses will not be adversely impacted by external companies. In addition, contingency plans are being developed for all critical business and production processes. NOVA does not believe that the cost of its remediation efforts will be material.

NOVA (including its wholly-owned subsidiaries) is not entirely year 2000 ready at this time, but has targeted the end of the first quarter of 1999 to have critical business and production processes ready. This will allow for continued testing through the remainder of 1999. Although NOVA is striving to be completely prepared, there cannot be any assurance that there will not be any negative impact as a result of the year 2000 issue. Based on its progress to date, however, NOVA believes that such impact, if any, will not have a material adverse impact on the Corporation's business, operations, or financial condition.

NOVA is currently assessing the year 2000 readiness (and the costs of becoming year 2000 ready) of the companies in which it has an equity interest. If any of the costs associated with these partially owned entities is, is likely to become, or becomes material, NOVA will disclose that materiality in due course.

Environmental Protection

NOVA is committed to protecting and conserving the natural environment and complying with applicable laws and regulations. Like other companies in the industries in which it operates, NOVA is subject to extensive federal, provincial, state and local environmental laws and regulations concerning the construction and operation of its facilities including emissions to the air, discharges to surface and subsurface waters and the generation, handling, storage, transportation, treatment and disposal of waste materials. It is anticipated that future regulations and the enforcement of existing regulations will become increasingly stringent and may increase environmental compliance costs in the future.

NOVA believes that its business, operations and facilities are being operated in material compliance with applicable environmental laws and regulations. NOVA's production facilities are required to operate in accordance with permits and licenses regulating air emissions, water discharges and the generation, transportation, treatment, storage and disposal of hazardous wastes. It is possible that additional requirements will be imposed on NOVA under new permits and licenses. Some permits and licenses require that the holder meet financial responsibility criteria or, in certain cases, obtain surety bonds, letters of credit, insurance policies or trust funds to secure its obligations. NOVA has met and expects that it will continue to be able to meet all such applicable financial responsibility criteria.

Risk of substantial environmental costs and liabilities is inherent in particular operations and products of NOVA, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities, including uninsured liabilities, will not be incurred with respect to future operations. NOVA has liabilities and obligations arising under applicable environmental laws and regulations in connection with discontinued operations, and in addition has specific contractual obligations with respect to pre-closing environmental conditions at certain facilities divested by predecessor companies. Environmental investigations have been or are being conducted in accordance with governmental standards and guidelines at such discontinued operations and facilities. Remedial work based on these investigations has commenced at most locations. Provision has been made in NOVA's financial statements to cover the estimated costs of remediation of discontinued sites. At some locations NOVA has negotiated agreements to recover a portion of these expenses from third parties on the basis of their previous activities.

NOVA is currently involved in investigations under the CERCLA in connection with hazardous substances which in the past had been transported to third party disposal sites. At one such site NOVA and another potentially responsible party have entered into an Administrative Order by Consent (the "Order") with the EPA pursuant to which NOVA and the other party named in the Order have conducted an engineering evaluation/cost analysis of alternative response actions to address environmental conditions at the site. Discussions are continuing with the EPA regarding such analysis, but the EPA has covenanted not to sue NOVA or the other party named in the Order for judicial imposition of damages or civil penalties or to take administrative action in connection with activities satisfactorily completed pursuant to the terms of the Order. Other potentially responsible parties have been identified and their participation may be sought in connection with further response activities required at this site. At another inactive site, a state environmental agency has issued a Remediation Order requiring NOVA to prepare and submit a remediation plan for approval and to subsequently implement such plan. NOVA has submitted a remediation plan, has received the required approval and is proceeding with implementation. NOVA does not believe that its share of response costs at this or any of such sites will, individually or in the aggregate, result in a material liability for NOVA. It is possible that, based upon the nature of the hazardous substances generated at existing and discontinued operations, NOVA may be involved in CERCLA and comparable state law investigations and clean-ups in the future.

From time to time NOVA has entered into various consent agreements or been subject to administrative orders for pollution abatement or remedial action in connection with its petrochemicals business.

NOVA has operated an environmental audit program to determine the regulatory compliance status of its operating facilities since 1990. In 1995, NOVA established an integrated internal safety, health, environment and risk ("SHER") audit program to provide consistently high auditing standards to all NOVA businesses. Where actions are determined necessary to ensure continued compliance with applicable environmental laws and regulations, specific action plans are developed and implemented.

NOVA has adopted the Responsible Care[®] program as the basis for its overall SHER program. Responsible Care is a comprehensive SHER quality improvement program which was initiated by the Canadian Chemical Producers' Association

Responsible Care[®] is a trademark of the CCPA in Canada and the CMA in the United States.

("CCPA") and has since been adopted by the Chemical Manufacturers Association ("CMA") in the United States as well as by chemical industry associations in over 40 countries world-wide. The Responsible Care program is built around a set of guiding principles and codes of practice which require program participants to commit to the responsible management of the total life cycle of their products. NOVA believes that the Responsible Care program represents an operational ethic which is equally applicable and relevant to non-chemical industry businesses. NOVA Chemicals has already implemented the Responsible Care codes of practice in all its Canadian and United States operations. NOVA Gas Transmission and NOVA Gas International have each committed to implement the Responsible Care Program throughout their respective businesses.

Environmental capital expenditures, including pollution abatement and remedial programs, were \$32.9 million in 1997, \$15.4 million in 1996 and \$18 million in 1995 and are estimated to be \$41.4 million in 1998. Operating expenses relating to environmental protection were \$17.4 million in 1997, \$16 million in 1996 and \$16.2 million in 1995 and are estimated to be \$20.3 million in 1998.

Employee and Labour Relations

The businesses of NOVA employed approximately 6,000⁽¹⁾ employees worldwide as at January 1, 1998. The majority of employees are not under collective bargaining agreements. In many cases, employee representative groups comprised of management appointees and representatives of employees raise issues of importance to employees for consideration by management.

Collective bargaining agreements with various unions, covering approximately 365 employees, are in place at certain plants located in Ontario and the United States. A collective bargaining agreement involving approximately 70 employees at NOVA Chemicals' styrene plant in Sarnia, Ontario expired on February 1, 1998. Negotiations are currently underway to extend this collective bargaining agreement. A collective bargaining agreement involving approximately 35 NOVA Chemicals employees at the polystyrene plant in Springfield, Massachusetts will expire on September 30, 1999. A collective bargaining agreement involving approximately 260 employees at the polystyrene plant in Beaver Valley, Pennsylvania will expire on May 12, 1998. The contract is expected to be re-negotiated without work interruption.

NOVA provides medical, health, life insurance and pension plans and other employee benefits which are comparable with other companies in the industry segments and geographical areas in which it operates.

International Operations

Information concerning NOVA's revenue, operating income and assets attributable to geographic areas in which it operates are set forth in Note 1 to the Consolidated Financial Statements as at December 31, 1997 incorporated by reference into this Annual Information Form.

International operations are necessarily subject to various risks differing in part from those in Canada including exchange fluctuation and controls, political pressures, tax changes, labour difficulties, price controls and other governmental actions.

Properties

The following describes the location, use and size of the principal offices and facilities of NOVA. All such offices and facilities are owned or leased by NOVA and are unencumbered unless otherwise specified. NOVA believes that these properties, including related plant and equipment, are in good condition, well maintained, and suitable for their intended use.

(1) Excludes employees of proportionately consolidated businesses and equity held investments.

NOVA Gas Transmission's pipeline and related rights-of-way, compressor stations, receipt meter stations, and delivery stations located throughout Alberta are described above under "NOVA Gas Transmission". NOVA Chemicals' production facilities⁽¹⁾ are described above under "NOVA Chemicals — Facility Profile".

<u>Operation</u>	<u>Location</u>	<u>Use</u>	<u>Area</u> (Thousands of square feet)
NOVA Gas Transmission	Calgary, Alberta (leased)	Head Office and Conference Centre	600
	Calgary, Alberta	Operations Centre	70
	Calgary, Alberta (leased)	Offices	20
	Edmonton, Alberta and area	Offices and Service Centres	160
	Various cities and towns in rural Alberta	Service Centres	295
NOVA Chemicals	Sarnia, Ontario (leased)	Offices	56
	Mississauga, Ontario (leased)	Offices	15
	Montreal, Quebec (leased)	Offices	3
	Parsippany, New Jersey (leased)	Offices	3
	Houston, Texas (leased)	Offices	3
	Sherwood Park, Alberta (leased)	Offices	6
	Calgary, Alberta	Technical Centre and Offices	69
	Calgary, Alberta (leased from NOVA)	Research Centre and Offices	151
	Calgary, Alberta (leased)	Offices	97
	Red Deer, Alberta (leased)	Offices	14
Pittsburgh, Pennsylvania (leased)	Offices	14	
Foothills ⁽²⁾	Calgary, Alberta (leased)	Offices	46
NCL	Calgary, Alberta (leased)	Offices	69
NOVA Gas International	Calgary, Alberta (leased)	Offices	83
	Various international offices	Offices	54

Notes:

(1) All production facilities are owned by NOVA Chemicals and are unencumbered.

(2) For partially owned entities shows actual space leased rather than NOVA's prorated share.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(millions of dollars except for per share data)

	Year Ended December 31				
	1997	1996	1995	1994	1993
Revenue	\$ 4,840	\$ 4,686	\$ 4,527	\$ 4,020	\$ 3,373
Net Income	\$ 325	\$ 431	\$ 702	\$ 575	\$ 191
Total Assets	\$10,574	\$10,048	\$9,266	\$8,635	\$7,242
Long-term Debt ⁽¹⁾					
Regulated businesses ⁽²⁾	\$ 3,657	\$ 3,625	\$ 3,585	\$ 3,420	\$ 3,083
Non-regulated businesses	\$ 1,054	\$ 1,227	\$ 676	\$ 392	\$ 488
	<u>\$ 4,711</u>	<u>\$ 4,852</u>	<u>\$ 4,261</u>	<u>\$ 3,812</u>	<u>\$ 3,571</u>
Data per Common Share					
Net Income					
Basic	\$ 0.70	\$ 0.91	\$ 1.47	\$ 1.24	\$ 0.47
Fully Diluted	\$ 0.70	\$ 0.91	\$ 1.44	\$ 1.20	\$ 0.47
Dividends Declared	\$ 0.40	\$ 0.37	\$ 0.32	\$ 0.24	\$ 0.24

Notes:

- (1) Excludes current portion.
- (2) Includes NOVA Gas Transmission, NOVA's proportionate share of Foothills and NOVA Chemicals' ethylene cost-of-service operations.

Quarterly Consolidated Financial Information

(Unaudited)

(millions of dollars except for per share data)

	Three Months Ended							
	March 31		June 30		September 30		December 31	
	1997	1996	1997	1996	1997	1996	1997	1996
Revenue	\$1,330	\$1,119	\$1,164	\$1,126	\$1,138	\$1,250	\$1,208	\$1,191
Net Income (loss)	\$ 124	\$ 97	\$ 120	\$ 103	\$ 115	\$ 123	\$ (34)	\$ 108
Net Income (loss) per Common Share								
Basic	\$ 0.27	\$ 0.20	\$ 0.26	\$ 0.22	\$ 0.25	\$ 0.26	\$ (0.08)	\$ 0.23
Fully Diluted	\$ 0.27	\$ 0.20	\$ 0.26	\$ 0.22	\$ 0.25	\$ 0.26	\$ (0.08)	\$ 0.23

GEOGRAPHIC DISTRIBUTION OF REVENUE BY SEGMENT⁽¹⁾

The following table summarizes, for the year ended December 31, 1997, the geographic segments in which the Corporation's three main businesses operate and the percentages of sales in each such segment.

Geographic Segment	NOVA Gas Transmission	NOVA Gas International ⁽²⁾	NOVA Chemicals	NOVA
Canada	100%	100%	49%	62%
United States	—	—	41	29
Others	—	—	10	9
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Notes:

- (1) Excludes equity in earnings from affiliates.
- (2) The majority of NOVA Gas International's international investments are accounted for using the equity method. As a result, no non-Canadian revenue is shown for these investments.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NOVA's Management Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 1997 and the 1997 audited consolidated financial statements are hereby incorporated by reference into this Annual Information Form.

MARKET FOR SECURITIES

NOVA's outstanding common shares are listed on the Toronto, Alberta, Montreal and New York stock exchanges. The outstanding Cumulative Redeemable First Preferred Shares, Series 1 ("Series 1 Preferred Shares") are listed on the Toronto and Montreal exchanges.

The closing price for NOVA common shares on The Toronto Stock Exchange on December 31, 1997 was \$13.60 and on April 16, 1998 was \$16.30.

DIVIDENDS

Payment of Dividends

NOVA pays dividends on its common shares and Series 1 Preferred Shares on a quarterly basis.

In the provisions attaching to NOVA's preferred shares there are covenants restricting the payment of dividends on shares of NOVA ranking junior to those preferred shares which thereby includes common shares. NOVA does not view any of such restrictions as currently imposing any material restriction on NOVA's ability to declare and pay dividends on its common shares.

Dividend Record

NOVA, and its predecessor Old NOVA, have paid the following dividends on common shares during the five fiscal years preceding the date of this Annual Information Form:

	Dividends paid per share				
	1997	1996	1995	1994	1993
Series 1 Preferred Shares ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$0.7918	—	—	—	—
Common Shares ⁽⁵⁾⁽⁶⁾	\$0.40	\$0.35	\$0.30	\$0.24	\$0.24

Notes:

- (1) The dividend rate was fixed at 5.15% of \$25.00 or \$1.2875 per share per annum until April 30, 2002.
- (2) The August 15, 1997 dividend was paid at the rate of \$0.47 per share. This was the initial dividend on the shares and covered the period from the initial issuance, March 20, 1997, to and including July 31, 1997.
- (3) The quarterly dividend of \$0.321875 per share for the quarter ended October 31, 1997 was paid on November 15, 1997.
- (4) The quarterly dividend of \$0.321875 for the period ending January 31, 1998 was paid on February 15, 1998. On February 20, 1998 the Board of Directors declared a dividend of \$0.321875 per share payable on May 15, 1998 to holders of record April 30, 1998.
- (5) Effective with the dividend paid on February 15, 1998, the quarterly dividend was increased to \$0.10 per share. This increase results in a dividend of \$0.40 on an annualized basis.
- (6) The 1997 fourth quarter dividend of \$0.10 per share was paid on February 15, 1998. On February 20, 1998 the Board of Directors declared a dividend of \$0.10 per share payable on May 15, 1998 to holders of record April 30, 1998.

Dividend Reinvestment and Share Purchase Plan

NOVA has a Dividend Reinvestment and Share Purchase Plan (the "Plan") for its common shareholders (the "Shareholders"). The Plan provides an opportunity for the Shareholders to purchase with reinvested dividends additional NOVA common shares. Until August 2, 1996, NOVA common shares were issued from the treasury of NOVA at a price of 100% of the weighted average of the sales prices for common shares on The Toronto Stock Exchange for the five trading days preceding the dividend payment date. On August 2, 1996, the Board of Directors of NOVA approved amendments to the Plan to permit NOVA, at its option, to issue common

shares from the treasury of NOVA or to purchase them on the open market on behalf of shareholders participating in the Plan. The price of common shares purchased in the open market is based on the weighted average purchase price excluding brokerage commissions. Shareholders also have the option to make cash payments of up to \$5,000 per quarter to be applied to the purchase of common shares at 100% of the specified average market prices. No brokerage commissions or service fees are charged and all administration costs are paid by NOVA. Of the 24,614,853 common shares reserved for issuance under the Plan, 23,539,044 common shares had been issued under the Plan for a consideration of approximately \$164.8 million as at December 31, 1997. During 1997, no common shares were issued from the treasury of NOVA under the Plan. Common shares were purchased on the open market to meet dividend reinvestment and optional cash purchases under the Plan for all 1997 dividends. The net proceeds to NOVA from future sales of common shares issued under the Plan cannot be reasonably estimated.

MANAGEMENT OF NOVA

The following table and associated notes set forth, in alphabetical order, the names of each director and officer of NOVA at April 16, 1998, their municipalities of residence, their respective principal occupations within the past five years and, where applicable, the period during which each director has served as director of NOVA and NOVA Corporation of Alberta (“Old NOVA”) and when each director’s term of office expires. All such directors were elected as directors of NOVA on April 16, 1997 and all officers were appointed to their respective positions with NOVA on March 4, 1994, or such later date as indicated. As a group, and based on information provided to NOVA by each director and officer, all directors and senior officers of NOVA beneficially owned, directly or indirectly, or exercised control or direction over 6,552,681 common shares of NOVA as at April 16, 1998, representing approximately 1.5% of the outstanding common shares.

<u>Name and Municipality of Residence</u>	<u>Period during which a director of NOVA or Old NOVA, as applicable⁽¹⁾</u>	<u>Present principal occupation (including all positions currently held with NOVA)⁽¹⁾</u>
Dr. Frank Peter Boer Village of Golf, Florida	Since February 21, 1991	President and Chief Executive Officer, Tiger Scientific, Inc. (Science and Technology Consulting and Investments)
Daniel Wilfrid Boivin Calgary, Alberta		Senior Vice President, NOVA and Senior Vice President, Olefins/Polyolefins and President, Olefins/Polyolefins Division, NOVA Chemicals
Ronald Borden Coleman Calgary, Alberta	Since June 18, 1987	President, R.B. Coleman Consulting Co. Ltd. and Chairman, Dominion Equity Resource Fund Inc. (Oil and Gas Activities)
Sir Judson Graham Day Hantsport, Nova Scotia	Since October 26, 1990	Retired Chairman, Cadbury Schweppes plc and Powergen plc
Robert F. Day Edmonton, Alberta		Vice President, Government Affairs, NOVA
Joan Annette Dennis Calgary, Alberta		Assistant Secretary and Secretary to the Board, NOVA
Gerry Joseph Finn Calgary, Alberta		Vice President, Corporate Government Relations, NOVA
John Douglas Grant Calgary, Alberta		Vice President, Tax Services, NOVA
Rhondda Elaine Stout Grant Calgary, Alberta		Corporate Secretary and Associate General Counsel, Corporate, NOVA

<u>Name and Municipality of Residence</u>	<u>Period during which a director of NOVA or Old NOVA, as applicable⁽¹⁾</u>	<u>Present principal occupation (including all positions currently held with NOVA)⁽¹⁾</u>
Richard Francis Haskayne, O.C., F.C.A. Calgary, Alberta	Since May 2, 1991	Chairman of the Board, NOVA, NOVA Gas Transmission, TransAlta Corporation and MacMillan Bloedel Limited
John Joseph Healy Edmonton, Alberta	Since April 19, 1977	President and Chief Executive Officer of HEMCO Corp. (real estate and development properties)
Harley Norman Hotchkiss, O.C. Calgary, Alberta	Since May 11, 1979	President of Spartan Resources Ltd. and a private investor, Oil and Gas, Real Estate, Agriculture and Professional Sports (Investments)
Clarence Kent Jespersen Calgary, Alberta		Senior Vice President, Natural Gas Services, NOVA and President, NOVA Gas International
Patrick Delbert Jewison Calgary, Alberta		Vice President and Controller, NOVA
Jeffrey Marc Lipton Calgary, Alberta	Since April 18, 1996	President, NOVA and President and Chief Executive Officer, NOVA Chemicals
Lawrence Allan MacDonald Calgary, Alberta		Senior Vice President, Corporate Development, NOVA Chemicals, NOVA and Vice President, Chief Information Officer and Treasurer, NOVA
John Morrison MacLeod Calgary, Alberta	Since February 26, 1993	Corporate Director, Member of the Advisory Board of Alberta Northeast Gas Limited and Retired President and Chief Executive Officer of Shell Canada Limited
Dennis John McConaghy Calgary, Alberta		Vice President, Corporate Development, NOVA
Harold Phillip Milavsky, F.C.A. Calgary, Alberta	Since April 26, 1988	Chairman, Quantico Capital Corp. (Investments, Acquisitions, Merchant Banking and Investment Advisory Services)
Richard Charles Milner Calgary, Alberta		Senior Vice President, NOVA and Executive Vice President of Operations, NOVA Gas International
Jack Stephen Mustoe Calgary, Alberta		Senior Vice President, General Counsel and Corporate Environmental Officer, NOVA
James Malcolm Edward Newall, O.C. Calgary, Alberta	Since August 13, 1991	Vice Chairman and Chief Executive Officer, NOVA and Chairman, NOVA Chemicals
Sheila Helen O'Brien Calgary, Alberta		Senior Vice President, Human Resources, NOVA
Dr. Nicholas Pappas Centerville, Delaware	Since February 28, 1992	President and Chief Executive Officer, BioTraces, Inc.

<u>Name and Municipality of Residence</u>	<u>Period during which a director of NOVA or Old NOVA, as applicable⁽¹⁾</u>	<u>Present principal occupation (including all positions currently held with NOVA)⁽²⁾</u>
Robert Lorne Pierce, Q.C. Calgary, Alberta	Since May 13, 1977	Chairman, Chief Executive Officer and a Director, Foothills Pipe Lines Ltd. and Vice Chairman, NOVA Gas International
Albert Terence Poole Calgary, Alberta		Senior Vice President and Chief Financial Officer, NOVA
Janice Gaye Rennie, F.C.A. Edmonton, Alberta	Since April 23, 1991	President, Research Technology Management Inc. and a director of Epcor Utilities Inc. and Weldwood of Canada Limited
Cedric Elmer Ritchie, O.C. Don Mills, Ontario	Since February 28, 1992	Corporate Director and Retired Chairman and Chief Executive Officer, The Bank of Nova Scotia (Canadian Chartered Bank)
William Norbert Rowe Calgary, Alberta		Vice President, Investor Relations, NOVA
John Peter Sereda Calgary, Alberta		Assistant Treasurer, NOVA
Bruce Wayne Simpson Calgary, Alberta		Senior Vice President, NOVA and President and Chief Operating Officer, NOVA Gas Transmission
Anne Wexler Washington, D.C.	December 9, 1994	Chairman and Chief Executive Officer, The Wexler Group (Consulting)

Notes:

- (1) The terms of office of all of the directors of NOVA expire at the termination of the 1998 annual meeting.
- (2) Information provided with respect to the principal occupation of each director is based on information furnished to NOVA by such director. All of the above directors and officers have held their present principal occupations or held executive positions with the same or associated firms for the past five years, except as indicated below:

D.W. Boivin	Prior to January 1998 President and Chief Operating Officer, NOVA Chemicals; prior to September 1994 Senior Vice President Olefins/Polyolefins, NOVA Chemicals; prior to December 1993, Vice President and General Manager, Plastics, DuPont Canada;
Sir J.G. Day	Prior to his retirement in 1993, Chairman of the Board of Cadbury Schweppes plc and of Powergen plc;
R.F. Day	Prior to April 1997, Manager, Government Affairs, NOVA Gas Transmission;
G.J. Finn	Prior to May 1996, Vice President, Public Affairs, NOVA Chemicals;
J.D. Grant	Prior to October 1995, Manager, Taxation, NOVA; prior to May 1994, Manager, Taxation, Old NOVA;
R.E.S. Grant	Prior to October 1994, Associate General Counsel, Corporate, NOVA; prior to August 1994, Senior Corporate Counsel, NOVA; prior to May 1994, Senior Corporate Counsel, Old NOVA;
J.J. Healy	Prior to February 1996, President of Healy Motors Limited;
C.K. Jespersen	Prior to September 1993, Senior Vice President, Corporate Development, Old NOVA;
P.D. Jewison	Prior to October 1995, Manager, Financial Reporting, NOVA; prior to May 1994, Manager, Financial Reporting, Old NOVA;
J.M. Lipton	Prior to January, 1998, President, NOVA and Chief Executive Officer, NOVA Chemicals; prior to December 1994, President and Chief Operating Officer of NOVA; prior to September 1994, Senior Vice President and Chief Financial Officer, NOVA; prior to May 1994, Senior Vice President and Chief Financial Officer, Old NOVA; prior to February 1994, Senior Vice President, NOVA Chemicals Inc.; prior to December 1993, Vice President, Corporate Plans of E.I. du Pont de Nemours & Co.;
L.A. MacDonald	Prior to December 1995, Vice President and Controller, NOVA Chemicals;

D.J. McConaghy	Prior to May 1996, Senior Vice President and Chief Financial Officer, NOVA Chemicals; prior to November 1995, Senior Vice President, Finance, NOVA Chemicals; prior to December 1994, Senior Vice President, Hydrocarbons, NOVA Chemicals;
H.P. Milavsky	Prior to July 1994, Chairman, the Executive Committee and director, Trizec Corporation Ltd.; prior to April 1993, Chairman of Trizec Corporation Ltd.;
R.C. Milner	Prior to July 1994 Vice President, Finance, Old NOVA; prior to May 1994, Vice President and Treasurer, Old NOVA;
J.S. Mustoe	Prior to October 1994, Senior Vice President, General Counsel and Corporate Secretary of NOVA; prior to May 1994, Senior Vice President, General Counsel and Corporate Secretary, Old NOVA; prior to September 1993, Vice President, General Counsel and Corporate Secretary, Old NOVA;
J.E. Newall, O.C.	Prior to September 1994, President and Chief Executive Officer of NOVA; prior to May 1994, President and Chief Executive Officer, Old NOVA;
S.H. O'Brien	Prior to January 1995, Vice President for People and Community, NOVA Gas Transmission; prior to July 1994, Vice President for People, NOVA Gas Transmission; prior to May 1994, Vice President for People, Alberta Gas Transmission Division, Old NOVA;
N. Pappas	Prior to January 1997, President and Chief Operating Officer, Rollins Environmental Services, Inc.;
R.L. Pierce	Prior to May 1994 Senior Vice President of Old NOVA;
A.T. Poole	Prior to September 1994, Senior Vice President, Corporate Development and Controller, NOVA and prior to March 1994, Senior Vice President, Corporate Development and Controller, Old NOVA; prior to September 1993, Vice President and Controller, Old NOVA;
J.G. Rennie, F.C.A.	Prior to April 1997, Business Consultant and Advisor; prior to 1996, President of Bellanca Developments; prior to September 1994, Senior Vice President, Princeton Developments Ltd.; prior to December 1993, President, Prairie and Northwest Territories Region, Princeton Developments Ltd.;
C.E. Ritchie	From January 1993 to January 1995, Chairman of the Board, The Bank of Nova Scotia;
W.N. Rowe	Prior to April 15, 1997 Director, Investor Relations, NOVA;
J.P. Sereda	Prior to August 1997, Manager Credit and Capital, NOVA; prior to September 1996, Director Energy Trading and Risk Management, NGC; prior to July 1994, Manager, Treasury Operations, NOVA;
B.W. Simpson	Prior to May 1994, Senior Vice President, Old NOVA.

Board of Directors

The Board of Directors is responsible for managing the business and affairs of NOVA. It establishes the overall policies and standards for NOVA. The directors are kept informed of NOVA's operations at meetings of the Board and its Committees and through reports and analyses and discussion with management.

The Board of Directors meets on a regularly scheduled basis. In addition, communications between the directors and management occur apart from regularly scheduled Board and Committee meetings.

Committees of the Board of Directors

The Board of Directors has established four standing Committees and has delegated certain responsibilities to each of those Committees and has also mandated each of them to perform certain advisory functions and make recommendations and report to the Board.

The Board of Directors of NOVA does not have an Executive Committee. The Board of Directors has a Corporate Governance Committee, an Audit and Finance Committee, a Human Resources Committee and a Public Policy, Risk and Environment Committee.

The Corporate Governance Committee of the Board of Directors is responsible for the composition, compensation and governance of the Board of Directors and recommends to the Board nominees for election or appointment to the Board, as the case may be. In addition, this Committee is responsible for maintaining an effective working relationship between the Board of Directors and management of NOVA. The Corporate Governance Committee is composed of Mrs. Wexler and Messrs. Haskayne (Chairman), Pierce and Ritchie, and Sir Graham Day.

The Audit and Finance Committee of the Board of Directors reviews and inquires into matters affecting the financial reporting of NOVA, the system of internal accounting and financial controls and procedures, and

NOVA's audit procedures and plans; approves the issuance of debt securities and foreign currency risk management strategies; recommends to the Board of Directors of NOVA the appointment and remuneration of the external auditors; is responsible for the proper and orderly funding and administration of the trust funds associated with NOVA's savings and profit sharing plans and pension plans, and reviews with management and reports to the Board, on an annual basis, on the financing plans and objectives of NOVA. The Audit and Finance Committee is composed of Mrs. Rennie and Messrs. Coleman, Healy, Hotchkiss (Chairman), MacLeod and Milavsky.

The Human Resources Committee of the Board of Directors reviews recommendations for the appointment of persons to senior executive positions, considers terms of employment including succession planning and matters of compensation, recommends awards under the Employee Incentive Stock Option Plan (1982) and is responsible for the proper and orderly administration of NOVA's savings and profit sharing plans and pension plans, other than matters relating to the funding and investment of the plans' trust funds. The Human Resources Committee is composed of Messrs. Haskayne (Chairman), Hotchkiss and Ritchie, Drs. Boer and Pappas and Sir Graham Day.

The Public Policy, Risk and Environment Committee of the Board of Directors is responsible for overseeing the policies and practices of NOVA relating to the environment, occupational health and safety, risk management, communications, corporate contributions, government relations and NOVA's role with all of its stakeholders. The Public Policy, Risk and Environment Committee is composed of Mrs. Rennie, Mrs. Wexler and Messrs. Coleman, Healy, MacLeod, Milavsky (Chairman) and Pierce, and Drs. Boer and Pappas.

In December 1996, a Technology Advisory Committee was created to advise NOVA Chemicals on its research strategy. The Technology Advisory Committee consists of two directors of the Corporation, Dr. Nicholas Pappas (Chairman) and Dr. F. Peter Boer; Mr. Daniel Boivin, a Senior Vice President of the Corporation and President, Olefins/Polyolefins Division of NOVA Chemicals and Mr. Paul D. Clark, the Vice President, Technology of NOVA Chemicals, Mr. Gerry Dyer, retired Research and Development Director, DuPont Canada Inc.; and three world-class research scientists, Dr. Michel Boudart, Professor, Stanford University, Dr. Musa Kamal, Professor, McGill University, and Dr. Kurt Zilm, Professor, Yale University.

LEGAL PROCEEDINGS

NOVA is a party to various lawsuits and claims, arising in the normal course of its business. In the opinion of management the final determination of these claims will not materially affect the financial position or operating results of NOVA.

SUBSIDIARIES OF NOVA

The following list includes all material subsidiaries of NOVA as at January 1, 1998 and indicates their respective jurisdictions of incorporation and the percentage of voting securities of each beneficially owned or over which control or direction is exercised by NOVA.

	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Directly or Indirectly Owned</u>
NOVA Gas Transmission Ltd. ⁽¹⁾	Alberta	99.999%
NOVA Gas International Ltd. ⁽²⁾	Alberta	100%
NOVA Chemicals Ltd.	Alberta	100%
NOVA Chemicals (Canada) Ltd./NOVA Chimie (Canada) Ltée	Canada	100%
NOVA Chemicals (International) S.A.	Switzerland	100%
NOVA Chemicals Inc.	Delaware	100%

Notes:

- (1) One New Common Share is owned by TransCanada under the terms of the Arrangement, NOVA has the option to repurchase the share should the Arrangement not be approved.
- (2) Other than NOVA Gas International, 100% of the preferred shares of which are indirectly controlled by NOVA, none of these subsidiaries has issued non-voting securities.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of NOVA's securities, options to purchase securities and interests of insiders in material transactions, in each case where applicable, is contained in NOVA's 1997 Management Information Circular dated March 11, 1997 and will be contained in NOVA's 1998 Management Information Circular in respect to the 1998 Annual and Special Meeting of Shareholders.

Additional financial information is provided in the 1997 audited comparative Consolidated Financial Statements, together with the auditors' report thereon, incorporated herein by reference.

A copy of NOVA's 1997 Annual Report and its Management Information Circular referred to above, as well as a copy of this Annual Information Form and of any interim financial statements of NOVA subsequent to the 1997 audited comparative Consolidated Financial Statements, may be obtained by any person without charge by writing to:

NOVA Corporation
P.O. Box 2535
Postal Station M
Calgary, Alberta
T2P 2N6

Attention: Corporate Secretary

A copy of any other documents not referred to above that are incorporated by reference into a preliminary short form prospectus or a short form prospectus of NOVA when the securities of NOVA are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus filed in respect of such distribution may also be obtained by any person without charge by writing to the Corporate Secretary at the above-noted address.

EXCHANGE RATES

The accounts of NOVA are maintained in Canadian dollars. In this Annual Information Form, all dollar amounts are stated in Canadian dollars except where otherwise indicated. The method followed by NOVA for translating foreign currency transactions and accounts and accounts of foreign subsidiaries is set out in the Summary of Accounting Policies in the Consolidated Financial Statements of NOVA as at December 31, 1997 incorporated by reference herein.

The exchange rates at the end of each of the five years ended December 31, 1997 and the high, the low and the average noon rates for each of such five years are set forth in the following tables.

Exchange Rates for U.S. Dollars

The following table sets forth the exchange rates for United States dollars in terms of Canadian dollars based on the noon rate for United States dollars as reported by the Bank of Canada:

	Year Ended December 31				
	1997	1996	1995	1994	1993
High	\$1.4399	\$1.3865	\$1.4267	\$1.4090	\$1.3484
Low	1.3345	1.3287	1.3275	1.3085	1.2400
Average Noon Rate	1.3844	1.3636	1.3726	1.4018	1.2898
Year End Noon Rate	1.4291	1.3696	1.3652	1.3659	1.3217

(Example: \$1.00 U.S. = \$1.4291 Cdn.)

On April 16, 1998 the noon rate for U.S. dollars as reported by the Bank of Canada was U.S.\$1.00 = Cdn.\$1.4367.

Exchange Rates for Canadian Dollars

The following table sets forth the exchange rates for Canadian dollars in terms of United States dollars based on the noon rate for United States dollars as reported by the Bank of Canada:

	Year Ended December 31				
	1997	1996	1995	1994	1993
High	\$.7493	\$.7526	\$.7533	\$.7642	\$.8065
Low .....	.6945	.7212	.7009	.7097	.7416
Average Noon Rate .....	.7223	.7334	.7285	.7134	.7753
Year End Noon Rate .....	.6997	.7301	.7325	.7321	.7566

(Example: \$1.00 Cdn. = \$.6997 U.S.)

On April 16, 1998 the noon rate for Canadian dollars as reported by the Bank of Canada was Cdn.\$1.00 = U.S.\$.6960.



MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

Corporate

New Energy Services and Chemicals Companies to Emerge

On January 26, 1998, NOVA Corporation (NOVA) and TransCanada PipeLines Limited (TransCanada) announced their intention to merge. Immediately following the merger, NOVA Chemicals will be split off as a separate, publicly traded commodity chemicals company.

As a result of the merger, NOVA's existing energy services businesses — NOVA Gas Transmission Ltd. (NGT) and NOVA Gas International Ltd. (NGI) — will join with TransCanada resulting in an energy services company with approximately \$11 billion in equity market capitalization, North America's fourth largest.

NOVA's operated chemicals business, together with our investments in Methanex Corporation (Methanex) and NGC Corporation (NGC), will be split off to both NOVA's and TransCanada's shareholders as a company we refer to as NOVA Chemicals in this report.

Energy services organization will be better positioned to deliver shareholder value

With combined revenues of approximately \$16 billion and assets of about \$21 billion, the energy services businesses of NOVA and TransCanada will have the opportunity to increase earnings potential and enhance shareholder value more rapidly than each company could achieve independently.

The potential for creating increased shareholder value is enhanced by consolidating our competitive strengths, strong financial positions and complementary assets.

We expect to be able to:

- offer lower-cost, flexible transmission services from the Western Canada Sedimentary Basin (WCSB) to major North American markets;
- enhance alignment of pipeline capacity planning to increase our responsiveness to customers' transportation requirements;
- improve strategic positioning and growth opportunities in the midstream businesses of gathering and processing natural gas and natural gas liquids;
- combine our size and heft to compete more aggressively in the international energy marketplace; and
- enhance the probability of successfully achieving aggressive growth targets.

Specifically, the new energy services organization will target annual operating and capital cost savings of \$150 million within three years.

NOVA Chemicals is positioned for growth

A world-class commodity chemicals organization with \$3.4 billion in revenues and \$3.5 billion in assets, NOVA Chemicals will offer shareholders an opportunity to invest in North America's fifth largest publicly traded commodity chemicals company. Our high quality assets and low-cost position will enable us to earn substantial returns during cyclical pricing peaks and remain competitive during weaker market conditions.

Merger and split to unlock value

The separation of NOVA into distinct business entities — energy services and chemicals — represents the culmination of a plan NOVA introduced in early November, 1997.

We undertook this initiative to enable shareholders to invest in more focused companies. We believed this transaction would quickly unlock shareholder value as well as enable each business to pursue its own strategies and growth plans. During the fourth quarter, NOVA's share price rose \$2.20 per share, or 19.3%, confirming our belief that our shareholders would benefit from this initiative.

Soon after the reorganization announcement, TransCanada approached NOVA. The two companies began discussing plans to merge while still allowing shareholders to invest directly in separate energy services and chemicals companies.

The NOVA/TransCanada merger transaction will be accounted for on a pooling of interests basis. NOVA shareholders will exchange each NOVA share for 0.52 shares of TransCanada; both NOVA and TransCanada shareholders will receive shares in NOVA Chemicals.

The transaction is anticipated to be completed during 1998, subject to the receipt of tax, regulatory, shareholder and judicial approvals.

Market Capitalization

Since the end of the 3rd quarter of 1997, NOVA's market capitalization has risen by over \$2 billion.

	<u>Sep. 30/97</u>	<u>Post-Split Announcement Nov. 12/97</u>	<u>Dec. 31/97</u>	<u>Merger Announcement Jan. 26/98</u>	<u>Feb. 28/98</u>	<u>April 15/98</u>
Share Price \$	11.40	13.45	13.60	15.05	15.70	16.40
Market Capitalization (\$ billions) . .	5.1	6.0	6.1	6.8	7.0	7.4

Upon successful completion of the merger, both the Energy Services and Chemicals organizations will have dynamic leadership teams.

The Energy Services organization will be led by:

Richard F. Haskayne, Chairman;
 Gerald J. Maier, Chairman Emeritus;
 Harry Schaefer, Vice Chairman;
 George W. Watson, President and Chief Executive Officer;
 Bruce W. Simpson, Executive Vice President, Gas Transportation;
 A. Jake Epp P.C., Senior Vice President, Public and Government Affairs;
 Randall J. Findlay, Senior Vice President, and President, Midstream Assets and Natural Gas Liquids business;
 Stephen J. Letwin, Senior Vice President, Corporate Services and Chief Financial Officer;
 Garry P. Mihaichuk, Senior Vice President, and President, International;

Val Mirosh, Senior Vice President, Business Development and Corporate Strategy;
 Brian F. Olson, Senior Vice President, Human Resources;
 Robert J. Reid, Senior Vice President and President, Transportation;
 G. Larry Spackman, Senior Vice President and President, Marketing, Trading and Power;
 Ronald J. Turner, Senior Vice President and President, Alberta Transmission;
 Robert A.M. Young, Senior Vice President, Legal Services and Chief Compliance Officer.

NOVA Chemicals will be led by:

J.E. (Ted) Newall, Chairman;
 Gerald J. Maier, Vice Chairman;
 Jeffrey M. Lipton, President and Chief Executive Officer;
 Daniel W. Boivin, Senior Vice President and President Olefins/Polyolefins Division;
 Wes W. Lucas, Senior Vice President and General Manager, Styrenics Division;

Wayne E. Lunt, Senior Vice President and Chief Financial Officer;
 Jack S. Mustoe, Senior Vice President, Legal;
 Sheila H. O'Brien, Senior Vice President, Human Resources and Public Affairs;
 A. Terence Poole, Executive Vice President, Finance and Strategy; and
 Dale Spiess, Senior Vice President, Sales and Marketing, Olefins/Polyolefins Division

Financial data restated to reflect transaction

Although NOVA's equity investment in NGC has historically been reported in the NGI segment for financial reporting purposes, it has always been owned by NOVA Chemicals. For the purposes of this

Management Discussion and Analysis, NOVA is reporting 1997 business results in alignment with the proposed merger restructuring previously described. All financial data, including historical data, has been restated to include NGC's financial results within NOVA Chemicals.

Steady earnings performance provides solid platform for merger and split

NOVA earned \$447 million (\$0.96 per share) in 1997 before \$122 million in asset write-downs. This was a \$16 million drop from pre-write-down earnings of \$463 million (\$0.98 per share) in 1996. Including write-downs, NOVA's net income for 1997 was \$325 million (\$0.70 per share). These write-downs consist of a \$65 million charge related to asset write-downs and certain foreign exchange trading losses at Pan-Alberta Gas Ltd. (Pan-Alberta) as well as a \$57 million write-down representing NOVA's share of a restructuring charge recorded by NGC.

NOVA's Earnings Performance

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars, except for share data)		
NOVA Chemicals	\$ 225	\$ 258	\$ 523
NOVA Gas Transmission	200	181	166
NOVA Gas International	22	25	16
Corporate	—	(1)	(3)
Net income before asset write-downs	<u>447</u>	<u>463</u>	<u>702</u>
Asset write-downs	<u>(122)</u>	<u>(32)</u>	—
Net income	<u>\$ 325</u>	<u>\$ 431</u>	<u>\$ 702</u>
Net income per share (fully diluted)			
before asset write-downs	\$ 0.96	\$0.98	\$1.44
after asset write-downs	<u>\$ 0.70</u>	<u>\$0.91</u>	<u>\$1.44</u>

Changes in Net Income: Better (Worse)

	<u>1997</u> <u>compared</u> <u>with 1996</u>	<u>1996</u> <u>compared</u> <u>with 1995</u>
	(millions of dollars)	
NOVA Chemicals	\$ (33)	\$(265)
NOVA Gas Transmission	19	15
NOVA Gas International	(3)	9
Corporate and other	1	2
Increase in asset write-downs	<u>(90)</u>	<u>(32)</u>
Decrease in net income	<u>\$ (106)</u>	<u>\$ (271)</u>

In 1997, a strong performance from NGT and improved earnings from NOVA Chemicals' investment in Methanex were not sufficient to offset weaker results from NOVA Chemicals' styrenics business.

(Please refer to the 1997 earnings section of each business for full details.)

1996 earnings down from 1995 record

In 1996, growth in earnings from NGT and NGI were not sufficient to offset lower earnings from NOVA Chemicals. In NOVA Chemicals, weaker petrochemicals prices and higher feedstock costs resulted in lower earnings compared with 1995. In 1995, NOVA achieved record earnings of \$702 million, largely as a result of strong petrochemicals markets in the first half of the year.

Chemicals

As a stand-alone entity, NOVA Chemicals will offer shareholders an investment in North America's fifth largest publicly traded commodity chemicals company. Our high quality assets and low-cost position will enable us to earn substantial returns during cyclical pricing peaks and remain competitive during weaker market conditions.

Sales

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of pounds)		
Ethylene			
Internal consumption	2,539	2,587	2,419
Third party sales	2,357	2,175	2,130
	<u>4,896</u>	<u>4,762</u>	<u>4,549</u>
Ethylene co-products ⁽¹⁾			
Propylene	765	813	769
Other	3,631	3,608	3,598
	<u>4,396</u>	<u>4,421</u>	<u>4,367</u>
Polyethylene			
Linear low-density	1,369	1,320	1,119
Low-density	430	437	401
High-density	621	589	532
	<u>2,420</u>	<u>2,346</u>	<u>2,052</u>
Styrene			
Internal consumption	1,217	659	564
Third party sales	215	272	344
	<u>1,432</u>	<u>931</u>	<u>908</u>
Polystyrene ⁽²⁾	<u>1,216</u>	<u>820</u>	<u>692</u>

Notes:

- (1) Co-products includes hydrogen.
- (2) Includes Polystyrene, Clear, DYLARK and DYLITE.

Average benchmark prices on the U.S. Gulf Coast⁽¹⁾

	<u>1Q</u> <u>1997</u>	<u>2Q</u> <u>1997</u>	<u>3Q</u> <u>1997</u>	<u>4Q</u> <u>1997</u>	<u>1997</u>	<u>For the Year</u> <u>1996</u>	<u>1995</u>
	(U.S.\$ per pound except Methanol)						
Polyethylene — linear							
low-butene liner ⁽²⁾	0.38	0.40	0.37	0.35	0.37	0.36	0.42
Styrene ⁽³⁾	0.30	0.28	0.29	0.29	0.29	0.32	0.45
Polystyrene ⁽³⁾	0.42	0.41	0.40	0.39	0.40	0.45	0.55
Propylene ⁽³⁾	0.19	0.20	0.19	0.18	0.19	0.17	0.21
Methanol ⁽⁴⁾	<u>0.55</u>	<u>0.58</u>	<u>0.55</u>	<u>0.56</u>	<u>0.56</u>	<u>0.45</u>	<u>0.67</u>

Notes:

- (1) Average benchmark prices are not necessarily the actual prices realized by NOVA or any other petrochemicals company.
- (2) Source: Phillip Townsend Associates Inc.
- (3) Source: CMAI
- (4) Methanex's average realized price in U.S.\$ per gallon.

The global commodity chemicals industry is cyclical by nature and subject to wide price fluctuations called peaks and troughs.

Troughs are periods of depressed pricing caused by oversupply to the market and/or weak demand due to slow economic growth. When demand levels strengthen and begin to overtake capacity, prices rise rapidly and are sustained at high levels, called peaks. These peaks often result in the addition of new production capacity.

NOVA Chemicals Overview

NOVA Chemicals operates two commodity chemicals businesses. Our olefins/polyolefins business produces ethylene, polyethylene and a variety of chemical and energy products, including fuel products and aromatic chemicals. Our styrenics business produces styrene and styrenic polymers, which include solid polystyrene, expandable polystyrene (EPS) and DYLARK® engineering resins.

We maintained our strong market positions in North America with strategically situated, world-class facilities in Canada and the United States. In 1997, by capacity, NOVA Chemicals ranked fifth in ethylene, sixth in polyethylene, seventh in styrene and third in polystyrene.

We market 83% of our polymer products in North America, with the balance directed at the Asia-Pacific region and Europe. In North America, Europe and developed parts of the Asia-Pacific region, demand for the commodity chemicals we produce is related primarily to each country's gross domestic product (GDP) growth, and to a lesser extent, to factors such as product substitution. In the developing world, product demand is affected by levels of industrialization and the prevalence of export markets.

Pricing levels are affected by the balance between demand and supply. The addition of new capacity to the marketplace, world operating rates and the existence of trade barriers such as import tariffs all affect the supply of commodity chemicals.

To compete successfully in the global commodity chemicals business, NOVA Chemicals has adopted four primary objectives:

- maintain access to low-cost feedstock;
- achieve low-cost, world-scale operations;
- implement low-cost capacity increases through debottlenecks and acquisitions; and
- develop focused and fully competitive technology.

NOVA Chemicals markets 83% of its polymers in North America.

U.S.A.	58%
Canada	25%
Asia	9%
Europe & Other	8%

Strategic Initiatives for Global Competition

Growing the business: EIII on schedule for 2000

One of our primary objectives is to further increase the scale of our low-cost manufacturing facilities. In 1997, we made excellent headway with the initiation of construction of Ethylene III (EIII), a third ethylene plant at Joffre, Alberta. We share the ownership of this \$1.1 billion plant equally with Union Carbide Canada Inc. The 2.8 billion pound facility is scheduled to begin production in 2000.

EIII's planned capacity has been increased by 800 million pounds over previously announced estimates, reflecting strong, long-term customer demand for ethylene from the Joffre facility. The significant increase in planned capacity for the plant has resulted in competitive per unit capital costs of U.S.\$0.28 per pound. Capital costs have also increased as projected expenditures have been adjusted for the effects of inflation.

One of our primary operating objectives is to further increase the scale of our low-cost manufacturing facilities.

NOVA Chemicals' planned growth

<u>Project</u>	<u>Planned expansions</u>	<u>Forecasted in-service</u>	<u>Expected cost</u>
	(millions of lbs)	(date)	(\$ millions)
Ethylene III expansion ⁽¹⁾	2,800 ⁽²⁾	2000	1,100 ⁽³⁾
Advanced SCLAIRTECH polyethylene plant	850	2000	385
Styrene upgrade and expansion	350	1998	130

Notes:

- (1) Joint venture with Union Carbide Canada Inc.
- (2) NOVA Chemicals and Union Carbide Canada Inc. will share these volumes.
- (3) Total expected capital cost. NOVA Chemicals' share is \$550 million.

Joffre Production Capacity

	<u>1997</u>	<u>2000</u>
	(billions of lbs)	
Ethylene	3.4	6.2
Polyethylene	1.2	2.1

The expansions under way at the Joffre facility will increase ethylene and polyethylene capacity by over 80% and 70% respectively.

Co-generation plant to improve Joffre cost structure

In 1997, NOVA Chemicals began the regulatory process to build and operate a co-generation power plant at the Joffre, Alberta plant site. This proposed co-generation plant will use natural gas to produce electrical energy and, through the recovery of exhaust heat, steam energy. NOVA Chemicals is proceeding with plans to develop and share ownership of this plant, which is expected to generate more than 400 megawatts of power. The plant would supply all of the steam and electrical requirements of the Joffre site, and excess electrical power would be sold to the Alberta power pool.

Advanced SCLAIRTECH™ technology forms foundation of polyethylene expansion plans

The development of focused, competitive technology is critical to our continued industry leadership. In 1996, we announced a breakthrough process technology called Advanced SCLAIRTECH.

This technology offers many competitive advantages:

- competitive capital and plant operating costs;
- product features which are more easily controlled; and
- shorter reactor time, which reduces the cost of customized, value-added products.

We have applied for patents on this proprietary technology. To date in 1998, some portions of the Advanced SCLAIRTECH technology are patent-protected.

In 1997, NOVA Chemicals began construction of a second polyethylene plant (PEII) on the Joffre site. This plant will use our new Advanced SCLAIRTECH technology. The plant's expected capacity has increased by about 80 million pounds to 850 million pounds per year as a result of a more efficient equipment configuration and product slate optimization. Total capital costs are expected to be \$385 million including all plant infrastructure and commissioning costs.

Pre-marketing of products made using Advanced SCLAIRTECH technology will soon be under way. We are incorporating certain aspects of this technology at our St. Clair River, Ontario, site. As a result, by the third quarter of 1998, the site will be able to produce approximately 200 million pounds per year of polyethylene resins which have some of the product characteristics of the resins that will be produced at PEII.

Due to their superior characteristics, products made using Advanced SCLAIRTECH technology are also expected to achieve higher margins than competitive polyethylene resins.

Maintaining low-cost leadership

NOVA Chemicals successfully completed an upgrade at our Corunna, Ontario, site during 1997, increasing the facility's ethylene capacity by approximately 100 million pounds.

The \$130 million expansion and upgrade project at our Sarnia, Ontario, styrene plant proceeded as scheduled in 1997. When completed during the third quarter of 1998, this project is expected to increase the site's capacity by 350 million pounds to 950 million pounds. Both the enhanced scale of this facility and the introduction of advanced technology are expected to move the Sarnia styrene facility into a first-quartile cost position.

In 1997, NOVA Chemicals also announced plans to enhance the efficiency of its styrenics manufacturing activities in North America. These efforts led to greater supply chain efficiency in styrene supply and higher polystyrene capacity. As a result, we were able to increase polystyrene production at our existing facilities and terminate a higher-cost arrangement previously in place for the conversion of 80 million pounds of polystyrene.

Sustainable, low-cost position one of NOVA Chemicals' competitive advantages

Joffre's feedstock cost advantage is built on three sustainable elements: low cost natural gas, highly efficient ethane gathering and extraction and very cost-effective ethylene conversion costs.

The Joffre complex uses ethane as a feedstock to produce ethylene. This ethane is extracted from natural gas produced in the WCSB. We have ethane supply agreements with several natural gas liquids extraction plants located in Alberta. Under these agreements, we pay for both the energy value of the ethane removed from the natural gas stream and the costs associated with the extraction process.

As a result, lower natural gas prices account for approximately one third of the cost advantage our Joffre ethylene facility enjoys over U.S. Gulf Coast ethylene producers. Over the last seven years, the price of natural gas in Alberta (AECO) and on the U.S. Gulf Coast (NYMEX) has differed by an average of U.S.\$0.85 per Mcf⁽¹⁾. That amount is greater than the transportation cost differential between Alberta and major markets in Chicago. U.S. Gulf Coast (USGC) natural gas prices are typically similar to those in the Chicago area.

The price differential between Alberta and USGC natural gas production fluctuates as supply and demand conditions change. Currently, this differential is being sustained at higher levels due to a lack of export pipeline capacity out of Alberta. The proposed addition of new export pipeline capacity will remove this constraint. As a result, for the 1998/1999 gas year, the futures market indicates this differential will shrink to U.S.\$0.70 per Mcf. We expect the price differential between Alberta and USGC natural gas to shrink even further to reflect only the transportation differential. The minimum price difference between Alberta and USGC natural gas prices is expected to be approximately U.S.\$0.50 per Mcf.

The remaining two thirds of the Joffre ethylene-cost advantage is fixed. It is the result of the very low-cost ethane extraction and gathering facilities in the province and NOVA Chemicals' large-scale, very efficient ethylene plants themselves. Even with Alberta natural gas prices at a minimum differential to USGC prices, NOVA Chemicals will be able to produce ethylene at Joffre at a more than U.S.\$0.05 per pound advantage compared with the average USGC ethylene producer under typical feedstock market conditions.

Ethane supply secured in near to medium term

During 1997, we finalized new, more favourable ethane supply agreements for a portion of ethane supply portfolio. Some of these agreements take effect in January 1999. We now have binding commitments in place to satisfy the ethane requirements of Ethylene I (EI), Ethylene II (EII), and for a significant portion of the requirements of our new facility, EIII. Most of these volumes are contracted beyond 2004.

It is possible that new pipelines will be constructed which will transport natural gas liquids, including ethane, out of the province, potentially affecting the supply of ethane in Alberta. However, these new pipelines must be in compliance with the Government of Alberta's ethane policy, which ensures access to feedstock for Alberta-based petrochemical facilities.

⁽¹⁾Thousands of cubic feet (Mcf) and millions of btu's are used interchangeably.

New, improved ethylene sales agreements

Cost-of-service sales contracts are currently in place for ethylene produced at EI and EII. Approximately 67% of the ethylene produced from these plants is sold to third parties. The remaining 33% is used internally by NOVA Chemicals in the production of polyethylene. These contracts allow for the full recovery of the operating and financing costs of the ethylene plants, as well as a contractually based guaranteed return on equity.

The cost-of-service agreements for EI expire in December 1998, by which time the plant will be substantially depreciated. In 1997, we negotiated new ethylene sales agreements for these volumes as well as for future production from our EIII facility. We finalized more than \$400 million per year worth of ethylene sales agreements with both new and existing customers. These more flexible, market-related contracts are in place for sales of approximately 2.2 billion pounds of ethylene per year, and are expected to increase earnings beginning in 1999. We will be developing plans to further increase the ethylene production from our existing and planned facilities to meet the requirements of these sales agreements.

Olefins/Polyolefins Business

Global demand for polyethylene rose 4% in 1997, while global capacity increased 5%, leading to an excess supply of polyethylene. World operating rates fell to an average of 87%. Despite this slight drop in operating rates, benchmark prices strengthened 3% over the year to an average of U.S.\$0.37 per pound.

In 1997, NOVA Chemicals' olefins/polyolefins business contributed \$423 million of operating income, an increase of \$9 million over operating income of \$414 million in 1996.

NOVA Chemicals fifth largest producer of ethylene in North America

In 1997, NOVA Chemicals was North America's fifth largest producer of ethylene, with a total annual production capacity of 5.0 billion pounds. Our total sales of 4.9 billion pounds included internal consumption of 2.5 billion pounds. Based on announced expansions, we expect to be North America's third largest ethylene producer by 2001.

Joffre facility second largest in North America

Our Joffre, Alberta facility is currently the second largest ethylene production site in North America, with annual production capacity of 3.4 billion pounds. Two ethylene plants, EI and EII, operate on the Joffre site, producing ethylene from natural-gas-derived ethane. In 1997, the Joffre facility ran at full capacity, producing 6% more ethylene than the 3.3 billion pounds produced in 1996. With the start-up of EIII and the new polyethylene plant in 2000, Joffre will be the largest ethylene and polyethylene complex in North America.

Olefins/Polyolefins

Joffre	3.4 billion lbs
Corunna	1.6 billion lbs

NOVA Chemicals has the capacity to produce 5.0 billion pounds of ethylene per year.

Corunna ethylene facility provides manufacturing flexibility

NOVA Chemicals' Corunna plant, near Sarnia, Ontario, has an annual capacity of approximately 1.6 billion pounds of ethylene and 3.9 billion pounds of chemicals and energy products (also known as co-products). This facility features one of the world's most flexible feedstock operating platforms — technology that enables the facility to process a wide range of hydrocarbon feedstocks. A broad range of primary petrochemicals are produced and consumed internally by NOVA Chemicals' manufacturing operations, as well as sold to third party petrochemical producers.

In 1997, the Corunna facility had sales equal to 1996 sales of 1.5 billion pounds of ethylene, despite the significant delay in restarting the facility after a scheduled maintenance shutdown. The Corunna facility sold a total of 3.6 billion pounds of co-products, including 660 million pounds of propylene.

In 1997, NOVA Chemicals produced 4.4 billion pounds of chemicals and energy products known as co-products.

Chemicals

(including propylene, C4's benzene, toluene and xylene) 2.4 billion lbs

Energy Products

(including low sulphur diesel, various fuel oils) 2.0 billion lbs

Use of Technology Enhances Margins

NOVA Chemicals' ethylene flexicracker at Corunna, Ontario processes a variety of feedstocks, from natural gas liquids and condensates at the light end, to naphtha derived from crude oil at the heavy end. In order to reduce the net cash cost of our downstream products, polyethylene and polystyrene, we use a computerized linear programming model to evaluate the impact of fluctuating commodity prices on manufacturing margins. Our feedstock specialists calculate the impact of changing prices and determine the most profitable balance between feedstock and product output.

Polyethylene prices drive our profitability

Polyethylene is the most significant profit driver in NOVA Chemicals' product portfolio. We are North America's sixth largest polyethylene producer with a total annual capacity of 2.5 billion pounds and 1997 sales of 2.4 billion pounds. By the year 2001 we expect to be North America's fifth largest producer, with a total capacity of 3.5 billion pounds.

	1997	1996	1995
	(\$U.S. per lb)		
Polyethylene average benchmark prices	0.37	0.36	0.42

NOVA Chemicals produces linear low-density (LLDPE), high-density (HDPE) and low-density (LDPE) polyethylene. These types of polyethylene are widely used in hundreds of everyday applications — from film for food wrap to injection moulded containers, pipe, coatings for wire and cable and children's toys. Our polyethylene production facilities are located at three sites in Canada: the Joffre facility in Alberta, and the Moore Township and St. Clair River sites near Sarnia, Ontario.

NOVA Chemicals' Joffre plant has an annual capacity of 1.2 billion pounds of LLDPE, while the Moore Township site has capacity of 720 million pounds of LDPE and HDPE. Our St. Clair River site can produce up to 600 million pounds of LLDPE and HDPE.

1997 polyethylene sales increased 3.2% over 1996

NOVA Chemicals' total polyethylene sales volumes increased 3.2% over 1996 levels. The Joffre site in Alberta produces LLDPE using a licensed gas phase process technology. In 1997, the plant ran at full capacity, and NOVA Chemicals sold 1.2 billion pounds of LLDPE, up 9.1% over 1996 sales of 1.1 billion pounds. The Moore Township site sold 697 million pounds of HDPE and LDPE in 1997, an increase of 4.2% over 1996 sales of 669 million pounds. The St. Clair River site produces LLDPE and HDPE using NOVA Chemicals' SCLAIRTECH™ solution technology. This site sold 531 million pounds of polyethylene, a significant accomplishment given that production was curtailed by a major planned maintenance shutdown.

Olefins/Polyolefins price outlook for 1998

Weakening demand from Asian markets is anticipated in the near term as a result of the economic difficulties there. This is expected to apply downward pressure on polyethylene pricing. Longer term, several Asian expansion projects have been deferred, which could lead to a reduction in excess global polyethylene capacity sooner than previously anticipated.

Steady North American demand for polyethylene is expected to partially offset anticipated weakness in Asian demand levels in the near term. A 6% increase in North American polyethylene production capacity is expected in 1998, adding an estimated 2.2 billion pounds of incremental capacity. As a result, operating rates are expected to remain below 90% in 1998 and 1999.

Combined with an expected surplus of ethylene, these polyethylene capacity additions and the potential side-effects of the Asian crisis are expected to contribute to low North American polyethylene prices through most of 1998 and 1999.

Over the longer term, economic forecasts indicate that global demand for polyethylene will grow at rates well above GDP, leading to a stronger outlook for polyethylene prices as increases in demand overtake capacity growth.

The rigorous efficiency advances under way throughout our styrenics business are expected to significantly improve our cost position in the coming years.

Styrenics Business

NOVA Chemicals manages its styrene and polystyrene operations as an integrated business unit. In terms of capacity, we ranked seventh in styrene and third in polystyrene in North America in 1997. Our styrenics products are used in food packaging, food-service ware, housewares, and automotive and consumer products.

We consume almost 80% of our styrene production in the manufacturing of polystyrene, and the balance is sold to third parties at prevailing market prices. As a result, our styrenics business is leveraged primarily to changes in polystyrene prices.

Styrenics business significantly impacted by lower polystyrene prices

World styrene demand growth of approximately 4% was overtaken by capacity growth of 10% in 1997. With supply significantly exceeding demand, the world operating rates for styrene fell to 89% from 95% in 1996. Industry participants announced the shutdown of several high-cost plants in an attempt to alleviate the supply/demand imbalance. USGC styrene marker pricing edged up early in 1997 on stronger feedstock prices, but reversed course mid-year. Prices ended the year at U.S.\$0.285 per pound, similar to year-end 1996 levels.

North American polystyrene demand grew by 5.5%, while production grew by almost 7%, leading to an excess supply of polystyrene. With this oversupply, average benchmark prices dropped approximately 17%, resulting in a significant decline in the profitability of NOVA Chemicals' styrenics business.

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(U.S. per lb)		
Styrene & Polystyrene Average Benchmark Prices			
Polystyrene	0.40	0.45	0.55
Styrene	0.29	0.32	0.45

Styrene

Styrene is the key feedstock for a broad range of styrenic polymers including solid polystyrene, EPS and many other engineering and specialty materials.

Styrene is produced from ethylene and benzene. All of the ethylene and about two thirds of the benzene requirements of the Sarnia styrene facility are supplied internally from our Corunna facility.

We produce or have access to approximately 1.4 billion pounds of styrene annually: 600 million pounds from our plant in Sarnia and 800 million pounds from supply arrangements with ARCO Chemical Company's Channelview facility in Texas.

Polystyrene

NOVA Chemicals produces four different product families of polystyrene. These include solid polystyrene, EPS, DYLARK engineering resins and specialty styrenic polymers. We produce these products at facilities located at: Decatur, Alabama; Springfield, Massachusetts; Montreal, Quebec; Painesville, Ohio; and Beaver Valley, Pennsylvania. These facilities have a combined production capacity of 1.3 billion pounds per year.

Solid polystyrene is used to manufacture food packaging, appliances, electronics, consumer goods, office products, medical, and other industrial items. In 1997, NOVA Chemicals sold 721 million pounds of solid polystyrene, compared with 692 million pounds in 1996.

We produce DYLITE® EPS and DYLARK engineering resins, higher-margin specialty products which are used in a wide variety of applications. DYLITE EPS is used in many food-service, packaging and specialized construction applications. We also produce specialty styrenic polymers that are used in such high performance applications as medical, electronics and microwaveable containers. Virtually all of the DYLARK resin we produce is used in the manufacture of automobile instrument panels, consoles and other interior trim parts.

In 1997, NOVA Chemicals sold a total of 495 million pounds of DYLITE EPS, DYLARK resins and specialty styrenic polymers.

Styrenics outlook for 1998

The current pricing trough caused by a supply/demand imbalance is expected to continue in the near term, with prices remaining at low levels throughout 1998. With continued demand growth and further capacity rationalizations planned for 1998, we expect modest improvements in industry margins over the next two to three years.

As a result of the rigorous efficiency advances under way throughout our styrenics business and the anticipated strengthening of market conditions, we see longer-term value and significant growth potential in this business.

NOVA Chemicals' Equity Investments Add Value

Methanex

Our 27% ownership in Methanex enables us to participate in the dynamic methanol market. The market value of our investment in Methanex was \$533 million at the end of 1997, an increase of approximately 50% since we acquired our portion of the company in 1993 and 1994.

Methanex has become the largest supplier of methanol to each of the major international methanol markets — North America, Asia-Pacific, Europe and Latin America.

Methanol, typically produced from natural gas, is a basic chemical building block used in the production of methyl tertiary butyl ether (MTBE) for gasoline, and for formaldehyde, acetic acid and a variety of other chemical intermediates. These derivatives are ultimately used in the manufacture of countless products that we find in our everyday lives, including: adhesives, paints, inks, foams, gasoline additives, silicones, plastic pop bottles, polyester, solvents, Spandex, and windshield washer fluid. Methanol is also used directly as a fuel.

Given the number of end uses, a large number of factors influence growth in methanol consumption, but overall GDP increases are the primary driver behind demand growth.

Methanex's Chile II methanol plant, the largest capital project in the company's history, was completed at year-end 1996 and began operating at capacity in early January 1997. Construction also began on a third methanol plant at the same site. This plant is expected to be completed by mid-1999.

Also, in 1997, Methanex ordered the world's largest chemical tanker, which will reduce shipping costs from the "production hub" in Chile to customers in Europe by approximately U.S.\$1 million per voyage. In 1998 and beyond, Methanex will continue to pursue low-cost capacity additions and other innovative ways of reducing its overall delivered cost to market.

In 1997, world methanol demand and supply were tightly balanced. Demand for MTBE is expected to grow, especially outside the U.S., leading to an increase in the demand for methanol in the near term. MTBE in reformulated gasoline has made a significant contribution to improving air quality in California and other states. Notwithstanding this, there have been concerns raised over potential health issues. MTBE's use in California is currently being studied. Also, uncertainty surrounding currency and economic problems in some Asian countries

has reduced Asian demand. This, combined with new capacity additions, has led to sharply lower prices in early 1998.

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(\$ millions)		
Market value of Methanex investment	533	585	469
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(U.S.\$ per gallon)		
Average realized methanol prices	0.56	0.45	0.67

NGC Corporation

NGC Corporation (NGC) is a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom. Through THE ENERGY STORESM, NGC offers a multi-commodity energy products and services resource that provides natural gas, natural gas liquids, electricity and crude oil. NOVA Chemicals has a 26% interest in NGC. At \$972 million, the market value of our investment at the end of 1997 was more than double the original purchase price in 1994.

In 1997, NGC integrated the operations of Chevron Corporation's midstream natural gas and natural gas liquids operations. NGC also purchased Destec Energy, Inc., an independent power producer, resulting in a significant overall increase in the scope of NGC's business.

Despite strong growth in marketed volumes, NGC's profitability was negatively affected by both lower trading margins and higher levels of general, administrative and interest expenses associated with the company's expanded scope.

The company also undertook a restructuring process in its natural gas liquids and crude oil business which resulted in a significant write-down in 1997, our share of which was \$57 million.

	<u>Natural Gas</u>		<u>Natural Gas Liquids</u>		<u>Crude Oil</u>		<u>Electric Power</u>		
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>	
	(billions of cubic feet)		(thousands of barrels per day)		(thousands of barrels per day)		(millions of megawatt hours)		
Marketing business	6.1	4.3	413.9	245.0	168.3	106.0	94.7	14.9	
							<u>1997</u>	<u>1996</u>	<u>1995</u>
							(\$ millions)		
Market Value of NGC Investment							972	1,235	445

Review of NOVA Chemicals' 1997 Earnings

NOVA Chemicals earned \$139 million from its operated businesses in 1997, down \$61 million from the \$200 million earned in 1996.

The operating income contribution from our olefins and polyolefins business was \$423 million, an increase of \$9 million over 1996 operating income of \$414 million. This increase in income reflects stronger realized polyethylene prices and a moderate increase in polyethylene sales volumes.

Weakening commodity prices significantly impacted our styrenics business in 1997, which recorded a \$71 million operating loss, compared with operating income of \$17 million in 1996.

NOVA Chemicals highlights

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(\$ millions)		
Net income contribution			
NOVA-operated facilities	\$ 139	\$ 200	\$ 450
Equity in earnings of Methanex	57	17	58
Equity in earnings of NGC	29	41	15
	<u>225</u>	<u>258</u>	<u>523</u>
Methanex asset write-down	—	(32)	—
NGC asset write-down	(57)	—	—
	<u>\$ 168</u>	<u>\$ 226</u>	<u>\$ 523</u>
Operating income			
Olefins/Polyolefins	\$ 423	\$ 414	\$ 667
Styrenics	(71)	17	147
Re-engineering, computer system development and other costs	(15)	(32)	(64)
	<u>\$ 337</u>	<u>\$ 399</u>	<u>\$ 750</u>
Revenue			
Olefins/Polyolefins	\$2,656	\$2,578	\$2,489
Styrenics	829	586	690
Intra-segment eliminations	(125)	(121)	(125)
	<u>\$3,360</u>	<u>\$3,043</u>	<u>\$3,054</u>
Capital expenditures	\$ 328	\$ 257	\$ 136
Investment in Methanex	\$ 621	\$ 544	\$ 560
Investment in NGC	\$ 407	\$ 418	\$ 373
Capital employed ⁽¹⁾	\$2,117	\$1,996	\$1,901
Depreciation	\$ 235	\$ 221	\$ 202

Note:

(1) Excludes investment in Methanex and NGC.

Factors affecting NOVA Chemicals' net income⁽¹⁾

<u>Assumptions⁽²⁾</u>	<u>Assumed third party sales</u>	<u>Estimated annual increase (decrease)⁽³⁾</u>
	(\$ millions)	
Increase in profit margin of U.S. 1¢ per pound		
Polyethylene	2.5 billion lbs	22.7
Styrene	0.3 billion lbs	2.8
Polystyrene	1.3 billion lbs	11.9
Propylene	0.7 billion lbs	6.5
U.S.\$10 million increase in Methanex's net income		3.8
U.S.\$10 million increase in NGC's net income		3.7
Increase in interest rates by one per cent		(1.5)

Notes:

(1) The company has not disclosed a sensitivity to foreign exchange rate changes for 1998 as substantially all of the anticipated U.S. dollar revenue stream has been hedged (see note 22 to the financial statements).

(2) A decrease in these factors will have the opposite effect on net income.

(3) Estimated annual change in net income. Assumes Cdn.\$1 = U.S.\$0.70.

NOVA Chemicals changes in net income

<u>Better (worse)</u>	1997 compared with 1996	1996 compared with 1995
	(\$ millions)	
Lower product margins	\$(21)	\$(276)
Higher product volumes	10	55
Higher (lower) equity in earnings of Methanex	40	(41)
Higher (lower) equity in earnings of NGC	(12)	26
Methanex asset write-down	32	(32)
NGC asset write-down	(57)	—
Manufacturing problems	(7)	—
Corunna extended shutdown	(13)	—
Higher interest expense	(11)	(8)
Other	<u>(19)</u>	<u>(21)</u>
	<u>\$(58)</u>	<u>\$(297)</u>

Methanex 1997 earnings

NOVA Chemicals' 27% interest in Methanex contributed \$57 million to net income in 1997, an increase of \$40 million from the \$17 million earned in 1996 prior to a \$32 million asset write-down.

The significant improvement in earnings was largely due to higher sales volumes and a higher average realized price of U.S.\$0.56 per gallon, compared with U.S.\$0.45 per gallon in 1996.

NGC Corporation 1997 earnings

NOVA Chemicals' 26% equity investment in NGC contributed \$29 million in earnings, down from \$41 million in 1996. A tightening of the natural gas and natural gas liquids trading margins realized in the first quarter of 1997 and higher levels of general, administrative and interest expenses associated with the company's expanded scope of operations were the primary reasons for this drop in earnings.

NGC also reported a write-down during the fourth quarter, NOVA Chemicals' share of which was \$57 million. This non-cash charge to earnings relates primarily to the company's planned restructuring in its natural gas processing, natural gas liquids and crude oil business.

NOVA Chemicals' 1998 and 1999 Earnings Outlook

We believe the commodity chemicals industry will experience near-trough pricing conditions in 1998. During the last pricing trough in 1991, NOVA Chemicals experienced a loss of \$115 million from its operated businesses. Since that time, we have implemented efficiency improvements, extensive cost reduction programs and enhanced business practices which we believe will enable NOVA Chemicals to continue being profitable during the current market downturn.

We are also targeting \$100 million of annualized after-tax earnings to be in effect by mid-year 1999. These are the result of several developments:

- new, more favourable ethane supply agreements;
- recontracting of sales volumes from EI under more market-related contract terms;
- substantially complete depreciation of EI by year-end 1998, resulting in higher net income in 1999 and future years;
- conclusion of certain technology royalty payments; and
- continued expansion and restructuring of our styrenics operations to achieve efficiency improvements.

Energy Services

As a result of the merger, NOVA's existing energy services businesses — NOVA Gas Transmission and NOVA Gas International — will join with TransCanada to create a new energy services organization.

NOVA Gas Transmission Strategic Initiatives

NOVA Gas Transmission Ltd. (NGT) owns and operates one of the world's fastest growing and most technologically advanced pipeline systems. It serves as the primary natural gas gathering system for Alberta's gas producers. The system is complex and includes over 22,200 kilometres of pipe ranging in diameter from two to 48 inches, 47 compressor stations and more than 1,100 receipt and delivery points, eight of which are interprovincial border points. System growth is driven by our responsiveness to the changing and growing needs of our customers. NGT has consistently been recognized for being a leader in customer service in independent North American surveys.

In 1997, NGT shipped 4.5 trillion cubic feet (Tcf) of gas for Alberta shippers — our 11th consecutive year of achieving throughput volume records. This volume represents approximately 18% of total North American annual gas production.

NGT's business is regulated under the Gas Utilities Act (Alberta) in a manner similar to other regulated Canadian pipeline companies. NGT's business risks and uncertainties arise from changes in the tolling structure which generates revenue and covers costs, the efficient use of capital and other regulatory issues. NGT's profitability is affected by its ability to contain costs under the Cost-efficiency Incentive Settlement (CEIS) and by growth in its investment base, which, in turn, is affected by natural gas production growth in the Western Canada Sedimentary Basin (WCSB). Investment base growth is also affected by competition from other pipelines, both existing and proposed.

Low-cost, reliable transportation service

NGT is among the lowest-cost gas transportation service providers in North America.

From 1993 to 1997, NGT's investment base increased by 56%, volumes shipped grew by 30% and the average distance natural gas was transported was up 9%. NGT has successfully met its customers' requests for additional transportation service, while at the same time keeping average unit transportation rates essentially flat during this time frame.

The NGT system has consistently grown in response to customers' requests for increased gas delivery. Since 1992, NGT has invested approximately \$3 billion on behalf of customers to increase the capacity of its pipeline system and meet growing natural gas export requirements. We remain well positioned to accommodate future downstream requirements, offering low-cost, flexible service options.

Positioned to compete

The fundamental framework of Alberta's natural gas pipeline industry is changing rapidly and NGT has invested considerable effort and resources in recent years to help shape this changing environment.

NGT's objective is to continually meet the diverse requirements of our more than 250 customers by providing competitive and flexible transportation pricing, contract terms and service options which enable our customers to maximize the value of their gas.

In 1997, NGT faced several Alberta-based pipeline alternatives that would have bypassed the existing NGT system. Alternative pipeline proposals that take volumes from NGT's existing system could increase overall transportation costs for Alberta producers on the NGT pipeline system and reduce future pipeline investment opportunities.

In 1997, NGT received Alberta Energy and Utilities Board (EUB) approval for the Load Retention Service (LRS). The LRS was developed in response to a bypass pipeline proposal, the Palliser Pipeline, put forth by a southern Alberta producer. Beginning in 1998, the LRS provides a rate as low as \$0.155 per thousand cubic feet (Mcf) to the proposed Palliser Pipeline shippers. This rate is low enough to retain the volumes of these shippers

while being high enough that the price increase to other NGT customers is less than one cent per Mcf. As a result of this agreement, the proponents of the Palliser Pipeline suspended their application to the National Energy Board (NEB). NGT will absorb one quarter of the revenue shortfall created by the LRS, or approximately \$3 million in annual after-tax earnings, for the remaining three years in the CEIS.

The Alliance Pipeline Limited Partnership (Alliance), which is currently owned by a consortium of pipeline and gas marketing companies and an income trust fund, filed an application with the NEB in 1997 to build a pipeline from northeast British Columbia to the Chicago area. The proposal includes facilities which duplicate certain NGT facilities. NGT is participating in the Alliance hearing process, which began in January of 1998. The duplication of certain NGT facilities would result in under-utilized facilities for a period of six or more years before sufficient incremental supply develops to fill both systems.

On April 7, 1998, NOVA, NGT and TransCanada reached an accord with the Canadian Association of Petroleum Producers and the Small Explorers and Producers Association of Canada to promote a competitive environment, greater customer choice, and to recognize the importance of maintaining their alignment of interest in the WCSB. Three guiding principles were included in this accord: support for competition and greater customer choice; the need to construct competitive incremental pipeline capacity from the WCSB by both new competitors and existing pipelines alike in a timely, safe and cost effective manner; and the need to effect regulatory changes that will provide existing and new pipelines equal opportunity to compete. In addition, under certain conditions, the accord provides for a mechanism by which any under-utilization costs resulting from the construction of the Alliance pipeline within Alberta will be included in NGT's cost of service for five years.

New service-level options and prices

NGT has been working to develop a long-term competitive solution for pricing and services on the Alberta pipeline system. NGT's current tolling mechanism is a "postage stamp" toll, whereby all customers pay the same price for NGT's natural gas transportation services, regardless of the distance gas is shipped and regardless of the level of service provided.

On April 6, 1998, we filed an application with the EUB for a new offering of services and prices. The new approach includes receipt point specific pricing, introduces a variable level of services, increases customer accountability for facilities used, and is responsive to the continuing evolution away from the long-standing "postage stamp" tolling methodology. The receipt point specific approach also includes the use of more flexible, customized service options, including choices of contract terms, transferability options, and delivery points. If we receive regulatory approvals, this new tolling arrangement could be in place in 1999.

Investment base growth expected to continue

The outlook for supply and demand in North America indicates continued strength in the WCSB. Overall growth in Canadian exports is expected to average about 3% per year, more moderate than in recent years. This rate is based on continued steady North American demand for natural gas, increasing at annual rates of approximately 1.7% in the United States and 2.4% in Canada.

Growth in WCSB natural gas reserves and production is the underlying source of NGT's advantage. The WCSB currently contains an estimated 73 trillion cubic feet (Tcf) of conventional marketable natural gas reserves. Producers are continuing to explore for and develop new natural gas reserves to meet the growing North American demand for clean burning, cost-efficient natural gas. This growth in reserves is expected primarily in the north and west regions of the basin, where exploration potential is believed to be highest.

Notwithstanding this expected higher exploration and development activity, current average depletion rates for gas wells in Alberta are over 20% per year. As a result, NGT anticipates that a significantly higher level of exploratory drilling and well completion rates will be necessary to maintain existing export volumes and fill additional pipeline take-away capacity.

Planned facility expansion

NGT plans to invest more than \$1 billion over the next three years to add approximately 2 Bcf per day of new delivery capacity within Alberta. These plans are based on the assumption that no major competitive pipelines are built in Alberta during this period.

In 1997 we completed our expansion to connect to TransCanada's announced 1997 expansion of 400 Mmcf per day. In 1998, we will expand to meet the requirements of the 1.1 Bcf per day of further expansions planned by Foothills Pipe Lines Ltd., Northern Border Pipeline System and TransCanada.

In total we spent approximately \$391 million on facility investment in 1997 and are planning to spend about \$430 million in 1998. These investments will be directed to add new capacity to ensure our customers can make full use of downstream expansions and to ongoing maintenance of our facilities. NGT's investment base is expected to average \$5.2 billion in 1998 compared with an average of \$5.0 billion in 1997.

NOVA Pipeline Ventures

During 1997, NGT created NOVA Pipeline Ventures, a pipeline business formed to capture non-traditional growth which is incremental to NGT's regulated pipeline business. In early 1998, NOVA Pipeline Ventures concluded commercial arrangements to construct a 20 to 30 inch pipeline which will deliver up to 400 Mmcf per day of natural gas to industrial users in the oil sands area near Fort McMurray, Alberta. Initial capacity of the new 108 kilometre pipeline is expected to be 250 Mmcf per day. Capital costs to complete the project are estimated to be \$40 million. Construction of this project will begin following regulatory approval.

Cost-efficiency performance rewarded

NGT's cost-management performance in 1997 was rewarded for the second consecutive year. Under the CEIS, NGT shared \$56 million before tax in operating and financing cost savings equally with customers and NOVA shareholders.

The CEIS was approved by the EUB in December 1996, effective for a five-year term extending from 1996 to the end of 2000. NGT was among the first Canadian pipelines to participate in this type of incentive-based agreement, which links all costs to incentives and encourages cost-efficient pipeline operation and expansion. In addition, a capital efficiency mechanism was approved in 1997 for the period 1997 to 2000. In 1997, NGT earned an additional reward of \$2 million for its efficient use of capital.

Strong growth in earnings in 1997

NGT's net income grew to \$200 million in 1997 compared with \$181 million in 1996. This \$19 million increase reflects growth of \$7 million in investment base earnings and the second consecutive year of strong performance under the CEIS.

NGT's realized return on equity was 12.58% compared with 11.75% in 1996. NGT's average investment base was \$5.0 billion in 1997, up from \$4.8 billion in 1996. NGT's capital structure consists of a 32% common equity component, with the remainder, regulated debt.

In 1997, NGT shared \$56 million before tax in operating and financing cost savings with its customers. The net savings to NOVA shareholders was \$16 million after tax. Since the inception of the CEIS in 1996, NGT has shared \$84 million before tax of operational and financial cost savings with its customers. The majority of these savings are the result of reduced operating costs and lower financing charges. By keeping transportation tolls competitive and providing cost-efficient services, NGT is positioned to make steady gains in its earnings performance.

Incentive based earnings

Under the terms of the Cost-efficiency Incentive Settlement, NOVA Gas Transmission's annual earnings are based on the following formula:

Fixed return of \$173 million on rate base (existing at January 1, 1996). Reflects an approximate 11.5% rate of return on 32% common equity which remains constant for the five-year term of the Settlement.

Plus

Variable return on incremental investments (since January 1, 1996). For 1996, the rate of return was negotiated at 11.5% on 32% common equity. For 1997 and subsequent years, the rate of return is determined based on a formula similar to one used by the NEB to set the return of pipelines under its jurisdiction. (For 1997 this rate of return was 10.67% and will be 10.21% for 1998.)

Plus or minus

Share of incentive savings/additional costs. This represents NOVA Gas Transmission's equal share of the variance between actual costs incurred and costs eligible to be recovered (prior year's costs escalated at 2% per year) through transportation tolls in the year.

Plus or minus

Capital efficiency rewards/penalties. An annual capital investment performance target based on the ratio of historical annual capital costs for facilities placed into service relative to incremental contracted capacity volume for firm transportation service is established. The reward or penalty represents the variance between the performance target and NGT's actual performance for the year.

Equals

NOVA Gas Transmission pipeline earnings.

NOVA Gas Transmission highlights

	1997	1996	1995
	(millions of dollars, except percentages and volumes)		
Net income	\$ 200	\$ 181	\$ 166
Average investment base	\$ 4,967	\$ 4,817	\$ 4,674
Common equity per cent of capital structure ⁽¹⁾	32%	32%	32%
Realized return on common equity	12.58%	11.75%	11.10%
Capital expenditures	\$ 391	\$ 255	\$ 584
Depreciation	\$ 194	\$ 182	\$ 167
Total delivered gas volumes ⁽²⁾	4.5	4.4	4.3

Notes:

- (1) Prior to 1996, approved by the EUB for purposes of determining annual tolls. Beginning in 1996, established by negotiation with customers under the Cost-efficiency Incentive Settlement, and approved by the EUB.
- (2) Trillions of cubic feet (Tcf).

NOVA Gas Transmission changes in net income

<u>Better (worse)</u>	<u>1997 compared with 1996</u>	<u>1996 compared with 1995</u>
	(millions of dollars)	
Increase in investment base	\$ 7	\$ 5
Cost-efficiency incentive savings ⁽¹⁾	8	8
Other	<u>4</u>	<u>2</u>
	<u>\$19</u>	<u>\$15</u>

Note:

(1) NGT's share of CEIS.

Sensitivities

NGT's net income is mainly affected by changes in its investment base and incentives earned under the CEIS. The investment base increases when capital expenditures exceed depreciation charges. An increase in the average investment base of \$100 million would increase earnings by \$3 million. A decrease in the investment base would have the opposite effect.

Under the CEIS, net income will increase by \$4 million for every \$13 million of operating and financing cost savings achieved by NGT. Any increase in these costs would have the opposite effect.

NGT is targeting further cost efficiencies in all areas of operations, financing arrangements and system expansions in 1998.

NOVA Gas International: significant progress in 1997

In 1997, we made considerable progress in our ongoing evolution into an energy solutions enterprise. NOVA Gas International (NGI) is forging a strong reputation as a leading source of natural gas gathering, processing and transportation expertise.

NGI focuses its business in three key operating areas: North America, South America and the Asia-Pacific region. From these geographies we identify opportunities to take advantage of the growing convergence in the energy business. Domestically, this means developing the operation of natural gas and natural gas liquids gathering, processing and storage facilities on behalf of natural gas producers.

Internationally, this strategy involves developing market knowledge and building relationships through project consulting. These relationships, in turn, lead to the development, construction and management of new natural gas pipeline and power generation infrastructure projects. This strategy is applied to regions where growing demand for electrical power and privatization of government-owned natural gas facilities are creating attractive investment opportunities.

In 1997, NGI and NGC Corporation (NGC) completed the restructuring of Novagas Clearinghouse Limited Partnership and renamed it Novagas Canada Limited Partnership (NCLP). The restructuring process separates NCLP into three separate businesses:

- Novagas Canada (NCL) now manages the natural gas and natural gas liquids gathering, processing and transportation business of NCLP. NCL is 100% owned by NGI;
- Pan-Alberta is now operating as an independent natural gas aggregator, with 100% of its ownership held indirectly by NGI. On December 2, 1997, NOVA announced that the board of directors of Pan-Alberta had approved in principle the decision to offer the business for sale; and
- NGC, through a Canadian affiliate, has assumed 100% ownership of NCLP's natural gas marketing and trading business in Canada.

Novagas Canada expands aggressively in 1997

NCL continued its aggressive expansion program in 1997, consistent with its strategy to grow and compete effectively in the midstream natural gas sector in Alberta and British Columbia.

During the year, NCL announced its plans to assume operation and control of the Harmattan Gas Plant in west-central Alberta. This is one of Alberta's largest natural gas facilities, with a processing capacity of 380 Mmcf per day. NCL sees clear potential for this facility to become a central provider of low-sulphur gas processing. NCL will initially invest approximately \$35 million for modifications that will increase the recovery of natural gas liquids and sulphur recovery efficiency at the plant.

In the fall of 1997, NCL announced plans to construct a \$250 million integrated natural gas liquids project which features a 940 kilometre pipeline gathering system, a 65,000 barrel per day de-ethanizer and fractionator at Redwater/Fort Saskatchewan, Alberta and a 4.5 million barrel capacity natural gas liquids storage facility.

Novagas Canada

Novagas Canada continued its aggressive expansion program in 1997, consistent with its strategy to grow and compete effectively in the midstream natural gas sector in Alberta and British Columbia.

As a part of this project, in early March 1998, NCL announced it had reached an agreement with Taylor Gas Liquids Fund and PanCanadian Petroleum Limited for NCL to purchase a 43.3% working interest in the Younger gas processing facility at Taylor, British Columbia at a cost of approximately \$30 million. NCL will terminate the construction of a previously announced \$50 million, 350 Mmcf per day extraction plant and instead pay its equivalent share to expand the Younger plant's processing capability by an additional 350 Mmcf per day. The decision to expand an existing plant rather than build a new facility is consistent with NCL's strategy of consolidating existing facilities to increase the overall efficiency of the midstream business in Western Canada.

In 1997, NCL also applied to the Government of British Columbia to build the \$98 million West Stoddart gas processing plant, and associated pipelines, in northeast British Columbia. This investment includes a 160 Mmcf per day processing plant and a 69 kilometre, high vapor pressure liquids pipeline.

Early in 1998 NCL and Suncor Energy Inc. (Suncor) announced an agreement for NCL to develop a \$164 million hydrocarbon liquids conservation facility that will separate natural gas liquids and olefins from "off-gas", a byproduct of the oil sands upgrading process. Suncor will supply the off-gas stream from its oil sands facility near Fort McMurray, Alberta. NCL will build a liquids recovery facility in the vicinity to remove the natural gas liquids and olefins from the off-gas. NCL will utilize the Suncor Oil Sands Pipeline to transport the liquids and olefin mix to the Scotford Pump Station. NCL will then build a pipeline to its Redwater fractionation facility. At Redwater, the recovered liquids and olefins will be processed into value-added products such as ethane, propane, propylene, butane and condensate.

NCL has increased its in-service asset base to approximately \$217 million at year-end 1997 and is targeting a further \$250 million of assets in service by the end of 1998. NCL currently has total project commitments, including the above in-service and commitments planned for 1998 and 1999, of approximately \$900 million.

GasAndes: A major accomplishment in South America

On August 7, 1997 NGI made history by officially marking the completion of the GasAndes pipeline from Argentina to Santiago, Chile. This \$450 million, 465 kilometre pipeline is the first major natural gas pipeline to cross the Andes Mountains, and was completed on-time and on-budget amidst challenging competitive and geographic conditions.

The GasAndes pipeline involves a partnership between NGI (56.5% owner and lead partner), Chilgener S.A. of Chile (15% owner), Metrogas S.A. of Chile (15% owner), and Compania General de Combustibles S.A. of Argentina (13.5% owner). GasAndes will help create an important source of export earnings for Argentina.

Delivery capacity for the pipeline was 177 Mmcf per day in 1997, with contracted firm service of 345 Mmcf per day expected through to 2001. The pipeline is a major cornerstone in Chile's national effort to improve air quality in the Santiago region and will serve as a springboard for NGI's future development of investment opportunities in the Southern Cone region.

Gas Pacifico agreement reached

Early in 1998 NGI and its consortium partners announced the Gasoducto del Pacifico (Gas Pacifico) pipeline project. This \$570 million integrated natural gas project includes a 530 kilometre natural gas pipeline which will be constructed from Argentina to Concepción, Chile, together with a natural gas transportation and marketing company and investment in a commercial and residential natural gas distribution system. NGI holds a 30% interest in the pipeline. The pipeline and associated businesses are expected to be operating by late 1999.

Examining opportunities in Mexico

NGI has secured several natural gas pipeline maintenance consulting contracts in Mexico. We continue to view this country, with its abundant natural gas supplies, as an important source of consulting and investment opportunities. We are continuing to develop our relationship with PEMEX, Mexico's national oil and gas company.

Consulting and investing in the Asia-Pacific region

NGI has maintained a successful 15-year relationship with PETRONAS, the Malaysian state oil company, which has led to project management contracts for projects with a capital cost of over \$4 billion to date. NGI and PETRONAS operate through the joint venture company, OGP Technical Services Sdn. Bhd., which enhances NGI's credibility in exporting our gas services expertise worldwide and has helped secure new opportunities in other parts of Southeast Asia, including Thailand and Indonesia.

The economic uncertainty that is impacting this region is anticipated to result in lower demand for large-scale natural gas infrastructure development over the short term.

NGI also holds a 25.5% interest in the East-Australian Pipeline Limited (EAPL), which owns and operates the Moomba-Sydney pipeline system, and operates an ethane pipeline pipeline in Australia.

NOVA Gas International major investments⁽¹⁾

	<u>Investments to date 1997⁽¹⁾</u>	<u>Future Investments</u>
	(\$ millions)	
International		
56.5% interest in Gasoducto GasAndes S.A., a pipeline from Argentina to Chile	127	
15% interest in Nueva Renca, a power plant in Santiago, Chile	18	
10% interest in Metrogas, a local distribution system in Santiago, Chile	35	
19.1% interest in Transportadora de Gas del Norte (TGN), a pipeline in northern Argentina	146	
30% interest in Gasoducto del Pacifico, a pipeline from Argentina to Chile		170
25.5% interest in East-Australian Pipeline Limited (EAPL) which owns and operates Moomba-Sydney pipeline system, and operates the Moomba-Botany ethane pipeline in Australia	50	
North America — NCL		
60.5% average working interest in 11 gas processing plants in Alberta and British Columbia totalling capacity of 948 Mmcf/d	206	
43.3% interest in the Younger gas processing facility at Taylor, British Columbia	12	30
100% interest in Redwater storage and fractionation facility located northeast of Edmonton, Alberta	16	99
100% interest in a processing plant and associated pipelines located in the West Stoddart area northwest of Fort St. John, British Columbia		98
100% interest in an Olefin Project that will extract and separate natural gas liquids and olefins from “off-gas” from Suncor’s oil sands facility near Fort McMurray, Alberta		164
100% interest in natural gas liquids gathering pipelines in Alberta and British Columbia		90

Note:

(1) The investments to-date include only NGI’s equity portion, while future investments are NGI’s share of expected total project costs.

NOVA Gas International highlights

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(\$ millions)		
Net income contribution			
Investment and consulting earnings	\$ 51	\$ 58	\$ 51
Business development, interest and other costs	(29)	(33)	(35)
Net income before asset write-down	22	25	16
Pan-Alberta asset write-down	(65)	—	—
	<u>\$ (43)</u>	<u>\$ 25</u>	<u>\$ 16</u>
Investments			
Plant, property and equipment	\$862	\$513	\$488
Cash investments during the year	\$ 17	\$234	\$ 37
Capital expenditures	\$290	\$ 51	\$ 39
Depreciation	\$ 35	\$ 28	\$ 18

Foothills Pipe Lines Ltd.

NGI owns 50% of Foothills Pipe Lines Ltd. (Foothills), which operates a 927 kilometre pipeline system dedicated to shipping natural gas from Canada to the United States. In 1997, Foothills transported 935 Bcf of

natural gas to the U.S. border for transmission to the U.S. Midwest, Pacific Northwest and California. This represented approximately one third of Canada's total natural gas exports.

In 1997, Foothills' earnings performance declined slightly as a result of a lower return on common equity of 10.67% and an increased effective income tax rate. Our share of the Foothills investment base averaged \$334 million in 1997, and is expected to average approximately \$336 million in 1998. At year-end 1998, NOVA's share is expected to increase to about \$377 million as a result of a 700 Mmcf per day expansion currently under way. In 1998, the NEB regulated return of 10.21% will apply to Foothills' investment base.

Pan-Alberta

In the fourth quarter of 1997 NOVA announced that the board of directors of Pan-Alberta approved the decision to offer Pan-Alberta's business for sale.

NOVA Gas International's 1997 earnings

NGI reported operating income of \$22 million in 1997 before a \$65 million write-down, a decline of \$3 million from the \$25 million earned in 1996.

NOVA Gas International changes in net income

<u>Better (worse)</u>	1997 compared with 1996	1996 compared with 1995		
	(millions of dollars)			
Pan-Alberta asset write-down	\$(65)	\$—		
Other	(3)	9		
	<u>\$(68)</u>	<u>\$ 9</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
		(\$ millions)		
Growth in NGI assets	1,503	1,152	889	945

Liquidity and Capital

NOVA's total assets have grown by almost 50% over the past five years.

	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(\$ billions)				
Total assets	10.6	10.0	9.3	8.6	7.2

Cash flow highlights⁽¹⁾

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(sources (uses) of cash, \$ millions)		
Funds from operations	\$ 815	\$ 830	\$1,017
Asset sales	16	—	87
Preferred shares issued, net	194	—	—
Common shares issued (repurchased), net	(197)	(194)	19
Dividends	(190)	(175)	(153)
Investing activities ⁽¹⁾	(761)	(787)	(490)
Debt addition (reduction) ⁽²⁾	(242)	529	(316)
Changes in non-cash working capital	124	(308)	174
Increase (decrease) in cash	<u>\$(241)</u>	<u>\$(105)</u>	<u>\$ 338</u>

Notes:

- (1) Excludes asset sales and changes in non-cash working capital.
- (2) Includes current bank loans.

Funds from operations strong in 1997

NOVA generated \$815 million of funds from operations during 1997, a decrease of \$15 million from the \$830 million of funds generated in 1996. Funds from operations stayed relatively steady despite a 25% decrease in net income in 1997. A significant portion of the decline in net income was a result of non-cash charges. The cash flow from our business will be directed at an aggressive capital expansion program in each business in 1998.

Growing the business

In 1997, NOVA's capital expenditures totalled \$1,009 million, up \$446 million compared with 1996 capital expenditures of \$563 million.

NOVA Chemicals spent \$328 million to maintain, debottleneck and expand facilities in 1997. NGT invested \$391 million to expand and maintain its natural gas pipeline system in Alberta. NOVA financed approximately \$125 million of this through its equity contribution to NGT and the remainder was financed by regulated debt. NGI spent \$290 million for construction of natural gas infrastructure projects in Western Canada and internationally.

Future capital requirements

The capital expenditures and equity investments of NOVA's businesses are expected to total \$1,365 million in 1998. NOVA's businesses have sufficient funds flow from operations and access to capital markets to finance these additions. Our businesses also have the ability to draw down on contracted credit facilities. At December 31, 1997, NOVA's businesses had access to a total of \$1.3 billion in unused credit facilities.

In NOVA Chemicals, capital expenditures are expected to be about \$500 million in 1998. Approximately \$150 million will be directed at construction of the EIII facility, approximately \$120 million at PEII, around \$80 million will be spent on the Sarnia styrene upgrade, and the remaining \$150 million will be directed at ongoing facility maintenance and other initiatives.

In NGT, \$430 million will be spent in 1998 to further expand and maintain the NGT pipeline system. Of the \$430 million, approximately \$100 million relates to ongoing maintenance of our pipeline. Of NGT's total capital expenditures, \$290 million, or about 68%, will be financed by regulated debt.

	1998 expected capital expenditures
	(\$ millions)
NOVA Chemicals	500
NGT	430
NGI	435

Capitalization⁽¹⁾

	December 31,					
	1997		1996		1995	
			(\$ millions)			
		%		%		%
Regulated⁽²⁾						
Long-term debt ⁽⁴⁾	\$3,785	67	\$3,774	67	\$3,699	65
Common equity	1,880	33	1,885	33	1,949	35
	<u>\$5,665</u>	<u>100</u>	<u>\$5,659</u>	<u>100</u>	<u>\$5,648</u>	<u>100</u>
Non-regulated						
Current bank loans ⁽⁴⁾	\$ 353	10	\$ —	—	\$ —	—
Long-term debt ⁽³⁾	1,062	29	1,107	36	376	17
Preferred equity	200	6	—	—	—	—
Common equity	1,956	55	1,990	64	1,865	83
	<u>\$3,571</u>	<u>100</u>	<u>\$3,097</u>	<u>100</u>	<u>\$2,241</u>	<u>100</u>

Notes:

- (1) Includes proportionately consolidated businesses.
- (2) Includes NGT, Foothills and the ethylene cost-of-service operations.
- (3) Includes current portion.
- (4) Net of cash available for debt repayment.

NGI expects to spend around \$435 million in 1998. Of this total, approximately \$255 million will be directed at NCL's growth opportunities, and \$180 million targeted at NGI's remaining pipeline projects.

\$200 million preferred share issue

In the first quarter of 1997, NOVA issued 8 million Cumulative Redeemable First Preferred Shares, Series 1 for gross proceeds of \$200 million. The proceeds from the sale of the preferred shares were used by NOVA to purchase additional equity in NGI to fund its activities.

Financial leverage increases to fund new opportunities

NOVA's non-regulated equity as a percentage of total non-regulated capitalization decreased to 60% from 64% at December 31, 1996. This is largely the result of the 1997 share buyback program.

NOVA Chemicals completed the process of refinancing EI and EII with unsecured debt in 1997.

Share buyback program

In 1997, NOVA continued to repurchase shares under a normal course issuer bid originally approved by NOVA's board of directors in 1996 and renewed in April of 1997. During 1997, NOVA repurchased 17.7 million shares at an average cost of \$11.84 per share. We suspended this share buyback program in late 1997.

Since the inception of the share buyback program in February 1996, a total of 35.9 million shares have been purchased by NOVA at an average cost of \$12.08 per share, reducing NOVA's total common shares outstanding by about 7%.

Dividends

During 1997, NOVA paid dividends totalling \$0.40 per share, representing a dividend yield of approximately 3.3% based on NOVA's average share price of \$12.18.

Following the merger with TransCanada and split-off of NOVA Chemicals, the new organizations will develop their own dividend policies. TransCanada and NOVA have announced that they expect the merged energy services organization to pay an annual dividend of \$1.12 per share.

Credit ratings

Unsecured Debt Securities⁽¹⁾⁽²⁾

	December 31, 1997		
	NGT	NOVA Chemicals	NOVA
CBRS	A(Low)	B+ + (High)	A(Low)
DBRS	A(low)	BBB	BBB(high)
S&P	A-	BBB+	BBB+
Moody's	A3	Baa2	not rated

Notes:

- (1) Following the announcement of the proposed merger with TransCanada and the split-out of NOVA Chemicals, the rating agencies have put a number of NOVA entities on credit review pending receipt of further information. Of the four credit ratings provided for NOVA Chemicals, all but CBRS's rating have been confirmed. These ratings may change, and if this information is material to the investor, the credit rating should be verified with the agencies.
- (2) Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future.

Corporate income taxes

Approximately \$186 million of income taxes were paid in 1997 (1996 — \$242 million; 1995 — \$94 million). Income taxes paid in 1997 are down from 1996 due to lower income earned in 1997 by NOVA Chemicals.

SCLAIRTECH™ is a trademark of NOVA Chemicals.

Responsible Care® is a trademark of the Canadian Chemical Producers' Association (CCPA) in Canada and the Chemical Manufacturers Association (CMA) in the United States.

THE ENERGY STORESM is a registered service mark of NGC Corporation.

DYLARK® and DYLITE® are registered trademarks of NOVA Chemicals Inc.

Foreign currency contracts and options

NOVA Chemicals' major markets are in the United States, Canada, Europe and the Asia-Pacific region. The selling price for most petrochemicals products is established in U.S. dollars or is tied to a U.S. Gulf Coast benchmark price. NOVA has a significant investment in its Canadian production facilities, with costs established in Canadian dollars. The relationship between NOVA's sales revenues, which fluctuate with changes in the U.S. dollar, and a portion of NOVA's production costs, which are established in Canadian dollars, means that NOVA's earnings are expected to increase with a lower-valued Canadian dollar and decrease with a higher-valued Canadian dollar.

NOVA Chemicals uses forward currency contracts and options to reduce its exposure to fluctuations in the U.S. dollar. At December 31, 1997, NOVA Chemicals had forward contracts and options in place to hedge a total of U.S.\$2.8 billion of net U.S. dollar exposure. These contracts mature from 1998 through 2002 and have an average exchange rate of \$0.746 per Canadian dollar or \$1.34 per U.S. dollar. At year-end 1996, NOVA Chemicals had U.S.\$2.3 billion in forward contracts and options outstanding at an average exchange rate of \$0.746 per Canadian dollar (\$1.34 per U.S. dollar).

NOVA also uses cross-currency swaps to manage its exposure to currency risks. By entering into cross-currency swaps, NOVA agrees to exchange with counter-parties principal and interest denominated in different currencies at an agreed upon exchange rate.

The Audit and Finance Committee of NOVA's board of directors regularly reviews foreign exchange hedging activity, ensuring it complies with NOVA's hedging policy. Foreign currency instruments are not used for speculative purposes.

Interest rate risk management

NOVA uses interest rate swaps to manage the fixed and floating interest rate mix of its total debt portfolio. By entering into interest rate swap agreements, NOVA agrees to exchange with counter-parties the difference between fixed rate and floating rate interest amounts calculated by reference to bankers' acceptance rates and London Inter Bank Offered Rates, and to an agreed notional amount.

Commodity hedging and feedstock acquisition

NOVA Chemicals purchased approximately 57.6 Bcf of natural gas and 18.0 million barrels of crude oil, natural gas liquids and condensates in 1997 as feedstock for its chemical operations. NOVA Chemicals manages the exposure to fluctuating commodity prices on its physical feedstock requirements by varying the mix of fixed and floating price contracts and by entering into commodity futures contracts. The extent to which hedging instruments are used depends on market conditions. NOVA Chemicals ties its position in the futures market to its physical feedstock requirements and does not use hedging instruments for speculative purposes.

Year 2000 assessment

Certain computerized hardware, process control systems and software systems and applications used by NOVA are date sensitive, and their ability to perform properly may be adversely affected by the Year 2000 issue. In a process that began in 1996, NOVA continues to address the issue by preparing an inventory of all systems and equipment, analysing risks, determining compliance levels, selecting practical remediation options, and testing most implemented solutions. This program approach seeks to minimize the potential risk of Year 2000 business disruption. NOVA also continues to assess the Year 2000 capabilities of customers, critical suppliers and key service providers to determine, to the extent possible, that NOVA's businesses will not be adversely impacted by external parties. In addition, contingency plans are being developed for all critical business and production processes. NOVA does not believe that the cost of its remediation efforts will be material.

NOVA (including its wholly owned subsidiaries) is not entirely Year 2000 ready at this time, but has targeted the end of the first quarter of 1999 to have critical business and production processes ready. This will allow for continued testing through the remainder of 1999. Although NOVA is striving to be completely prepared, there cannot be any assurance that there will not be any negative impact as a result of the Year 2000 issue. Based on our progress to date, however, NOVA believes that such impact, if any, will not have a material adverse impact on the company's business, operations, or financial condition.

NOVA is currently assessing the Year 2000 readiness (and the costs of becoming Year 2000 ready) of the companies in which it has an equity interest. If any of the costs associated with these partially owned entities are likely to become, or become material, NOVA will disclose that materiality in due course.



**AUDITED COMPARATIVE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
TOGETHER WITH AUDITOR'S REPORT**

AUDITORS' REPORT

To the shareholders of NOVA Corporation

We have audited the consolidated balance sheet of NOVA Corporation as at December 31, 1997, 1996 and 1995 and the consolidated statements of income and reinvested earnings and cash flows for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of NOVA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements present fairly, in all material respects, the financial position of NOVA Corporation as at December 31, 1997, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1997 in accordance with accounting principles generally accepted in Canada.

Calgary, Canada
February 19, 1998

“ERNST & YOUNG”
ERNST & YOUNG
Chartered Accountants

NOVA CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND REINVESTED EARNINGS

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars, except for share data)		
Revenue	\$4,840	\$4,686	\$4,527
Operating costs and expenses			
Operating expenses	3,429	3,317	2,913
Depreciation	469	431	387
	3,898	3,748	3,300
Operating income	942	938	1,227
Other income (deductions)			
Interest expense (Note 4)	(384)	(372)	(379)
Allowance for funds used during construction	12	6	18
Equity in earnings of affiliates (Note 5)	105	85	98
Other losses (Note 7)	(122)	(32)	(9)
General and corporate	(12)	(11)	(16)
	(401)	(324)	(288)
Income before income taxes	541	614	939
Income taxes (Note 8)	(216)	(183)	(237)
Net income	325	431	702
Less preferred share dividends	(9)	—	—
Net income to common shareholders	316	431	702
Reinvested earnings, beginning of year	1,272	1,142	593
Excess paid over book value on shares repurchased (Note 17)	(112)	(126)	—
Preferred share issue costs	(2)	—	—
Less common share dividends	(181)	(175)	(153)
Reinvested earnings, end of year	\$1,293	\$1,272	\$1,142
Number of common shares outstanding (millions)			
— average	456	475	479
— end of year	449	465	480
Net income per share			
Basic	\$ 0.70	\$ 0.91	\$ 1.47
Fully diluted	\$ 0.70	\$ 0.91	\$ 1.44

In 1992, pursuant to a resolution of its shareholders, NOVA reduced the stated share capital by \$483 million in order to eliminate the deficit as at December 31, 1991. In 1987, pursuant to a resolution of its Board of Directors and in conjunction with the reorganization of its share capital, NOVA transferred the balance in the contributed surplus account of \$227 million to reinvested earnings.

See accompanying notes to consolidated financial statements.

NOVA CORPORATION
CONSOLIDATED BALANCE SHEET

	December 31		
	1997	1996	1995
	(millions of dollars)		
ASSETS			
Current assets			
Cash and cash equivalents	\$ 12	\$ 253	\$ 358
Receivables (Note 9)	821	667	538
Inventories (Note 10)	389	444	301
	1,222	1,364	1,197
Investments and other assets (Notes 5 and 12)	1,667	1,649	1,192
Plant, property and equipment, net (Notes 11 and 12)	7,685	7,035	6,877
	\$10,574	\$10,048	\$9,266

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities			
Bank loans and commercial paper (Note 12)	\$ 362	\$ 94	\$ 11
Accounts payable and accrued liabilities (Note 13)	936	682	728
Long-term debt instalments due within one year (Note 14)	136	151	115
	1,434	927	854
Long-term debt (Note 14)			
Regulated businesses	3,657	3,625	3,585
Non-regulated businesses	1,054	1,227	676
	4,711	4,852	4,261
Deferred credits (Note 15)	393	394	337
Shareholders' equity			
Preferred shares (Note 16)	200	—	—
Common shares and warrants (Note 17)	2,486	2,571	2,641
Cumulative translation adjustment (Note 18)	57	32	31
Reinvested earnings	1,293	1,272	1,142
	4,036	3,875	3,814
Contingencies and commitments (Notes 14 and 21)	\$10,574	\$10,048	\$9,266

On behalf of the Board:

"J.E. NEWALL"
 J.E. NEWALL, O.C.
 Director

"H.N. HOTCHKISS"
 H.N. HOTCHKISS, O.C.
 Director

See accompanying notes to consolidated financial statements.

NOVA CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Operating activities			
Net income	\$ 325	\$ 431	\$ 702
Depreciation	469	431	387
Deferred income taxes	(5)	10	29
Equity in earnings of affiliates	(105)	(85)	(98)
Other losses	122	32	9
Allowance for equity funds used during construction	(7)	(4)	(7)
Other	16	15	(5)
	815	830	1,017
Funds from operations			
Changes in non-cash working capital (Note 19)	96	(306)	181
	911	524	1,198
Investing activities (Note 19)			
Plant, property and equipment additions	(1,009)	(563)	(759)
Less long-term debt additions related to regulated businesses	267	173	397
	(742)	(390)	(362)
Proceeds on sale of assets (Note 7)	16	—	87
Long-term investments and other assets (Note 19)	(134)	(426)	(143)
Cash received from long-term investments	115	29	15
Changes in non-cash working capital (Note 19)	27	(3)	(15)
	(718)	(790)	(418)
Financing activities (Note 19)			
Preferred shares issued (Note 16)	194	—	—
Common shares issued (Note 17)	12	31	19
Common shares repurchased (Note 17)	(209)	(225)	—
Long-term debt additions related to non-regulated businesses	26	644	666
Long-term debt repaid	(507)	(198)	(692)
Dividends	(190)	(175)	(153)
Changes in current bank loans	239	83	(290)
Changes in non-cash working capital (Note 19)	1	1	8
	(434)	161	(442)
Increase (decrease) in cash and cash equivalents	(241)	(105)	338
Cash and cash equivalents, beginning of year	253	358	20
Cash and cash equivalents, end of year	\$ 12	\$ 253	\$ 358

See accompanying notes to consolidated financial statements.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segmented Information

NOVA Corporation (NOVA) is a natural gas services and petrochemicals company. NOVA's operations are managed in three business units:

NOVA Gas Transmission — the regulated natural gas pipeline transmission system in Alberta, Canada.

NOVA Gas International — NOVA's other natural gas transportation, processing and marketing activities.

NOVA Chemicals — production and marketing of various petrochemical products, and NOVA's investment in Methanex Corporation and NGC Corporation. NGC Corporation has been reclassified from the NOVA Gas International business segment to the NOVA Chemicals business segment as part of the plan of arrangement between NOVA and TransCanada PipeLines Limited (see Note 3).

(a) Financial Information by Business Unit

	December 31 and for the Year Ended								
	NOVA Gas Transmission			NOVA Gas International			NOVA Chemicals		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
	(millions of dollars)								
Income Statement⁽¹⁾									
Revenue	\$1,212	\$1,155	\$1,072	\$ 268	\$ 488	\$ 401	\$3,360	\$3,043	\$3,054
Operating expenses	(432)	(443)	(451)	(220)	(453)	(360)	(2,788)	(2,423)	(2,102)
Depreciation	(194)	(182)	(167)	(35)	(28)	(18)	(235)	(221)	(202)
Operating income	586	530	454	13	7	23	337	399	750
Interest expense	(289)	(304)	(297)	(24)	(17)	(43)	(79)	(59)	(51)
Equity in earnings of affiliates	—	—	—	23	27	25	83	58	73
Other	11	5	23	(63)	2	—	(59)	(31)	(12)
Income taxes	(108)	(50)	(14)	8	6	11	(114)	(141)	(237)
Net income (loss)	<u>\$ 200</u>	<u>\$ 181</u>	<u>\$ 166</u>	<u>\$ (43)</u>	<u>\$ 25</u>	<u>\$ 16</u>	<u>\$ 168</u>	<u>\$ 226</u>	<u>\$ 523</u>
Balance Sheet⁽¹⁾									
Current assets	\$ 191	\$ 154	\$ 130	\$ 247	\$ 201	\$ 186	\$ 689	\$ 994	\$ 866
Investments & other	60	53	27	394	438	215	1,051	999	950
PP&E ⁽²⁾	4,997	4,795	4,719	862	513	488	1,800	1,699	1,643
	<u>\$5,248</u>	<u>\$5,002</u>	<u>\$4,876</u>	<u>\$1,503</u>	<u>\$1,152</u>	<u>\$ 889</u>	<u>\$3,540</u>	<u>\$3,692</u>	<u>\$3,459</u>
Current liabilities	\$ 245	\$ 199	\$ 199	\$ 593	\$ 220	\$ 118	\$ 434	\$ 462	\$ 487
Long-term debt									
Regulated ⁽³⁾	3,339	3,248	3,137	237	236	254	81	141	194
Non-regulated ⁽³⁾	—	—	—	43	180	173	934	885	503
Deferred credits (debits)	25	14	(40)	29	43	60	350	343	309
Total liabilities	3,609	3,461	3,296	902	679	605	1,799	1,831	1,493
Net investment	1,639	1,541	1,580	601	473	284	1,741	1,861	1,966
	<u>\$5,248</u>	<u>\$5,002</u>	<u>\$4,876</u>	<u>\$1,503</u>	<u>\$1,152</u>	<u>\$ 889</u>	<u>\$3,540</u>	<u>\$3,692</u>	<u>\$3,459</u>
Cash Flow⁽¹⁾									
Operating activities	\$ 475	\$ 318	\$ 365	\$ 88	\$ (5)	\$ (9)	\$ 374	\$ 200	\$ 803
Investing activities									
PP&E additions	(391)	(255)	(584)	(290)	(51)	(39)	(328)	(257)	(136)
Financed by regulated debt	267	173	397	—	—	—	—	—	—
	(124)	(82)	(187)	(290)	(51)	(39)	(328)	(257)	(136)
Other	(24)	(16)	(15)	7	(195)	(81)	14	(54)	67
Cash flow before non-regulated debt and equity financing activities	<u>\$ 327</u>	<u>\$ 220</u>	<u>\$ 163</u>	<u>\$ (195)</u>	<u>\$ (251)</u>	<u>\$ (129)</u>	<u>\$ 60</u>	<u>\$ (111)</u>	<u>\$ 734</u>

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Segmented Information (Continued)

Notes:

- (1) Amounts are net of inter-company eliminations and exclude corporate and other items.
- (2) Plant, property and equipment.
- (3) Excludes current portion of long-term debt.

(b) Financial Information by Geographic Area

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Revenue			
Canada	\$ 2,994	\$ 3,145	\$2,874
United States	1,387	1,107	1,287
Other	459	434	366
	\$ 4,840	\$ 4,686	\$4,527
Export sales from Canadian operations			
United States	\$ 815	\$ 693	\$ 983
Other	199	162	168
	\$ 1,014	\$ 855	\$1,151
Operating income (loss) ⁽¹⁾			
Canada	\$ 958	\$ 849	\$1,189
United States	(44)	69	38
Other	28	20	—
	\$ 942	\$ 938	\$1,227
Equity in earnings of affiliates			
Canada	\$ 63	\$ 25	\$ 21
United States	26	41	21
Other	16	19	56
	\$ 105	\$ 85	\$ 98
Assets ⁽¹⁾			
Canada	\$ 9,070	\$ 8,603	\$8,427
United States	1,066	931	623
Other	438	514	216
	\$10,574	\$10,048	\$9,266

Note:

- (1) Based on location of operating facilities

2. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of NOVA, its subsidiaries, and the proportionate share of the accounts of its joint ventures. They have been prepared by management on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. These accounting principles are different in

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Accounting Policies (Continued)

some respects from those generally accepted in the United States and the significant differences are described in Note 23, "United States Accounting Principles". Preparation of these consolidated statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates. All amounts are reported in Canadian dollars unless otherwise indicated.

Regulated Activities

Most of NOVA's natural gas transmission activities are regulated by various authorities including the Alberta Energy and Utilities Board (EUB) for the NOVA Gas Transmission pipeline system, the National Energy Board of Canada (NEB) for the Foothills Pipe Lines Ltd. system, and other foreign authorities for some of NOVA's international pipeline investments. These regulators exercise authority over various matters including accounting practices and toll setting. A portion of NOVA's Alberta ethylene petrochemicals business is regulated in a similar manner through contractual agreements with customers.

The billing system for regulated operations provides NOVA with revenues sufficient to recover all reasonable and necessary expenses of providing the services or products and provide a reasonable return on investment. In order to achieve proper matching of revenue and expenses certain items may be recognized in different periods than would be expected under generally accepted accounting principles for non-regulated activities. The EUB has approved the use of certain deferral accounts by NOVA to facilitate a proper matching of revenues and expenses. Amounts recorded in the accounts are included in NOVA's total revenue requirement in accordance with the terms of the EUB Cost-efficiency Incentive Settlement.

Cash and Cash Equivalents

NOVA's short-term investments are considered to be cash equivalents and are recorded at cost, which approximates current market value.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis with no allocation of fixed production overhead.

Joint Ventures

NOVA applies the proportionate consolidation method of accounting for its investments in joint venture operations. A joint venture is an economic activity in which NOVA and its co-venturers have agreed to jointly share, on a continuing basis, the power to determine the venture's strategic operating, investing and financing policies. Under the proportionate consolidation method, NOVA records, on a line-by-line basis within its financial statements and notes, its pro-rata share of the joint venture's assets, liabilities, revenues, expenses and cash flows.

Investments

Investments in affiliates in which NOVA exercises significant influence, but not control, are accounted for by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings. Other investments are carried at cost.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Accounting Policies (Continued)

Plant, Property and Equipment (PP&E)

NOVA's PP&E consists primarily of pipe, compressor stations and meter stations for transporting natural gas and manufacturing equipment, land, and buildings for producing petrochemicals. PP&E is carried at cost and financing costs incurred during major construction are capitalized as part of the cost of the asset. Future removal and site restoration costs are provided for on a straight-line basis over the expected remaining economic lives of the assets when the costs can be reasonably determined.

Depreciation

Depreciation for the regulated natural gas pipeline transmission system is calculated on a straight-line basis using rates approved by the EUB. Pipelines and compression equipment are depreciated at annual rates ranging from 2.6% to 4.0%, and metering and other general plant at various rates ranging from 1.6% to 5.2%. For international pipeline operations, the depreciation rates average 3% per annum.

Plant and equipment for the Chemicals operations is depreciated on a straight-line basis using annual depreciation rates averaging 7%.

Allowance for funds used during construction (AFUDC) For regulated businesses, a return on capital invested in new facilities under construction is recoverable from customers and is included in income.

Income Taxes

Regulated activities operate under billing structures that allow NOVA to recover related income tax costs from customers based on the taxes payable method. NOVA records income tax expenses on these operations equal to the recoverable amounts. For non-regulated operations, the deferral method of tax allocation accounting is followed.

Pension Plans

The cost of pension benefits earned by employees is determined using the projected benefit method pro-rated on services and is expensed as the employees provide services. It reflects management's best estimates of the expected investment yields, salary escalation, mortality rates, terminations and members' retirement ages. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups. The adjusted market value of pension plan assets is determined based on a four-year moving average of pension plan asset market values.

Post-retirement Benefits Other than Pensions

NOVA provides medical care and life insurance benefits to eligible retirees and their dependants. Post-retirement benefit costs are expensed as the eligible employees provide services.

Foreign Currency Translation

NOVA's foreign operations are considered self-sustaining and are translated into Canadian dollars using the current rate method. Resulting translation gains or losses are deferred in a separate component of shareholders' equity titled "Cumulative translation adjustment," until there is a realized reduction of the investment in the foreign operation.

Foreign denominated long-term monetary items, principally long-term debt, are translated at the current rate of exchange. For regulated operations, the exchange differential is recoverable from customers and is

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Accounting Policies (Continued)

reported as a reduction of or addition to the associated long-term monetary item. For non-regulated operations, the unrealized translation gains or losses are deferred and amortized over the remaining lives of the related items.

Hedging Activity

NOVA enters into forward contracts and options to reduce its exposure to changes in commodity prices or foreign exchange rates. Gains or losses on the hedging instruments are recognized when the hedge transactions mature. They offset the effects of changes in commodity purchase prices or foreign exchange gains or losses on foreign cash flow.

NOVA also enters into interest rate and cross-currency swap agreements to manage interest rate and foreign exchange risks. The differential to be paid or received is accrued as interest and foreign exchange rates change and is recognized over the lives of the agreements.

Comparative Figures

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

3. Subsequent Event

On January 24, 1998, NOVA and TransCanada PipeLines Limited (TransCanada) signed an agreement to merge the two companies under a plan of arrangement. Under the terms of the agreement, each NOVA common share will be exchanged for 0.52 TransCanada common shares. Immediately after the merger, NOVA Chemicals will be split off to both NOVA's and TransCanada's shareholders as a separate, publicly traded company. The merger will be accounted for on a book value basis under the pooling of interests method. The proposed transaction is expected to be completed in 1998 subject to the receipt of necessary shareholder, tax, regulatory and judicial approvals.

4. Interest Expense

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Interest on long-term debt	\$399	\$369	\$369
Interest on current obligations	7	19	20
Interest income	(22)	(16)	(10)
	\$384	\$372	\$379

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. **Investments and Other Assets**

Investments are accounted for using the equity method.

	December 31					
	1997		1996		1995	
	Investment	Equity Earnings	Investment	Equity Earnings	Investment	Equity Earnings
	(millions of dollars)					
NOVA Gas International investments . .	\$ 394	\$ 23	\$ 438	\$ 27	\$ 215	\$25
NOVA Chemicals investments						
Methanex Corporation ⁽¹⁾	621	57	544	17	560	58
NGC Corporation ⁽¹⁾	407	29	418	41	373	15
Other investments	12	(2)	15	—	11	—
	1,040	84	977	58	944	73
Other assets	233	(2)	234	—	33	—
	\$1,667	\$105	\$1,649	\$ 85	\$1,192	\$98

Note:

(1) Equity earnings exclude NOVA's share of NGC Corporation's asset write-down of \$57 million in 1997 and Methanex Corporation's asset write-down of \$32 million in 1996 (see Note 7).

Dividends and distributions received from affiliated companies were \$115 million (1996 — \$29 million, 1995 — \$15 million).

(a) ***NOVA Gas International Investments***

Investments as at December 31, 1997 include: a 50% interest in Pan-Alberta Resources Inc., which owns a 50% interest in a natural gas liquids extraction plant in Alberta (December 31, 1996 and 1995 — 50%); a 27.3% interest in GasInvest S.A., which owns 70% of the northern segment of Argentina's natural gas pipeline system, TGN (December 31, 1996 — 27.3%, 1995 — 20.6%); a 25% interest in the Moomba-Sydney pipeline in Australia (December 31, 1996 and 1995 — 25%); a 40% interest in a Malaysian-based partnership providing project management and engineering services in Asia (December 31, 1996 and 1995 — 40%); a 56.5% interest in the GasAndes pipeline project in Chile and Argentina (December 31, 1996 — 56.5%); and a 30% interest in Gasoducto del Pacifico which plans to build a 530 kilometre pipeline from Argentina to southern Chile.

(b) ***NOVA Chemicals Investments***

Methanex Corporation

NOVA owns 26.7% of Methanex Corporation (Methanex) as at December 31, 1997 (December 31, 1996 and 1995 — 24.8%). Methanex produces and markets methanol. The market value of NOVA's investment in Methanex shares at December 31, 1997 was approximately \$533 million (1996 — \$585 million, 1995 — \$469 million).

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. **Investments and Other Assets (Continued)**

The following is summarized financial information for Methanex:

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars) ⁽¹⁾		
Revenue	\$1,799	\$1,290	\$1,715
Operating expenses and depreciation	\$1,451	\$1,157	\$1,299
Net income (loss) ⁽²⁾	\$ 280	\$ (11)	\$ 275
	December 31		
Current assets	\$1,198	\$ 916	\$ 850
Property, plant and equipment and other assets	1,624	1,509	1,573
Current liabilities	(291)	(177)	(191)
Long-term liabilities	(824)	(726)	(676)
Shareholders' equity	<u>\$1,707</u>	<u>\$1,522</u>	<u>\$1,556</u>

Notes:

- (1) Methanex accounts for its operations in U.S. dollars. As Methanex's operations are self-sustaining they are translated into Canadian dollars using the current rate method.
- (2) The 1996 net loss includes a \$127 million after-tax write-down of plant carrying values.

NGC Corporation

NOVA owns 25.7% of NGC Corporation (NGC) as at December 31, 1997 (December 31, 1996 — 25.8%, 1995 — 33.3%). NGC is a leading gatherer, processor, transporter and marketer of energy products in the United States.

The market value of NOVA's investment in NGC's shares at December 31, 1997 was approximately \$972 million (1996 — \$1,235 million, 1995 — \$445 million).

The following is summarized financial information for NGC:

	Year ended December 31		
	1997	1996	1995
	(millions of dollars) ⁽¹⁾		
Revenue	\$18,521	\$ 9,904	\$5,059
Operating expenses and depreciation	\$18,131	\$ 9,498	\$4,947
Net income (loss) ⁽²⁾	\$ (101)	\$ 155	\$ 64
	December 31		
Current assets	\$ 3,167	\$ 2,653	\$1,041
Property, plant and equipment and other assets	3,659	3,023	1,491
Current liabilities	(2,800)	(2,112)	(963)
Long-term liabilities	(2,295)	(2,093)	(879)
Redeemable preferred shares	(286)	—	—
Shareholders' equity	<u>\$ 1,445</u>	<u>\$ 1,471</u>	<u>\$ 690</u>

Notes:

- (1) NGC accounts for its operations in U.S. dollars. As NGC's operations are self-sustaining they are translated into Canadian dollars using the current rate method. These amounts have been adjusted to conform with Canadian accounting principles.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Investments and Other Assets (Continued)

(2) The net loss for 1997 includes a restructuring charge of U.S. \$194 million (after-tax) relating primarily to the Company's natural gas liquids and crude oil business.

(c) *Other assets*

Other assets are mainly composed of deferred debt issue costs, which are being amortized over the terms of the related debt instruments and a mortgage on the head office building in the amount of \$157 million bearing interest at 10.59% to December 31, 1997.

(d) *Purchase price excess*

The cost of certain investments exceeded NOVA's share of their underlying net book values at their acquisition dates. At December 31, the unamortized purchase price excesses were as follows:

	December 31		
	1997	1996	1995
	(millions of dollars)		
NGC Corporation ⁽¹⁾	\$ 50	\$ 52	\$109
Methanex Corporation ⁽²⁾	\$164	\$167	\$179

Notes:

(1) The purchase price excess is allocated to goodwill and is amortized over 20 years.

(2) The purchase price excess is allocated to plant, property and equipment and is amortized over 20 years.

6. Joint Ventures

NOVA uses the proportionate consolidation method to account for its investments in joint ventures.

Foothills Pipe Lines Ltd. (Foothills)

Foothills is responsible for planning, constructing and operating the Canadian segment of the Alaska Natural Gas Transportation System. It is jointly controlled by NOVA and Westcoast Energy Inc. NOVA's ownership in Foothills at December 31, 1997, 1996 and 1995 was 50%. At these dates, NOVA also had a 49% direct ownership interest in Foothills Pipe Lines (Alta.) Ltd., a subsidiary of Foothills. During 1997, Foothills recorded \$76 million of revenue from NOVA Gas Transmission for natural gas transportation services incurred in the ordinary course of business (1996 — \$82 million, 1995 — \$84 million).

Novagas Clearinghouse Limited Partnership (NCLP)

NCLP was a Canadian natural gas services joint venture that was jointly controlled by NOVA and its affiliate NGC Corporation. Effective April 1, 1997, NOVA and NGC Corporation restructured NCLP into three businesses. Two of the three businesses, Novagas Canada Limited Partnership, a natural gas gathering and processing and natural gas liquids business and Pan-Alberta Gas Ltd., an independent natural gas aggregator, are now indirectly, wholly owned by NOVA. As of April 1, 1997, these businesses are no longer proportionately consolidated. The third entity, NGC Canada Inc., a natural gas marketing and trading business in Canada, is wholly owned by NGC Corporation and acquired the natural gas marketing business of NCLP [see Note 19(d)].

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Joint Ventures (Continued)

Petrochemicals Joint Ventures

As at December 31, 1997, 1996 and 1995 NOVA owned a 20% interest in the Cochin pipeline, which transports ethane, ethylene and other products from Alberta to markets in Ontario and the United States; a 50% interest in the Fort Saskatchewan Ethylene Storage Limited Partnership; a 33.3% interest in an ethane gathering system in Alberta. As at December 31, 1997, NOVA owned a 50% interest in NOVA-Borealis Compounds LLC which manufactures wire and cable polyethylene products for sale in North and South America. During 1997 NOVA sold its 100% interest in Chemical Research and Licensing Company, the principal asset of which was a 50% interest in a Catalytic Distillation Technologies Partnership (see Note 7).

The following is summarized, combined financial information relating to NOVA's proportionate interest in joint ventures unadjusted for transactions between the joint ventures and related NOVA parties.

Proportionate share of joint ventures' financial information

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Revenue	\$ 201	\$ 566	\$ 481
Operating expenses and depreciation	\$ 160	\$ 502	\$ 411
Net income	\$ 15	\$ 41	\$ 38
Cash flows from:			
Operating activities	\$ 32	\$ 93	\$ 34
Investing activities	\$ (21)	\$ (75)	\$ (48)
Financing activities	\$ (9)	\$ (13)	\$ 23
	<u>December 31</u>		
Current assets	\$ 15	\$ 134	\$ 151
Property, plant and equipment	418	528	510
Investments and other assets	2	15	17
Current liabilities	(6)	(134)	(98)
Long-term debt	(237)	(273)	(276)
Deferred credits	(49)	(55)	(65)
Shareholders' equity	<u>\$ 143</u>	<u>\$ 215</u>	<u>\$ 239</u>

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Other Gains (Losses)

	<u>Year Ended December 31,</u>		
	<u>Gain (loss)</u>		
	<u>before</u>	<u>after</u>	<u>Proceeds</u>
<u>tax</u>	<u>tax</u>		
	(millions of dollars)		
1997			
Pan-Alberta Gas asset write-down ⁽¹⁾	\$ (65)	\$ (65)	\$—
NGC Corporation asset write-down ⁽²⁾	(57)	(57)	—
Sale of Chemical Research and Licensing Company	—	—	16
	<u>\$ (122)</u>	<u>\$ (122)</u>	<u>\$ 16</u>
1996			
Methanex asset write-down ⁽³⁾	\$ (32)	\$ (32)	\$—
1995			
Sale of polypropylene business	\$ (48)	\$ (31)	\$60
Sale of 50% interest in Pan-Alberta Gas Ltd.	—	—	19
Foreign exchange gain on dividends received from subsidiary	40	42	—
Other	(1)	(1)	8
	<u>\$ (9)</u>	<u>\$ 10</u>	<u>\$ 87</u>

Notes:

- (1) On December 2, 1997, NOVA announced that the Board of Directors of Pan-Alberta Gas Ltd. (Pan-Alberta) had approved in principle the decision to offer for sale the business of Pan-Alberta. A subsequent review of the value of Pan-Alberta's assets and the incurrence of certain foreign exchange trading losses resulted in a write-down.
- (2) NOVA's share of NGC Corporation's restructuring charge relating primarily to the company's natural gas liquids and crude oil business.
- (3) NOVA's share of Methanex asset write-down to reduce book value of idled plants.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Income Taxes

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before income taxes as shown in the following table:

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Statutory income tax rate	<u>44.6%</u>	<u>44.6%</u>	<u>44.6%</u>
Income before income taxes	<u>\$541</u>	<u>\$614</u>	<u>\$939</u>
Computed income tax expense	\$241	\$274	\$419
Increase (decrease) in taxes resulting from:			
Lower effective foreign tax rates	(10)	(21)	(29)
Non-provision of deferred income taxes on regulated operations ⁽¹⁾	(21)	(38)	(29)
Refund of previously collected deferred taxes of regulated business	(6)	(10)	(21)
Manufacturing and processing deduction	(16)	(19)	(48)
Non-taxable equity in earnings of affiliates	(23)	(37)	(39)
Non-taxable AFUDC	(5)	(3)	(8)
Non-deductible write-down of assets	29	14	—
Non-taxable gain on sale of assets	—	—	(5)
Large corporation tax	13	9	15
Other	<u>14</u>	<u>14</u>	<u>(18)</u>
Income tax expense ⁽²⁾	<u>\$216</u>	<u>\$183</u>	<u>\$237</u>
Current income taxes	\$221	\$173	\$208
Deferred income taxes ⁽³⁾	<u>(5)</u>	<u>10</u>	<u>29</u>
Income tax expense	<u>\$216</u>	<u>\$183</u>	<u>\$237</u>

Notes:

- (1) NOVA's regulated operations recover income tax costs from customers. NOVA records income tax expense on these operations equal to the recoverable amounts and therefore, there is no effect on net income. In most cases, the recoverable amount is limited to current taxes payable. Accordingly, the provision for income taxes excludes deferred income tax expense relating to these operations. Cumulative unrecorded deferred income taxes payable amounted to \$550 million at December 31, 1997 (1996 — \$529 million, 1995 — \$481 million).
- (2) The effective income tax rate for non-regulated businesses (excluding equity in earnings of affiliates and other non-taxable items) in 1997 was 33% (1996 — 32%, 1995 — 32%). The effective income tax rate for regulated businesses (excluding equity in earnings of affiliates and other non-taxable items) in 1997 was 40% (1996 — 33%, 1995 — 24%).
- (3) The principal timing difference in calculating deferred income taxes, for both regulated and non-regulated operations, relates to the differences between tax deductions for plant, property and equipment and depreciation.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Income Taxes (Continued)

Income Tax Expense by Location

	Year Ended December 31		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Income before taxes			
Canada	\$515	\$454	\$818
Foreign	<u>26</u>	<u>160</u>	<u>121</u>
	<u>\$541</u>	<u>\$614</u>	<u>\$939</u>
Current income taxes			
Canada	\$217	\$171	\$207
Foreign	<u>4</u>	<u>2</u>	<u>1</u>
	<u>\$221</u>	<u>\$173</u>	<u>\$208</u>
Deferred income taxes			
Canada	\$ —	\$ (20)	\$ 33
Foreign	<u>(5)</u>	<u>30</u>	<u>(4)</u>
	<u>\$ (5)</u>	<u>\$ 10</u>	<u>\$ 29</u>

9. Receivables

	December 31		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Trade	\$747	\$587	\$438
Other	78	91	109
Allowance for doubtful accounts	<u>(4)</u>	<u>(11)</u>	<u>(9)</u>
	<u>\$821</u>	<u>\$667</u>	<u>\$538</u>

In 1996 and 1995, NOVA sold a portion of its trade receivables to certain financial institutions on a revolving basis subject to certain limits. Trade receivables sold at December 31, 1996 were \$103 million and \$93 million at December 31, 1995. In 1997 this program was discontinued.

10. Inventories

	December 31		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Materials and supplies	\$123	\$ 80	\$ 63
Raw materials	104	127	96
Finished goods	<u>162</u>	<u>237</u>	<u>142</u>
	<u>\$389</u>	<u>\$444</u>	<u>\$301</u>

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Plant, Property, and Equipment

	December 31		
	1997	1996	1995
	(millions of dollars)		
Cost			
NOVA Gas Transmission			
— In service	\$ 6,379	\$ 6,147	\$6,000
— Under construction	201	85	73
	6,580	6,232	6,073
NOVA Gas International	1,169	784	735
NOVA Chemicals			
— In service	3,278	3,104	2,897
— Under construction	303	165	88
	3,581	3,269	2,985
Other	40	41	37
	\$11,370	\$10,326	\$9,830
Accumulated depreciation			
	Rates⁽¹⁾		
NOVA Gas Transmission	3%	\$ 1,583	\$ 1,437
NOVA Gas International	3%	307	271
NOVA Chemicals	7%	1,781	1,570
Other	8%	14	13
		\$ 3,685	\$ 3,291
Net Book Value			
NOVA Gas Transmission		\$ 4,997	\$ 4,795
NOVA Gas International		862	513
NOVA Chemicals		1,800	1,699
Other		26	28
		\$ 7,685	\$ 7,035

Note:

(1) Weighted average depreciation rate.

12. Bank Loans and Commercial Paper

Current bank loans in subsidiaries include loans which are secured by certain property, plant and equipment and other assets and agreements. The weighted average year-end interest rate on current bank loans was 5.3% (1996 — 5.0%, 1995 — 7.5%).

As at December 31, 1997, commercial paper outstanding was \$260 million with a weighted average interest rate during the year of 4.1% (See Note 14 — Lines of credit).

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Accounts Payable and Accrued Liabilities

	December 31		
	1997	1996	1995
	(millions of dollars)		
Accounts payable			
Trade	\$605	\$380	\$356
Other	83	33	37
	688	413	393
Accrued liabilities			
Interest	77	75	72
Site cleanup and restoration (current portion)	6	5	7
Other	47	80	67
	130	160	146
Income taxes payable	70	62	150
Dividends payable	48	47	39
	\$936	\$682	\$728

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Long-term Debt

	December 31						
	1997		1996		1995		
	Maturity	Debt	Average Interest Rate	Debt	Average Interest Rate	Debt	Average Interest Rate
(millions of dollars)							
NOVA Gas Transmission ^(1,2)							
Unsecured debentures and term notes	1999 to 2028	\$1,937	8.9%	\$1,636	9.6%	\$1,695	10.1%
Unsecured debentures and term notes (1997, 1996, and 1995 — U.S.\$1,090)	1998 to 2027	1,515	7.8%	1,471	7.8%	1,489	8.1%
Unsecured bank and other loans ⁽³⁾		121	4.1%	353	3.4%	150	6.1%
		<u>3,573</u>		<u>3,460</u>		<u>3,334</u>	
Exchange differential recoverable from customers through the toll making process		(160)		(117)		(134)	
		<u>3,413</u>		<u>3,343</u>		<u>3,200</u>	
Other							
Ethylene Plants I and II (1997 — U.S.\$135; 1996 — U.S.\$167; 1995 — U.S.\$218)	1998 to 2004	193	6.4%	238	6.4%	294	6.9%
Exchange differential recoverable from customers through the contractual billing process		(24)		(22)		(26)	
		169		216		268	
Unsecured loans		133	6.9%	314	4.3%	155	6.4%
Unsecured debentures and notes (1997 — U.S.\$625; 1996 — U.S.\$625; 1995 — U.S.\$350)	2000 to 2028	895	7.1%	857	7.1%	477	6.8%
		<u>1,197</u>		<u>1,387</u>		<u>900</u>	
Joint venture loans	2003 to 2005	237	7.5%	273	7.6%	276	7.5%
		<u>4,847</u>		<u>5,003</u>		<u>4,376</u>	
Less instalments due within one year		(136)		(151)		(115)	
		<u>\$4,711</u>		<u>\$4,852</u>		<u>\$4,261</u>	
Regulated ⁽⁴⁾		\$3,657		\$3,625		\$3,585	
Non-regulated		1,054		1,227		676	
		<u>\$4,711</u>		<u>\$4,852</u>		<u>\$4,261</u>	

Notes:

(1) As at December 31, 1997, 1996 and 1995, all unsecured debentures and term notes listed under NOVA Gas Transmission are included in that business' regulated debt.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Long-term Debt (Continued)

- (2) Interest rate swap agreements and cross-currency swap agreements have been made on some of these notes (see Note 22(b)). The weighted average interest rate includes the effects of the swap.
- (3) Includes commercial paper and other borrowings which are supported by long-term lines of credit.
- (4) Long-term debt classified as regulated debt represents the debt component of the capital structure for the investment base of NOVA's regulated operations. These regulated operations bill their customers under arrangements that include an assured return to provide for the repayment of the debt and related interest expense. Realized foreign exchange gains or losses on such debt are also billed to the customer.

Ethylene Plants I and II

Effective July 25, 1997, the secured financing on the ethylene plants was replaced by an unsecured facility. The replacement facility is repayable under an amortization schedule concurrent with the expiry of the original 20-year fixed term cost-of-service ethylene sales contracts. Final instalment for the Ethylene Plant I loan is December 1998 and for the Ethylene Plant II loan is June 2004.

Repayment Requirements

Repayment requirements in respect of long-term debt for the five years following December 31, 1997 are, 1998 — \$136 million, 1999 — \$411 million, 2000 — \$560 million, 2001 — \$85 million, 2002 — \$210 million, and \$3,445 million thereafter.

Joint Venture Loans

All joint venture loans are non-recourse to NOVA. These are collateralized by the rights and assets of the joint ventures. Joint venture lenders have no claim against the rights and assets of NOVA, except to the extent of NOVA's investment in the joint ventures.

Lines of Credit

NOVA has credit facilities with various banks that allow unsecured borrowing of up to \$1.8 billion at floating rates. The facilities are available for general purposes and to support commercial paper borrowings. NOVA may borrow in Canadian and U.S. currencies at interest rates related to Canadian and U.S. prime rates, the Bankers' Acceptance rate or the London Inter Bank Offered Rates. Approximately \$1.8 billion of the facilities are renewable at NOVA's request at least every 364 days. If these facilities are not renewed the outstanding balances become repayable within periods ranging from one to five years. At December 31, 1997, approximately \$1.3 billion of the credit facilities were available.

15. Deferred Credits

	December 31		
	1997	1996	1995
	(millions of dollars)		
Deferred income taxes (Note 8)	\$263	\$264	\$251
Site cleanup and restoration (long-term portion)	50	56	63
Other	80	74	23
	<u>\$393</u>	<u>\$394</u>	<u>\$337</u>

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Preferred Shares — Redeemable

(a) *Authorized*

Unlimited number of cumulative, redeemable, first and second preferred shares without par value.

(b) *Issued and Outstanding*

8,000,000 Cumulative Redeemable First Preferred shares, Series 1 (the "Series 1 First Preferred Shares").

(c) *Dividends*

The Series 1 First Preferred Shares are priced at \$25.00 per share to yield initially 5.15% per annum (cash dividend of \$1.2875 per share per annum).

The fixed cumulative preferred dividend is payable quarterly. From May 1, 2002, the Series 1 First Preferred Shares will be entitled to a floating adjustable dividend rate. The dividend rate will float in relation to changes in the Bank Prime Rate and will be adjusted upwards or downwards on a monthly basis whenever the calculated trading price of the Series 1 First Preferred Shares is \$24.875 or less or \$25.125 or more, respectively.

(d) *Redemption*

The Series 1 First Preferred Shares will be redeemable on May 1, 2002, and May 1 in every fifth year thereafter, for cash, at NOVA's option, at \$25.00 per share, together with accrued and unpaid dividends. The Series 1 First Preferred Shares, at any other time subsequent to May 1, 2002, will be redeemable, in whole for cash, at NOVA's option for \$25.50 per share plus accrued and unpaid dividends.

(e) *Conversion into Series 2 First Preferred Shares*

Holder of the Series 1 First Preferred Shares has the right to convert on May 1, 2002, and May 1 in every fifth year thereafter, their Series 1 First Preferred Shares into an equal amount of Series 2 First Preferred shares.

(f) *Series 2 First Preferred Shares*

The Series 2 First Preferred Shares will offer a five-year fixed dividend rate period. The initial dividend for the Series 2 First Preferred Shares will be payable on August 15, 2002.

17. Common Shares and Warrants

(a) *Authorized*

Unlimited number of voting common shares without par value.

5,000,000 warrants.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Common Shares and Warrants (Continued)

(b) Issued and Outstanding

	December 31					
	1997	1996	1995	1997	1996	1995
	(number of shares and warrants)			(millions of dollars)		
Shares	448,903,784	465,294,809	480,021,630	\$2,486	\$2,571	\$2,641
Warrants	—	—	7,600	—	—	—
				<u>\$2,486</u>	<u>\$2,571</u>	<u>\$2,641</u>

(c) Shares Issued

Changes in share capital for the three years ended December 31, 1997 are summarized as follows:

	Year Ended December 31					
	1997	1996	1995	1997	1996	1995
	(number of shares)			(millions of dollars)		
Beginning of year	465,294,809	480,021,630	478,172,048	\$2,571	\$2,641	\$2,622
For cash	99,200	99,200	140,100	1	1	2
For cash under DRSP ⁽¹⁾	—	371,404	468,257	—	5	5
On exercise of warrants ⁽²⁾	—	18,600	9,000	—	—	—
For cash on exercise of stock options	1,240,075	2,982,825	1,232,225	11	25	12
Repurchased for cash	(17,730,300)	(18,198,850)	—	(97)	(101)	—
End of year	<u>448,903,784</u>	<u>465,294,809</u>	<u>480,021,630</u>	<u>\$2,486</u>	<u>\$2,571</u>	<u>\$2,641</u>

Notes:

- (1) Dividend Reinvestment and Share Purchase Plan (DRSP).
(2) The remaining warrants expired during the year 1996. During 1996, 6,200 warrants were exercised (1995 — 3,000 warrants).

(d) Shares Reserved for Future Issue

	December 31 1997
	(number of shares)
Under the DRSP	1,075,809
Under the incentive stock option plan (1982) ⁽¹⁾	20,408,250
	<u>21,484,059</u>

Note:

- (1) Under the incentive stock option plan (1982), options are outstanding to officers and employees to purchase 12,761,875 shares at prices ranging from \$6.875 to \$13.200 per share with expiration dates between January 30, 1998 to December 4, 2007 and 7,646,375 shares are reserved but unallocated.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Common Shares and Warrants (Continued)

(e) *Options*

	<u>Number of Shares</u>	<u>Exercise Prices</u>	<u>Weighted Avg. Exercise Price</u>
Outstanding at Dec. 31, 1995	11,230,150	\$ 6.875 — \$12.670	\$ 9.304
Granted	2,787,375	\$12.250 — \$12.300	\$12.247
Exercised	(2,982,825)	\$ 8.500 — \$12.250	\$ 8.450
Cancelled	(36,625)	\$ 9.250 — \$12.250	\$11.290
Expired	(83,000)	\$12.670	\$12.670
Outstanding at Dec. 31, 1996	10,915,075	\$ 6.875 — \$12.375	\$10.266
Granted	3,229,000	\$12.700 — \$13.200	\$12.849
Exercised	(1,240,075)	\$ 6.875 — \$12.850	\$ 8.882
Cancelled	(142,125)	\$ 8.625 — \$12.850	\$12.377
Outstanding at Dec. 31, 1997	<u>12,761,875</u>	<u>\$ 6.875 — \$13.200</u>	<u>\$11.033</u>

There were 8,523,118 shares exercisable at December 31, 1997 (1996 — 7,174,056, 1995 — 8,203,094). The weighted average remaining contractual life of those options is seven years. Options may be exercised over a ten-year period and generally one quarter of the options vest at the grant date with further vesting of one quarter per year for the next three years.

(f) *Shareholder Rights Plan*

In May 1994, NOVA's shareholders approved a shareholder rights plan where one right was issued for each outstanding common share. The rights remain attached to the shares and are not exercisable until the commencement or announcement of a takeover bid for NOVA's common shares, or a person acquires 15% or more of NOVA's common shares. The plan expires in May 1999.

(g) *Fully Diluted Earnings per Share*

For the purpose of calculating fully diluted earnings per share, net income was not increased in 1997 or 1996 (1995 — \$5 million). The increase in 1995 represents imputed after-tax earnings on the cash that would have been received on an assumed exercise of dilutive options and warrants.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Cumulative Translation Adjustment

The cumulative translation adjustment represents the net unrealized foreign currency translation gain on NOVA's net investment in self-sustaining foreign operations.

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Beginning of year	\$ 32	\$31	\$117
Effect of changes in exchange rates during the year on:			
Consolidated operations	39	1	(30)
Hedged with U.S. dollar debt	(39)	—	—
Equity accounted investments	25	—	(11)
Gain realized on the reduction of the net investment in foreign subsidiaries	—	—	(45)
End of year	<u>\$ 57</u>	<u>\$32</u>	<u>\$ 31</u>

19. Operating, Investing and Financing Activities

(a) Changes in Non-cash Working Capital

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Receivables	\$(154)	\$(129)	\$143
Inventories	55	(143)	(2)
Accounts payable and accrued liabilities	254	(46)	57
Changes in non-cash working capital	155	(318)	198
Reclassification and other items not having a cash effect:			
Other items	(31)	10	(24)
Changes in non-cash working capital having a cash effect	<u>\$ 124</u>	<u>\$(308)</u>	<u>\$174</u>
These changes relate to the following activities:			
Operating	\$ 96	\$(306)	\$181
Investing	27	(3)	(15)
Financing	1	1	8
	<u>\$ 124</u>	<u>\$(308)</u>	<u>\$174</u>

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Operating, Investing and Financing Activities (Continued)

(b) *Gross Investing and Financing Activities*

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Investing activities per statement of cash flows	\$(718)	\$(790)	\$(418)
Add back regulated long-term debt additions	(267)	(173)	(397)
Gross investing activities	<u>\$(985)</u>	<u>\$(963)</u>	<u>\$(815)</u>
Financing activities per statement of cash flows	\$(275)	\$ 161	\$(442)
Add back regulated long-term debt additions	267	173	397
Gross financing activities	<u>\$ (8)</u>	<u>\$ 334</u>	<u>\$ (45)</u>

(c) *Long-term Investment Activities*

Expenditures were made on the following long-term investments:

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Methanex Corporation	\$ —	\$ —	\$ 8
NGC Corporation	—	—	95
Mortgage receivable on head office building	—	161	—
Interest in pipeline in Argentina, TGN	—	34	—
GasAndes pipeline and related projects	48	191	37
Acquisition of Novagas Canada Limited Partnership (Note 6)	57	—	—
Other	29	40	3
	<u>\$134</u>	<u>\$426</u>	<u>\$143</u>

(d) *Acquisition of Novagas Canada Limited Partnership (NCLP)*

Effective April 1, 1997, NGI acquired 100% ownership of NCLP which retained the natural gas gathering, processing and liquids business and the common shares of Pan-Alberta Gas, an independent natural gas aggregator. The total acquisition cost of both transactions was \$57 million inclusive of working capital and fees and costs in connection with the acquisition.

The acquisition has been accounted for by the purchase method as follows:

	(millions of dollars)
Value attributed to plant, property and equipment	\$104
Assumption of bank loans	(29)
Assumption of long-term debt	(25)
Working capital acquired	<u>7</u>
Cash purchase price	<u>\$ 57</u>

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Operating, Investing and Financing Activities (Continued)

(e) *Interest and Income Taxes Paid*

Interest paid during 1997 amounted to \$382 million (1996 — \$369 million, 1995 — \$376 million).
Income taxes paid during 1997 amounted to \$186 million (1996 — \$242 million, 1995 — \$94 million).

20. Post-retirement Benefits

(a) *Pension Plans*

NOVA's pension plans cover substantially all employees. Pensions at retirement are related to years of service and remuneration during the last years of employment and are partially indexed to inflation. The cost of pension benefits earned by employees is determined using the projected unit credit method pro-rated on services and is expensed as the employees provide services. Actuarial reports are prepared regularly by independent actuaries for accounting and funding purposes. NOVA funds the plan utilizing a valuation based on the projected unit credit method and the plan's assets consist primarily of publicly traded equity and fixed income securities. The assumed future rates of return on assets and discount rates used to determine the estimated projected benefit obligations of the plans were 8% for 1997, 1996 and 1995. The assumed long-term salary and wage escalation rates, including merit increases, averaged 5.5% for 1997, 1996 and 1995.

Pension expense consisted of the following:

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Current service costs	\$ 27	\$ 25	\$ 24
Interest cost on projected benefit obligations	46	43	41
Return on assets	(49)	(42)	(38)
Net total of other components	(4)	(1)	2
	<u>\$ 20</u>	<u>\$ 25</u>	<u>\$ 29</u>

The status of the pension plans was as follows:

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Estimated obligations			
Projected benefits based on service to date and present remuneration	\$431	\$385	\$374
Additional amounts related to projected salary and wage increases	163	169	164
Total projected benefit obligations	594	554	538
Assets available at adjusted market value	588	580	510
Surplus (deficiency) on an accounting basis	<u>\$ (6)</u>	<u>\$ 26</u>	<u>\$ (28)</u>

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Post-retirement Benefits (Continued)

The adjusted market value of plan assets is determined on a four-year moving average basis. Based on year-end market values, NOVA's pension plan assets at December 31, 1997 amounted to \$699 million (1996 — \$639 million, 1995 — \$552 million).

(b) Post-retirement Benefits Other Than Pensions

NOVA provides medical care and life insurance benefits to eligible retirees and their dependants. Post-retirement costs are funded as they are incurred. The assumed long-term salary and wage escalation rates, including merit increases, averaged 5.5% for 1997, 1996 and 1995. Long-term medical inflation was assumed to be 5.5% for 1997, 1996 and 1995 and the discount rate used to calculate the accumulated post-retirement benefit obligations was 8% for 1997, 1996 and 1995. A 1% increase in the medical inflation rate would have increased the accumulated post-retirement benefit obligation by an additional \$7 million at December 31, 1997.

NOVA accrues the cost of providing post-retirement benefits as the employees provide services. Prior to 1993, the cost of providing post-retirement benefits for non-regulated operations was expensed when paid. The change to the accrual method was applied prospectively and resulted in an accumulated unrecorded obligation. This obligation is being recognized over the expected average remaining service lifetime of the employees, which is 15 years. At December 31, 1997, the unrecorded obligation is approximately \$37 million (1996 — \$35 million, 1995 — \$35 million).

Post-retirement benefit expenses consist of the following:

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Current service costs	\$1	\$1	\$1
Interest costs on accumulated post-retirement obligations	2	3	3
Net total of other components	3	4	2
Post-retirement benefit expense	\$6	\$8	\$6

21. Contingencies and Commitments

- (a) NOVA leases office space, data-processing and transportation equipment under various operating leases. The minimum lease payments are approximately \$45 million in 1998, \$39 million in 1999, \$38 million in 2000, \$38 million in 2001, \$35 million in 2002, and \$230 million thereafter.
- (b) The agreement for the sale and leaseback of the head office building in Calgary, Alberta required NOVA to offer to purchase the building at the end of the lease term for \$157 million. The offer was made by NOVA and deemed accepted under the agreement on June 30, 1997. NOVA was ready to conclude the purchase on December 31, 1997 as contemplated by the agreement. The registered owner failed to deliver title to the building in exchange for the tendered purchase price. In response NOVA has commenced legal proceedings to request the Alberta Court of Queen's Bench to require the registered owners to tender a registrable title to the building. NOVA expects to be successful in these proceedings.
- (c) In addition to the future site cleanup and restoration costs which have been accrued (see Notes 13 and 15), costs will be incurred in the future for plant sites when they are sold or no longer used. The associated liability cannot currently be determined.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Contingencies and Commitments (Continued)

- (d) Various lawsuits and claims are pending by and against NOVA. In management's opinion, the final determination of these claims will not materially affect the financial position or operating results of NOVA. Nine producers in the Pan-Alberta gas aggregation pool have filed a statement of claim in the Alberta Court of Queen's Bench against Pan-Alberta claiming damages of approximately \$75 million. The claim alleges that Pan-Alberta has breached contractual, regulatory and fiduciary obligations that deprived these producers of the best available prices for their natural gas production. Pan-Alberta is vigorously defending against the claim, which is in its preliminary stages. On September 4, 1997, the action was directed by the Alberta Court of Queen's Bench to continue as a representative action whereby the plaintiffs will represent all producers having long-term gas contracts with Pan-Alberta. A motion is currently pending before the Alberta Court of Queen's Bench to amend the statement of claim in this action to expand the claims for damages and to advance claims directly against NOVA Corporation.
- (e) NOVA is contingently liable for performance on certain letters of credit and guarantees in the amount of \$295 million at December 31, 1997.
- (f) On July 28, 1995, the Alberta Energy and Utilities Board (EUB) issued a decision reducing a portion of the transportation tolls included in NOVA Gas Transmission's cost of service on the western leg of the mainline system and directed NOVA Gas Transmission to refund its customers \$9 million (approximately \$5 million after-tax) relating to the period November 1, 1993 to December 31, 1994. At NOVA's request, the EUB has agreed to review its decision and suspend the refund requirement until it issues a final decision. NOVA has also applied to the courts to appeal the decision. No adjustment will be made to net income until the EUB issues a final decision.
- (g) An application has been filed with the Alberta Court of Appeal by an interested party seeking leave to appeal the January 4, 1996 decision of the EUB insofar as it relates to a portion of the transportation tolls included in NOVA Gas Transmission's (NGT) 1995 revenue requirement for the Western Region of the NGT mainline system. This application has not been heard by the Alberta Court of Appeal and a potential charge to net income of approximately \$7 million on an after-tax basis has not been recorded. The potential after-tax effect for 1997 and 1996 is approximately \$11 million.
- (h) NOVA has entered into a contingent sponsor support agreement with regard to the financing of TGN. NOVA has agreed to guarantee repayment of one third of certain TGN long-term debt to a maximum of U.S.\$78 million. NOVA would be liable only in the event that the license to operate and transport gas in Argentina was revoked or terminated by the regulatory authorities for reasons other than bankruptcy. A third party has indemnified NOVA for 42% of NOVA's contingent liability, reducing NOVA's exposure to U.S.\$45 million.

22. Financial Instruments

Fair Values of Financial Instruments

Financial instrument fair values represent a reasonable approximation of amounts NOVA would have received or paid to counter-parties on December 31 to unwind positions or settlement of debt prior to maturity. At December 31, 1997, NOVA has no plans to unwind these positions prior to maturity. The carrying amounts represent the receivable or payable recorded in the Consolidated Balance Sheet. The carrying amounts reported in the balance sheet for cash, accounts receivable and payable, current bank loans and the mortgage on the head office building approximate their fair value. NOVA does not have a significant exposure to any individual customer or counter-party. Fair values and carrying amounts for long-term debt and derivative instruments are disclosed below.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Financial Instruments (Continued)

Fair Values of Long-term Debt

	December 31					
	Carrying Amount			Estimated Fair Value ⁽¹⁾		
	1997	1996	1995	1997	1996	1995
	(millions of dollars)					
Long-term debt ⁽²⁾						
Regulated businesses	\$3,785	\$3,776	\$3,722	\$4,514	\$4,236	\$4,140
Non-regulated businesses	\$1,062	\$1,227	\$ 654	\$1,106	\$1,224	\$ 666

Notes:

- (1) The fair value of long-term debt is based on quoted market prices, where available. If market prices are not available, fair values are estimated using discounted cash flow analyses, based on NOVA's current incremental borrowing rates for similar borrowing arrangements.
- (2) Includes debt instalments due within one year.

Derivatives and Other Hedging Instruments

NOVA sells petrochemical products at prices based on U.S. dollars, purchases energy commodities, invests in foreign operations and issues short- and long-term debt, including amounts in foreign currencies. These activities result in exposures to fluctuations in foreign currency exchange rates, commodity prices and interest rates.

NOVA manages its exposures by entering into contractual arrangements (derivatives) which reduce (hedge) the exposure by creating an offsetting position. The estimated fair values only represent the value of the hedge component of these transactions and do not consider the value of the contracted and anticipated transactions that are being hedged. NOVA does not provide or require security on its derivative positions.

(a) *Foreign Exchange Risk Management*

NOVA has U.S. and Canadian based petrochemical operations. The selling price for products sold by these operations is established in terms of the U.S. dollar. NOVA reduces its exposure to fluctuations in the U.S. dollar by using forward exchange contracts and options to sell forward expected future

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Financial Instruments (Continued)

receipts of U.S. dollars at specified rates and hedge its anticipated net exposure on U.S. cash flows. The forwards and options outstanding at December 31, 1997 are as follows:

Foreign Exchange Risk Management

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Foreign exchange forwards			
Notional amount	U.S.\$2,683	\$2,114	\$ 501
Average exchange rate per U.S. dollar	Cdn.\$ 1.34	\$ 1.34	\$1.39
Estimated fair value ⁽¹⁾	Cdn.\$ (177)	\$ (3)	\$ 9
Carrying value	Cdn.\$ —	\$ —	\$ —
Foreign exchange options			
Notional amount	U.S.\$ 120	\$ 140	\$ 260
Average exchange rate per U.S. dollar	Cdn.\$ 1.38	\$ 1.36	\$1.40
Estimated fair value ⁽¹⁾	Cdn.\$ (5)	\$ 5	\$ 10
Carrying value	Cdn.\$ —	\$ —	\$ —

Note:

(1) Asset (liability). The fair values of these instruments are estimated based on quoted market prices of comparable contracts, adjusted for maturity differences.

(b) Interest Rate Risk Management

Interest Rate Swaps

NOVA uses interest rate swaps to manage the fixed and floating interest rate mix of the total debt portfolio. By entering into interest rate swap agreements, NOVA agrees to exchange with counter-parties the difference between fixed rate and floating rate interest amounts calculated by reference to banker's acceptance rates and London Inter Bank Offered Rates and to an agreed notional amount. The notional amounts do not represent the amount exchanged by the counter-parties, and therefore are not a measure of market or credit exposure.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Financial Instruments (Continued)

Interest Rate Risk Management

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars, except for rates)		
Floating to fixed rate swaps			
Notional amount	\$ 214	\$ 205	\$ 205
Average receive rate	6.18%	5.90%	6.28%
Average pay rate	8.29%	8.95%	8.95%
Weighted average years to maturity	5.87	3.87	4.87
Fixed to floating rate swaps			
Notional amount	\$ 281	\$ 131	\$ 131
Average receive rate	7.85%	9.02%	9.02%
Average pay rate	5.14%	3.19%	6.16%
Weighted average years to maturity	2.66	3.3	4.3
Floating to floating rate swaps			
Notional	\$ 65	\$ 65	\$ —
Average receive rate	4.48%	3.78%	—%
Average pay rate	3.99%	3.30%	—%
Average term to maturity (years)	2.08	3.08	—
Estimated fair value of interest rate swaps	\$ 5	\$ 5	\$ (10)

Cross-currency Swaps

NOVA uses cross-currency swaps to manage its exposure to currency risks. By entering into cross-currency swaps, NOVA agrees to exchange with counter-parties principal and interest denominated in different currencies at an agreed upon foreign exchange rate. At December 31, 1997, the fair value of the outstanding contracts was \$26 million (1996 — \$7 million, 1995 — \$nil).

During 1997, NOVA entered into a cross-currency swap which effectively converts U.S.\$37 million of fixed interest debt into Cdn.\$47 million of fixed interest rate debt. Upon maturity of the debt instrument, NOVA will receive U.S.\$37 million and pay Cdn.\$47 million. In the interim, NOVA pays interest in Canadian dollars at a fixed rate of 8.5%. As part of this transaction, NOVA has granted an option to swap U.S.\$138 million of principal to Canadian fixed rate debt at a fixed exchange rate of 1.27455.

NOVA has also effectively sold an option to convert U.S.\$150 million to Canadian dollars in 1999 and an option to convert U.S.\$75 million to Canadian dollars in 2000. Both of these transactions hedge NOVA's U.S. dollar exposure.

NOVA has entered into two cross-currency swaps which effectively convert U.S.\$143 million of fixed interest rate debt into Cdn.\$186 million of fixed interest rate debt. Upon maturity of the debt instruments, NOVA will receive U.S.\$143 million and pay Cdn.\$186 million. In the interim, NOVA pays interest in Canadian dollars at a fixed rate of 8.24%.

NOVA also has a cross-currency swap which effectively converts the fixed interest rate costs on U.S.\$125 million of fixed interest rate debt to Cdn.\$159 million of floating interest rate debt. Upon maturity of the debt instrument, NOVA will receive U.S.\$125 million and pay Cdn.\$159 million. In the interim, NOVA pays floating interest rate amounts in Canadian dollars and receives fixed rate amounts

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Financial Instruments (Continued)

in U.S. dollars. On December 31, 1997 NOVA's average receive rate was 7.88% U.S., while the average pay rate was 7.56% Canadian.

(c) Commodity Price Risk Management

NOVA uses commodity futures to hedge a portion of its exposure to price fluctuations on anticipated crude oil, refined products and natural gas transactions. The instruments are used to moderate the risk of fluctuations in feedstock prices by protecting against adverse short-term price movements, while limiting, somewhat, the benefits of favorable short-term price movements. They are not used for speculative purposes. Notional volumes for natural gas futures contracts at December 31, 1997 were 123.3 Mmcf (December 31, 1996 — 41.3 Mmcf, December 31, 1995 — 6.3 Mmcf). Notional volumes for crude oil futures contracts at December 31, 1997 were 2.9 million barrels (Mmbbls) (December 31, 1996 — 0.6 Mmbbls, December 31, 1995 — 0.9 Mmbbls). Occasionally, longer-term positions will be taken to manage price risk for anticipated supply requirements. At December 31, 1997, the fair value of these outstanding contracts was \$24 million (December 31, 1996 — \$15 million, December 31, 1995 — less than \$1 million).

(d) Credit Risk Management

Credit exposure on financial instruments arises from the possibility that a counter-party to an instrument in which NOVA has an unrealized gain fails to perform. NOVA only transacts with counter-parties having a minimum credit rating of A+ for its foreign exchange and interest rate related instruments and a minimum credit rating of BBB for its commodity related instruments. A limit on contingent exposure has been established for each counter-party based on the counter-party's credit rating. Credit exposure on commodity price risk instruments is managed through credit approval and monitoring procedures. NOVA does not anticipate any counter-parties will fail to meet their obligations. At December 31, 1997, NOVA's gross credit exposure was \$50 million (\$36 million in 1996) for foreign currency and interest rate management instruments and \$24 million (\$15 million in 1996) for commodity based instruments.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. United States Accounting Principles

(a) *Reconciliation to Accounting Principles Generally Accepted in the United States of America*

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars, except for share data)		
Net income using Canadian basis	\$ 325	\$ 431	\$ 702
Add (deduct) adjustments for:			
Equity in earnings of affiliates ⁽¹⁾	(3)	1	21
Other losses ⁽²⁾	(12)	—	—
Foreign exchange losses ⁽³⁾	(115)	(9)	(30)
Development costs ⁽⁴⁾	4	3	(13)
Inventory valuation adjustment ⁽⁵⁾	(5)	5	1
Income taxes ⁽⁶⁾	—	—	(4)
Prior period adjustment under Canadian GAAP ⁽⁷⁾	—	(9)	—
Other	(2)	1	3
Net income using U.S. basis	<u>\$ 192</u>	<u>\$ 423</u>	<u>\$ 680</u>
Net income per share using U.S. basis			
Basic and fully diluted	<u>\$ 0.42</u>	<u>\$ 0.89</u>	<u>\$ 1.41</u>
	December 31		
Balance sheet items using U.S. basis ⁽⁸⁾			
Current assets	\$ 1,228	\$ 1,261	\$ 1,086
Investments and other assets ⁽⁶⁾	2,759	2,814	2,272
Plant, property and equipment	7,257	6,465	6,347
Current liabilities	(1,608)	(775)	(756)
Long-term debt	(4,474)	(4,579)	(3,985)
Deferred credits ⁽⁶⁾	(1,270)	(1,302)	(1,142)
Shareholders' equity	<u>\$ 3,892</u>	<u>\$ 3,884</u>	<u>\$ 3,822</u>

Notes:

- (1) NOVA's share of adjustments made to Methanex Corporation's and NGC Corporation's financial information to comply with U.S. accounting principles.
- (2) U.S. accounting principles require impaired assets to be written down to fair market value whereas Canadian generally accepted accounting principles (GAAP) require assets to be written down to net recoverable amounts.
- (3) U.S. accounting principles only allow deferral of gains or losses on forward exchange contracts if the contracts hedge firm foreign currency commitments. Gains or losses on forward exchange contracts that hedge anticipated future transactions must be recognized in income. Canadian principles allow deferral of gains and losses on hedges of anticipated transactions.

U.S. accounting principles only allow CTA realization when there is a partial or complete sale or liquidation of an investment in a foreign affiliate. Canadian principles allow CTA realization when there has been a reduction in the net foreign investment as a result of a dividend distribution.
- (4) U.S. accounting principles require that all research and development costs be expensed as incurred. Canadian principles allow capitalization of development costs if certain criteria are satisfied.
- (5) U.S. accounting principles require an allocation of fixed production overhead to inventory. Canadian accounting principles allow these costs to be expensed during the period.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. United States Accounting Principles (Continued)

- (6) U.S. accounting principles require companies to recognize deferred income taxes based on the liability method whereas Canadian accounting principles require that the deferral method be used. Under the U.S. basis companies are also required to record deferred income tax liabilities and deferred charges to be collected from regulated customers in future years. These amounts are not recorded under the Canadian basis.
- (7) Methanex reached a settlement with Revenue Canada in 1996 regarding the reassessment of their 1988 income tax return. Under Canadian GAAP, the settlement has been charged to prior year earnings. Under U.S. GAAP, the settlement amount would be charged to current year earnings.
- (8) U.S. accounting principles require joint ventures to be accounted for using the equity method whereas Canadian principles require proportionate consolidation of the joint ventures. The equity method does not result in any change to NOVA's net income or shareholders' equity, however all assets liabilities, revenues, expenses and most cash flow items are decreased when compared to the amounts that are presented using proportionate consolidation (see Note 6).

(b) Projected Pension Benefit Obligations (PPBOs)

United States accounting principles require the discount rate assumption for the valuation of PPBOs to be calculated based on the year-end rate for high-quality Canadian fixed income investments. This compares with the Canadian basis of accounting which uses management's best estimate of the long-term fixed income investment rate. For 1997, the U.S. basis discount rate was 6.5% compared with 8.0% using the Canadian basis. Using a 6.5% discount rate would have resulted in a \$26 million increase in the PPBOs on an accounting basis as at December 31, 1997. For 1996, the U.S. basis discount rate was 7.5% compared with 8.0% using the Canadian basis. Using a 7.5% discount rate would have resulted in a \$14 million increase in the PPBOs on an accounting basis as at December 31, 1996. For 1995, the discount rates were the same under both bases.

(c) Stock-based Compensation

Under U.S. reporting rules NOVA has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock option plans because the alternative fair value accounting provided for under SFAS 123, "Accounting for Stock Based Compensation", requires use of option valuation models that were not developed for use in valuing employee stock options.

For the 1997 year, one quarter of the compensatory employee stock options granted in 1995, 1996 and 1997 vested (1996 — one quarter of 1995 and 1996) were included in the pro forma calculation under SFAS 123. Options are issued at the market price on date of grant and therefore, under APB 25, no compensation expense has been recorded.

Under SFAS 123, NOVA's pro forma net earnings for U.S. GAAP would be \$187 million (1996 — \$420 million) and primary earnings per common share would be \$0.41 (1996 — \$0.88).

As the provisions of SFAS 123 have not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

For disclosure purposes, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for stock options granted in 1997 and 1996, respectively: expected dividend yields of 3% for both years, expected volatility of 18.9% and 20.3%, risk free interest rate of 5% and 6% and expected life of five years for all grants. The weighted average fair value of the stock options granted in 1997 and 1996 was \$2.29 and \$2.53 respectively.

NOVA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. United States Accounting Principles (Continued)

(d) *U.S. Accounting Developments*

For 1998, U.S. reporting requirements will require the inclusion of a comprehensive income statement in the financial statements. The comprehensive income statement will include net income and changes in items that are presently deferred in a separate component of shareholders' equity under U.S. GAAP such as the cumulative translation account which arises on translation of foreign currency balances of self-sustaining investments and excesses of pension liabilities over unrecognized past service costs. NOVA is still in the process of quantifying the impact of this new U.S. accounting standard on its financial statements.



NOVA

QUARTERLY REPORT

March 31, 1998
(unaudited)

CALGARY, Alberta — NOVA Corporation (NOVA) announced today first quarter earnings of \$82 million (18 cents per share, fully diluted) for the three-month period ended March 31, 1998. This compares to pre-write-down earnings of \$88 million (\$0.19 per share) in the fourth quarter of 1997 and earnings of \$124 million (27 cents per share) in the first quarter of 1997.

Net income from NOVA Chemicals Ltd. (NOVA Chemicals) for the three-month period was \$27 million. This compares to pre-write-down earnings of \$29 million for the fourth quarter of 1997 and earnings of \$73 million in the first quarter of 1997. Net income from NOVA Chemicals' operated businesses was \$26 million, up from \$10 million in the fourth quarter of 1997 when the delayed start-up of the Corunna facility had a negative impact of \$13 million after tax. This improvement in earnings from operations was offset by lower contributions from NOVA's investments in Methanex Corporation (Methanex) and NGC Corporation (NGC).

NOVA Gas Transmission Ltd.'s (NGT) contribution for the first quarter of \$49 million was down \$3 million from the previous quarter and up \$1 million from the first quarter of 1997. NGT's earnings in the first quarter of 1998 included \$2 million of Cost-efficiency Incentive Settlement (CEIS) savings compared to \$6 million in the fourth quarter of 1997. NOVA Gas International's (NGI) contribution was \$5 million, down from the \$6 million earned during the prior quarter.

On January 26, NOVA and TransCanada PipeLines Limited (TransCanada) announced their intention to merge and split-off NOVA Chemicals as an independent publicly-traded commodity chemicals company. "While we continue to work towards the completion of the merger with TransCanada and the split-off of NOVA Chemicals, our financial results confirm the ability of both our chemicals and energy services businesses to perform successfully in their respective competitive environments," said J.E. (Ted) Newall, NOVA's chief executive officer. "In NOVA Chemicals, we expect the prices for our products will remain under downward pressure throughout 1998. However, we continue to invest for long term growth and expect to capture substantial returns when the market improves. In our energy services businesses, we are working hard to develop innovative approaches to addressing issues important to our external stakeholders, which include customers, regulators and shareholders."

Note: Consistent with the proposed merger with TransCanada and the split-off of NOVA Chemicals, all financial results have been restated to include NGC's financial results within NOVA Chemicals.

NOVA Highlights

	Three Months Ended		
	March 31 1998	December 31 1997	March 31 1997
	(unaudited; millions of dollars, except share data)		
Net income			
NOVA Chemicals	\$ 27	\$ 29	\$ 73
NOVA Gas Transmission	49	52	48
NOVA Gas International	5	6	6
Corporate	1	1	(3)
Net income before asset write-downs	<u>82</u>	<u>88</u>	<u>124</u>
Pan-Alberta Gas Ltd. asset write-down	—	(65)	—
NGC asset write-down	—	(57)	—
Net income (loss)	<u>\$ 82</u>	<u>\$ (34)</u>	<u>\$ 124</u>
Net income per common share (fully diluted)			
— before asset write-down	\$ 0.18	\$ 0.19	\$ 0.27
— after asset write-downs	\$ 0.18	\$ (0.08)	\$ 0.27
Revenue	\$1,146	\$1,208	\$1,330
Funds from operations	\$ 192	\$ 205	\$ 213

Operated Chemicals Businesses — Net Income (\$ millions)

1998	1997				1996				1995				1994		
Q1	Q1	Q2	Q3	Q4*	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2	Q3	Q4
26	57	38	34	10	37	44	63	56	154	159	103	34	12	44	102

* prior to NGC Corporation write-down

Energy Services — Net Income (\$ millions)

1998	1997				1996				1995				1994		
Q1	Q1	Q2	Q3	Q4*	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2	Q3	Q4
54	54	55	55	58	48	48	47	63	40	43	48	51	44	38	45

* prior to Pan-Alberta Gas Ltd. write-down

NOVA's trading symbol on the Alberta, Toronto, Montreal and New York stock exchanges is "NVA". NOVA's Internet address is www.nova.ca

Forward Looking Information

The information in this news release contains forward-looking statements with respect to NOVA Corporation, its subsidiaries or affiliated companies. By their nature, these forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. These risks and uncertainties include commodity chemicals and feedstock prices, regulatory and competitive developments affecting the Alberta pipeline, cost levels in both the chemicals and energy services operations, completion of the previously announced merger with TransCanada, Canadian/U.S. exchange rates, assumptions related to growth in capital investment and other risks detailed from time to time in the publicly filed disclosure documents and securities commission reports of NOVA Corporation and its subsidiaries or affiliated companies.

BUSINESS REVIEW

NOVA Chemicals

	Three Months Ended		
	March 31 1998	December 31 1997	March 31 1997
	(unaudited; millions of dollars)		
Net income (loss)			
NOVA operated facilities	\$ 26	\$ 10	\$ 57
Equity in earnings of Methanex	(2)	9	14
Equity in earnings of NGC	3	10	2
NGC asset write-down	—	(57)	—
	\$ 27	\$ (28)	\$ 73
Operating income			
Olefins and polyolefins	\$ 94	\$ 72	\$ 133
Styrenics	(22)	(22)	(11)
Other	—	(4)	(3)
	\$ 72	\$ 46	\$ 119
Revenue	\$ 817	\$ 823	\$ 892
Capital expenditures	\$ 108	\$ 138	\$ 40
Capital employed	\$2,264	\$2,101	\$2,172
Investment in Methanex	\$ 619	\$ 621	\$ 559
Investment in NGC	\$ 406	\$ 407	\$ 422
Depreciation	\$ 61	\$ 62	\$ 59

Highlights

NOVA Chemicals' operated businesses contributed \$26 million in earnings during the first quarter, up from \$10 million in the fourth quarter of 1997 when the delayed start-up of the Corunna ethylene plant had an impact of \$13 million after tax.

Selling prices for the chemicals we produce continued to decline in the first quarter of 1998. Benchmark polyethylene prices in the first quarter were down one cent per pound compared with the fourth quarter of 1997. The negative effect of these lower prices was partially offset by lower feedstock costs. Polyethylene sales volumes remained at the strong levels achieved during the second half of 1997. The styrenics business continues to experience weak product demand and trough pricing. However, late in the quarter, polystyrene prices improved and styrene margins widened on lower feedstock costs. We expect a modest improvement in styrenics results as the year progresses, both from higher polystyrene prices and lower styrene feedstock costs. Polyethylene prices are expected to remain at low levels throughout 1998.

The overall improvement in earnings from NOVA Chemicals' operated businesses was more than offset by weaker earnings from NOVA Chemicals' equity investments in Methanex and NGC. The lower earnings contribution from Methanex was largely the result of a significant decline in the price of methanol. The decrease in earnings contribution from NGC was the result of lower gas marketing margins and reduced margins in the gas processing business caused by a decline in natural gas liquids prices.

On February 13, NOVA Chemicals announced it had signed a long-term contract to supply ethylene to Shell Chemicals Canada Ltd. beginning late in the year 2000. NOVA Chemicals now has sales contracts in place for all of the ethylene production from its current and planned ethylene plants.

Average Benchmark Prices on the U.S. Gulf Coast⁽¹⁾

	<u>Q1</u> <u>1998</u>	<u>Q4</u> <u>1997</u>	<u>Q3</u> <u>1997</u>	<u>Q2</u> <u>1997</u>	<u>Q1</u> <u>1997</u>	<u>Q4</u> <u>1996</u>
	(\$U.S. per pound, except methanol)					
Polyethylene — linear low-butene liner ⁽²⁾	\$0.34	\$0.35	\$0.37	\$0.40	\$0.38	\$0.40
Styrene ⁽³⁾	\$0.28	\$0.29	\$0.29	\$0.28	\$0.30	\$0.30
Polystyrene ⁽³⁾	\$0.41	\$0.39	\$0.40	\$0.41	\$0.42	\$0.43
Propylene ⁽³⁾	\$0.15	\$0.18	\$0.19	\$0.20	\$0.19	\$0.18
Methanol ⁽⁴⁾	\$0.48	\$0.56	\$0.55	\$0.58	\$0.55	\$0.48

Notes:

- (1) Average benchmark prices are not the actual prices realized by NOVA or any other petrochemical company.
- (2) Source: Phillip Townsend Associates Inc.
- (3) Source: CMAI.
- (4) Methanex's average realized price in U.S.\$ per gallon.

NOVA Gas Transmission

	<u>Three Months Ended</u>		
	<u>March 31</u> <u>1998</u>	<u>December 31</u> <u>1997</u>	<u>March 31</u> <u>1997</u>
	(unaudited; millions of dollars)		
Net income	\$ 49	\$ 52	\$ 48
CEIS earnings	\$ 2	\$ 6	\$ 3
Capital expenditures	\$ 85	\$ 61	\$ 163
Depreciation	\$ 51	\$ 48	\$ 48
Average investment base	\$5,110	\$5,039	\$4,917

Highlights

NOVA Gas Transmission Ltd.'s (NGT) contribution for the first quarter of \$49 million was down \$3 million from the previous quarter. NGT's share of after-tax Cost-efficiency Incentive Settlement (CEIS) savings in the first quarter of 1998 was \$2 million compared to \$6 million in the fourth quarter of 1997. NGT's share of CEIS savings was \$16 million after tax in 1997.

On April 6, NGT filed with the Alberta Energy Utilities Board (EUB), a more flexible portfolio of transportation services for customers to select from, and a new revenue neutral pricing design which better reflects the cost of transportation on its Alberta natural gas pipeline system. The new pricing model is intended to replace the current postage stamp pricing regime. Subject to regulatory approval, NGT expects the new service and pricing model to be implemented in 1999.

On April 7, 1998, NOVA, NGT, and TransCanada reached an accord with the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC) to promote a competitive environment, greater customer choice, and to recognize the importance of maintaining their alignment of interest in the Western Canadian Sedimentary Basin (WCSB). Three guiding principles were endorsed by the signatories: support for competition and greater customer choice; the need to construct competitive incremental pipeline capacity from the WCSB by both new competitors and existing pipelines alike in a timely, safe and cost effective manner; and, the need to effect regulatory changes which will provide existing and new pipelines equal opportunity to compete, recognizing that such competition is desirable and in the best interest of all industry stakeholders.

As a result, CAPP and SEPAC have advised the Alberta Energy Utilities Board (EUB) that they support the proposed merger of NOVA and TransCanada.

NOVA Gas International

	Three Months Ended		
	March 31 1998	December 31 1997	March 31 1997
	(unaudited; millions of dollars)		
Net income prior to asset write-down	\$ 5	\$ 6	\$ 6
Asset write-down	—	(65)	—
Net income (loss)	<u>\$ 5</u>	<u>\$ (59)</u>	<u>\$ 6</u>
New investments	\$ 2	\$ 24	\$(91)
Capital expenditures	\$83	\$ 78	\$ 13
Depreciation	\$ 8	\$ 12	\$ 7

Highlights

NOVA Gas International's (NGI) reported first quarter net income contribution of \$5 million was down slightly from the \$6 million earned in the previous quarter.

On January 21, NGI announced it had reached commercial agreement with its partners to proceed with Gasoducto del Pacifico, a \$569 million, integrated natural gas project in Chile. The project includes:

- a \$486 million natural gas pipeline, 30% owned by NOVA, from Argentina to Chile, with an estimated initial delivery capacity of 140 million cubic feet of natural gas per day. NOVA will act as the project manager for construction and will be the technical operator of the pipeline when it is completed.
- Servicios de Gas Natural (SGN), a \$63 million natural gas transportation and marketing company that will serve industrial customers in the region; and
- Gas Sur, a \$20 million initial investment in a commercial and residential natural gas distribution system to serve customers in and around Concepcion.

We have previously announced that Pan-Alberta Gas Ltd. is for sale. We have received a number of expressions of interest and are proceeding with the sale process.

On January 30, NGI's subsidiary, Novagas Canada Ltd. (NCL) and Suncor Energy Inc. signed an agreement for a \$164 million "off-gas" extraction project near Fort McMurray. This plant will extract and separate natural gas and olefins from "off-gas", a by-product of the oil sands upgrading process. Construction by NCL of the liquids extraction project is scheduled to begin in the summer of 1998, pending regulatory approval, with completion targeted for the third quarter of 1999. NCL will own all new related facilities and will market the upgraded liquids.

In early March, 1998, NCL announced it had reached an agreement with Taylor Gas Liquids Fund and PanCanadian Petroleum Limited for NCL to purchase a 43.3% working interest in the Solex gas processing facility at Taylor, British Columbia at a cost of approximately \$30 million. With this agreement, NCL terminated the construction of a previously announced \$50 million, 350 million cubic feet per day extraction plant and will instead pay its proportionate share to expand the Younger plant's processing capability by an additional 350 million cubic feet per day. The decision to expand an existing plant rather than build a new facility is consistent with NCL's strategy of consolidating existing facilities to increase the overall efficiency of the midstream business in Canada.

MERGER UPDATE

NOVA/TransCanada Merger and Split-off of NOVA Chemicals

On January 26, 1998, NOVA and TransCanada announced their intention to merge, creating the fourth largest energy services organization in North America. Immediately following the merger, NOVA Chemicals will be split-off as an independent, publicly-traded commodity chemicals company.

Several critical hurdles have been cleared:

National Energy Board (NEB) — The NEB has determined that no action on the part of the NEB pursuant to the National Energy Board Act is required to approve the transaction.

Hart-Scott-Rodino Antitrust Improvements Act — On March 6, 1998, filings were made with the U.S. Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. On April 5, the 30-day waiting period required under the legislation expired, allowing NOVA and TransCanada to proceed with the merger without further review under that legislation.

U.S. Federal Energy Regulatory Commission (FERC) — TransCanada and NOVA submitted a joint filing on February 11, 1998, and FERC issued its formal approval of the merger on April 6, 1998.

Other approvals remain outstanding as follows:

Alberta Energy Utilities Board (EUB) — A joint application of NOVA and TransCanada was filed with the EUB on February 6. NOVA and TransCanada filed their final written arguments on April 17, 1998. The application process is continuing.

Competition Act — NOVA and TransCanada completed the submission of the required short-form pre-merger notification filing with the Canadian Director of Investigation and Research of the Competition Bureau, as well as applied for an advance ruling certificate (“ARC”), in respect of the Arrangement. To date, the applicable waiting period under Part IX of the *Competition Act* has expired. However, the Competition Director has not yet completed his review of the merger or the parties’ ARC application.

Revenue Canada — The merger is subject to issuance of a satisfactory advance income tax ruling by Revenue Canada.

Shareholder Approval — Shareholder approval will be sought once the above approvals have been obtained.

Judicial Approval — The Arrangement requires final approval by the Court of Queen’s Bench of Alberta once approvals from shareholders are obtained.

LIQUIDITY & CAPITAL

Capital Expenditure Program Demonstrates Growth

Capital expenditures in the first quarter of 1998 totalled \$276 million. Of this amount, \$85 million related to the expansion of NGT's pipeline system. NOVA Chemicals invested \$108 million, primarily for the construction of the new ethylene and polyethylene plants at Joffre, Alberta. Construction of these plants is expected to be completed in 2000. NGI invested \$83 million principally for the construction of its \$250 million integrated natural gas liquids project at Redwater/Fort Saskatchewan, Alberta.

Financing requirements in excess of cash flow from operations have been met through drawing on available lines of credit.

Future Capital Requirements

The capital expenditures and equity investments of NOVA's businesses are expected to total \$1,365 million in 1998. In NOVA Chemicals, capital expenditures are expected to be about \$500 million directed at expansions, upgrades, ongoing facilities maintenance and other initiatives. In NGT, expenditures of \$430 million are planned to further expand and maintain the NGT pipeline system. NGI expects to invest around \$435 million in NCL's growth opportunities and NGI's remaining pipeline projects in South America.

NOVA's businesses have sufficient funds flow from operations and access to capital markets to finance these expenditures. Our businesses also have the ability to draw on contracted credit facilities. At March 31, 1998, NOVA's businesses had access to a total of \$1.1 billion in unused credit facilities.

Capitalization⁽¹⁾

	March 31 1998	%	December 31 1997	%	March 31 1997	%
	(unaudited; millions of dollars)					
Regulated Businesses⁽²⁾						
Long-term debt ⁽³⁾	\$3,786	67	\$3,785	67	\$3,788	67
Shareholders' equity	1,904	33	1,880	33	1,898	33
	\$5,690		\$5,665		\$5,686	
Non-regulated Businesses						
Long-term debt and current bank loans ⁽³⁾	\$1,561	42	\$1,415	40	\$ 950	30
Shareholders' equity	2,175	58	2,156	60	2,197	70
	\$3,736		\$3,571		\$3,147	

Notes:

- (1) Includes proportionately consolidated businesses.
- (2) Includes NGT, NOVA's proportionate share of Foothills Pipe Lines Ltd. and the ethylene cost-of-service operations.
- (3) Includes current portion and is net of cash available for debt repayment.

NOVA's share price increased to \$16.75 at March 31, 1998 from \$13.60 at year end 1997, principally as a result of the merger announcement. NOVA's total return to shareholders was 23.9 per cent for the quarter ending March 31, 1998, compared to a total return of 13.7 per cent for the TSE 100.

FINANCIAL SCHEDULES AND STATEMENTS

Changes in Net Income

	Increase (Decrease) in Net Income	
	Q1 1998 Compared With	
	Q4 1997	Q1 1997
	(unaudited; millions of dollars except share data)	
NOVA Chemicals		
Lower product margins	\$ (19)	\$(29)
Higher (lower) sales volumes	7	(3)
Lower equity in earnings of Methanex	(11)	(16)
Higher (lower) equity in earnings of NGC	(7)	1
Delayed start-up of Corunna	13	—
Other	15	1
	(2)	(46)
NOVA Gas Transmission		
Increase in investment base	1	3
Cost-efficiency Incentive Settlement	(4)	(1)
Other	—	(1)
	(3)	1
NOVA Gas International	(1)	(1)
Corporate and other	—	4
Decrease in net income before asset write-downs	(6)	(42)
Asset write-downs	122	—
Increase (decrease) in net income	\$116	\$(42)

Consolidated Statement of Income

	Three Months Ended March 31	
	1998	1997
	(unaudited; millions of dollars except share data)	
Revenue	\$ 1,146	\$ 1,330
Operating costs and expenses		
Operating expenses	801	961
Depreciation and amortization	124	114
	<u>925</u>	<u>1,075</u>
Operating income	<u>221</u>	<u>255</u>
Other income (deductions)		
Interest expense	(96)	(93)
Allowance for funds used during construction	4	3
Equity in earnings of affiliates	6	23
General and corporate	—	(7)
	<u>(86)</u>	<u>(74)</u>
Income before income taxes	135	181
Income taxes	(53)	(57)
Net income	<u>\$ 82</u>	<u>\$ 124</u>
Number of common shares outstanding (millions)		
— average	<u>450</u>	<u>464</u>
— end of period	<u>451</u>	<u>461</u>
Net income per common share fully diluted	<u>\$ 0.18</u>	<u>\$ 0.27</u>

Condensed Consolidated Balance Sheet

	March 31 1998	December 31 1997
		(unaudited; millions of dollars)
Assets		
Cash	\$ 25	\$ 12
Other current assets	1,154	1,210
Investments and other assets	1,671	1,667
Plant, property and equipment (net)	7,839	7,685
	<u>\$10,689</u>	<u>\$10,574</u>
Liabilities		
Current liabilities	\$ 1,499	\$ 1,434
Long-term debt		
— regulated businesses	3,660	3,657
— non-regulated businesses	1,070	1,054
Deferred credits	381	393
Shareholders' equity	<u>4,079</u>	<u>4,036</u>
	<u>\$10,689</u>	<u>\$10,574</u>

Consolidated Statement of Cash Flows

	Three Months Ended March 31	
	1998	1997
	(unaudited; millions of dollars)	
Operating activities		
Net income	\$ 82	\$ 124
Depreciation and amortization	124	114
Deferred income taxes	(6)	9
Equity in earnings of affiliates	(6)	(23)
Other	(2)	(11)
	<u>192</u>	<u>213</u>
Funds from operations		
Changes in non-cash working capital	(35)	50
	<u>157</u>	<u>263</u>
Investing activities		
Plant, property and equipment additions	(276)	(216)
Less long-term debt additions related to regulated businesses	58	112
	<u>(218)</u>	<u>(104)</u>
Long-term investments and other assets	(7)	(16)
Cash from long-term investments	—	97
	<u>(225)</u>	<u>(23)</u>
Financing activities		
Preferred shares issued	—	194
Common shares issued	21	4
Common shares repurchased	—	(51)
Long-term debt additions related to non-regulated business	35	—
Long-term debt repaid	(77)	(376)
Common and preferred share dividends	(48)	(46)
Changes in current bank loans	150	(94)
Changes in non-cash working capital	—	1
	<u>81</u>	<u>(368)</u>
Increase (decrease) in cash	13	(128)
Cash at beginning of period	12	253
Cash at end of period	<u>\$ 25</u>	<u>\$ 125</u>

Joint Venture Accounting

NOVA's Proportionate Share of Joint Ventures' Summarized Financial Information⁽¹⁾

	Three Months Ended March 31	
	1998	1997
Revenue	\$44	\$166
Operating expenses	\$31	\$157
Net income	\$ 5	\$ 1
Cash flows from:		
Operating activities	\$11	\$ 14
Investing activities	\$ (4)	\$ (13)
Financing activities	\$ (1)	\$ —
	March 31	December 31
	1998	1997
Current assets	\$ 20	\$ 15
Plant, property and equipment	423	418
Investments and other assets	2	2
Current liabilities	(6)	(6)
Long-term debt	(233)	(237)
Deferred credits	(47)	(49)
Shareholders' equity	<u>\$ 159</u>	<u>\$ 143</u>

Note:

(1) Consists of NOVA's proportionate share of financial statement items from Foothills Pipe Lines and the petrochemical joint ventures.

Reconciliation to Accounting Principles Generally Accepted in the United States

	Three Months Ended March 31	
	1998	1997
	(unaudited; millions of dollars, except share data)	
Net income using Canadian basis	\$ 82	\$ 124
Add (deduct) adjustments for:		
Foreign exchange gains (losses)	28	(16)
Equity in earnings (losses) of affiliates	2	(1)
Inventory valuation adjustment	2	(2)
Development costs	1	—
Net income using U.S. basis	<u>\$ 115</u>	<u>\$ 105</u>
Net income per share using U.S. basis		
Basic and fully diluted	<u>\$0.25</u>	<u>\$0.23</u>
Comprehensive income ⁽¹⁾		
Net income using U.S. basis	\$ 115	\$ 105
Unrealized foreign exchange losses on translation of self sustaining foreign operations	(12)	—
Comprehensive income	<u>\$ 103</u>	<u>\$ 105</u>

	March 31 1998	December 31 1997
Balance sheet using U.S. basis		
Current assets	\$ 1,183	\$ 1,387
Investments and other assets	2,807	2,759
Plant, property and equipment	7,408	7,257
Current liabilities	(1,628)	(1,767)
Long-term debt	(4,497)	(4,474)
Deferred credits	(1,285)	(1,270)
Shareholders' equity	<u>\$ 3,988</u>	<u>\$ 3,892</u>

Note:

- (1) Accounting principles generally accepted in the United States require, for the year commencing January 1, 1998, the presentation of a separate statement of comprehensive income. This statement is not required under Canadian generally accepted accounting principles. Comprehensive income includes all changes in equity during the period including items that are not in net income.

APPENDIX H — INFORMATION RELATING TO TRANSCANADA

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TransCanada

TRANSCANADA PIPELINES LIMITED

ANNUAL INFORMATION FORM

for the year ended December 31, 1997

March 31, 1998

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REFERENCE INFORMATION

Exchange Rate of the Canadian Dollar

All dollar amounts are in Canadian dollars, except where otherwise indicated. The following table shows the high and low spot rates, the average noon spot rates and the year-end closing spot rates for the U.S. dollar for the past eight years, each expressed in Canadian dollars, as reported by the Bank of Canada.

	Year Ended December 31							
	1997	1996	1995	1994	1993	1992	1991	1990
High	1.4399	1.3865	1.4267	1.4090	1.3484	1.2938	1.1665	1.2085
Low	1.3345	1.3287	1.3275	1.3085	1.2400	1.1401	1.1193	1.1288
Average Noon Rate	1.3844	1.3636	1.3276	1.3659	1.2898	1.2083	1.1457	1.1667
Year-End	1.4291	1.3696	1.3640	1.4018	1.3217	1.2709	1.1555	1.1599

On March 31, 1998, the noon spot rate for U.S. dollars as reported by the Bank of Canada was U.S.\$1.00 = Cdn.\$1.4166.

Metric Conversion Table

The conversion factors set out below are approximate factors. To convert from Metric to Imperial multiply by the factor indicated. To convert from Imperial to Metric divide by the factor indicated.

<u>Metric</u>	<u>Imperial</u>	<u>Factor</u>
kilometres	miles	0.62
millimetres	inches	0.04
kilowatts	horsepower ("H.P.")	1.34
gigajoules	million British thermal units ("MMBtu")	0.95
cubic metres*	cubic feet	35.3
kilopascals	pounds per square inch ("psi")	0.15
cubic metres (liquid measure)	barrels	6.29
degrees Celsius	degrees Fahrenheit	to convert to Fahrenheit multiply by 1.8, then add 32 degrees to convert to Celsius subtract 32 degrees, then divide by 1.8

* The conversion is based on natural gas at a base pressure of 101.325 kilopascals and at a base temperature of 15° Celsius.

Date Of Information

Unless otherwise noted, the information contained in this Annual Information Form is given as at December 31, 1997.

FORWARD-LOOKING INFORMATION

Certain information in this Annual Information Form is forward-looking information and relates to, among other things, anticipated financial performance, business prospects, strategies, new services, market forces, commitments and technological developments. Much of this information appears in the Management's Discussion & Analysis, incorporated by reference herein. This forward-looking information is subject to various risks and uncertainties, including those discussed below, that could cause TransCanada's actual results and experience to differ materially from the anticipated results or other expectations expressed. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Annual Information Form, and TransCanada undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. The following discussion is intended to identify certain factors, though not necessarily all factors, that could cause future outcomes to differ materially from those set forth in the forward-looking information.

The risks and uncertainties that may affect the operations, performance, development and results of TransCanada's business include, but are not limited to, the following factors: availability and price of energy commodities; regulatory decisions; competitive factors and pricing pressures; overcapacity in the industry; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; TransCanada's ability to generate adequate cash flow or finance its future business requirements through outside sources; compliance with debt covenants; timing of completion of capital or maintenance projects; the availability of adequate levels of insurance; currency fluctuations; various events which could disrupt operations (including explosions, fires, and severe weather conditions); and management retention and development.

MANAGEMENT'S DISCUSSION & ANALYSIS

The information which is found under the caption "Management's Discussion & Analysis" (the "MD&A") is incorporated herein by reference.

THE COMPANY

TransCanada PipeLines Limited

TransCanada PipeLines Limited is a Canadian public company incorporated in 1951 by a Special Act of the Parliament of Canada and continued on June 1, 1979 under the Canada Business Corporations Act. TransCanada's Articles of Incorporation were restated on August 26, 1996. Unless the context indicates otherwise, a reference in this Annual Information Form to the "Company" or "TransCanada" includes TransCanada PipeLines Limited and the subsidiaries through which its various business operations are conducted. TransCanada's registered office and executive office are located at 111 - Fifth Avenue S.W., Calgary, Alberta, T2P 3Y6. At December 31, 1997, the Company had approximately 3,000 employees.

Subsidiaries

A list of the Company's principal active subsidiaries is contained in Schedule A on page 21 of this Annual Information Form. The list excludes certain of TransCanada's subsidiaries whose total assets individually do not constitute more than 10 per cent of the consolidated assets of the Company as at December 31, 1997 and whose total revenues individually do not constitute more than 10 per cent of TransCanada's consolidated revenues for the fiscal year ended December 31, 1997. These excluded subsidiaries, in the aggregate, represent less than 30 per cent of the consolidated assets of the Company as at December 31, 1997 and less than 30 per cent of the consolidated revenues of the Company for the fiscal year ended December 31, 1997.

GENERAL DEVELOPMENT OF THE BUSINESS

TransCanada is a Canadian corporation which owns and operates a natural gas pipeline system which extends from the Alberta/Saskatchewan border into the Province of Québec. The Company has expanded its pipeline system and increased its interest in other pipelines that deliver natural gas to Canadian and United States markets. In addition, TransCanada has diversified its operations to include significant complementary business activities in the marketing of energy commodities, gathering and processing of natural gas, as well as developing and investing in international energy services businesses. The operations of the Company are conducted through four business segments.

Energy Transmission

This segment owns and operates the Canadian natural gas transmission system (the "Canadian Mainline") and holds the Company's investments in interconnected natural gas pipelines and the Express oil pipeline ("Express Pipeline"). Energy Transmission activities also include the investigation and development of new energy transmission facilities in Canada and the United States.

Energy Marketing

The Energy Marketing segment markets energy commodities, including natural gas, natural gas liquids, crude oil, refined products and electricity, and manages natural gas storage operations.

Energy Processing

This segment operates assets which process hydrocarbons into other forms of energy and products. The processing assets include: independent power generation plants; gas gathering, processing and extraction plants; and specialty chemicals and carbon black manufacturing facilities. The Company also investigates and develops energy processing projects in Canada and the United States.

International

The International segment invests in international energy transmission and power generation operations and investigates and develops energy-related business opportunities outside of Canada and the United States.

The general development of TransCanada's business during the last five years, and the significant events or conditions which have had an influence on that development, are summarized below by business segment.

Energy Transmission

Canadian Mainline

Beginning in 1989, TransCanada embarked on a significant expansion program of its Canadian Mainline. This expansion program, over the years 1989 through 1997, has resulted in the growth in the assets of the Canadian Mainline by approximately \$7.1 billion. See "Energy Transmission — Canadian Mainline Outlook — Capital Expenditures" of the MD&A.

A change in the manner in which the Canadian Mainline has been regulated occurred in February 1996 when the National Energy Board ("NEB") approved TransCanada's Incentive Cost Recovery and Revenue Sharing Settlement (the "Incentive Agreement") for a four-year term commencing on January 1, 1996. The Incentive Agreement was negotiated with the Canadian Mainline's major domestic and export customers and suppliers. See "Regulation — Canada — Canadian Mainline Tolls" on pages 11 and 12 of this Annual Information Form. See also "Energy Transmission — Canadian Mainline — Incentive Regulation" of the MD&A.

North American Pipeline Investments

TransCanada has continued to participate in the development and expansion of certain North American pipelines.

Great Lakes Gas Transmission System ("Great Lakes"), in which TransCanada holds a 50 per cent interest, transports Canadian natural gas to markets in central Canada and serves markets in the midwestern United States. Great Lakes has expanded capacity on an annual basis to meet market demand. A certificate was issued in October 1997 by the Federal Energy Regulatory Commission ("FERC") for the construction and operation of approximately 71 miles of pipeline loop and the addition of two compressor units on the Great Lakes' system.

The Northern Border Pipeline System ("Northern Border"), in which the Company holds a 30 per cent interest and which serves the midwestern United States, announced plans in 1995 for a significant expansion and extension of its system to reach the Chicago market area. In August 1997, Northern Border received a FERC certificate for a 700 million cubic feet (MMcf) per day expansion which is expected to be completed by November 1998.

In 1995, Foothills Pipe Lines (Sask.) Ltd. ("Foothills (Sask.)"), which is 44 per cent owned by TransCanada and which carries gas from Alberta's eastern border to Northern Border, announced an expansion to meet the proposed capacity requirements of Northern Border. Foothills (Sask.) received approval from the NEB in January 1997 to construct the new facilities which are expected to be in service by November 1998.

A 100 per cent interest in the pipeline facilities owned and operated by Alberta Natural Gas Company Ltd ("ANG Pipeline") and a 49 per cent interest in Foothills Pipe Lines (South B.C.) Ltd. ("Foothills (South B.C.)") were acquired by TransCanada as part of the Alberta Natural Gas Company Ltd ("ANG") acquisition in March 1996. The ANG Pipeline carries gas from Alberta's western border through British Columbia to the U.S. border where it connects with the PG&E Gas Transmission-Northwest system and serves markets in the U.S. Pacific northwest, California and Nevada, as well as domestic markets in British Columbia. Foothills (South B.C.) owns a pipeline which parallels and interconnects with the ANG Pipeline and is operated by ANG as an integral part of the pipeline system in southeastern British Columbia.

The Tuscarora Gas Transmission Company system, which is 50 per cent owned by the Company and which originates at Malin, Oregon and transports gas to Reno, Nevada, has completed two full years of service since it commenced operations in December 1995.

Trans Québec and Maritimes Pipeline Inc. ("TQM"), in which TransCanada holds a 50 per cent interest, completed an extension of its pipeline system across the St. Lawrence River in May 1996 to transport natural gas to Québec City.

In March 1996, TransCanada became a 20 per cent partner in Portland Natural Gas Transmission System (“Portland”). Portland is a proposed pipeline that will interconnect with TQM at the United States/Canadian border near Pittsburg, New Hampshire and with the Tennessee Gas Pipeline near Dracut, Massachusetts.

Express Pipeline, 50 per cent owned by TransCanada, is a 1,717-mile crude oil pipeline. Express Pipeline starts at Hardisty, Alberta and terminates near Wood River, Illinois. Construction of Express Pipeline was completed in April 1997.

Additional information concerning TransCanada’s North American pipeline investments can be found under the caption “Energy Transmission — North American Pipeline Investments” and “Energy Transmission — North American Pipeline Investments Outlook” of the MD&A.

Energy Marketing

In the past three years, TransCanada has diversified its natural gas marketing business to include marketing most forms of energy, such as natural gas liquids, crude oil, refined products and electricity and the Company markets these energy commodities in both Canada and the United States. As a result of certain acquisitions as described below, the Company also provides a wide selection of supply, storage and transportation services to its customers.

In October 1994, TransCanada completed the acquisition of the energy marketing businesses owned by Northridge Canada Inc. (“Northridge”) which expanded TransCanada’s North American marketing operations to include crude oil, refined products and natural gas liquids. In 1996, geographical expansion of the energy marketing business continued through acquisitions, including the purchase of Cibola Energy Services Corporation, a natural gas marketer which operates in the midwestern United States and CanStates Gas Marketing which was acquired as part of the ANG acquisition and which serves markets in the U.S. northeast and Pacific northwest.

TransCanada has also become active in various power initiatives through incentive-based energy management contracts with producers and municipalities. It has also expanded its Alberta base through its 60 per cent interest in CrossAlta Gas Storage & Services Ltd., a company engaged in the storage of natural gas.

Prior to October 1994, the Company’s energy marketing operations were carried on by Western Gas Marketing Limited and its subsidiaries and affiliates. In 1995, the natural gas marketing operations of certain of TransCanada’s subsidiaries were merged into TransCanada Gas Services Limited (“TCGS”) and TransCanada Gas Services Inc. On January 1, 1997, a number of TransCanada’s Canadian marketing subsidiaries, including the acquired Northridge companies and TCGS were amalgamated into and became a part of TransCanada Energy Ltd. (“TCE”). TCE, along with certain of its subsidiaries, carries on the energy marketing operations of the Company in Canada, while the subsidiaries of TransCanada Energy USA Inc. (“TCE USA”) do so in the United States.

For further information on the Company’s energy marketing business, see “Energy Marketing”, “Energy Marketing — Natural Gas”, “Energy Marketing — Natural Gas Outlook”, “Energy Marketing — Petroleum and Products”, “Energy Marketing — Petroleum and Products Outlook”, “Energy Marketing — Power” and “Energy Marketing — Energy Marketing Outlook” of the MD&A.

Energy Processing

With the acquisition of ANG in March 1996, the Company expanded its business in natural gas gathering, processing and extraction and specialty chemicals.

On January 31, 1997, the Company acquired all the shares of Enron Louisiana Energy Company (“ELEC”). Subsequent to the acquisition, ELEC changed its name to TransCanada Gas Processing USA Inc. As a result of the acquisition, TransCanada is among the largest natural gas liquids processors in North America.

In June 1997, the Company transferred 100 per cent of its Ontario-based power generation assets comprised of three enhanced combined-cycle power plants at Nipigon, Kapuskasing and North Bay, Ontario, to TransCanada Power, L.P. (“Power L.P.”) and offered 50 per cent of the partnership units to the public. TransCanada retained a 50 per cent interest in Power L.P. and after 20 years, is required to redeem Power L.P.’s

outstanding units at the then-fair market value. In December 1997, Power L.P. entered into an agreement to acquire an additional enhanced combined-cycle power generating facility in northern Ontario, the Potter Station power plant. This acquisition, completed on March 30, 1998, was financed through the issuance to the public of 4,912,300 additional partnership units. As a result of the offering of these additional units, TransCanada's interest in Power L.P. has been reduced from 50 per cent to 39.8 per cent. A subsidiary of TransCanada is the general partner of Power L.P. while another subsidiary provides management services to Power L.P.

In October 1997, TransCanada reached agreement in principle to acquire an additional 30 per cent interest in Ocean State Power ("OSP") in Rhode Island, a two-unit natural gas-fired, combined-cycle facility rated at 500 megawatts that sells electric power under long-term agreements. TransCanada currently holds a 40 per cent interest in OSP. The acquisition is subject to federal and state regulatory approvals.

For further information on TransCanada's energy processing business, see "Energy Processing", "Energy Processing — Canadian Gas Gathering and Processing", "Energy Processing — Canadian Gas Gathering and Processing Outlook", "Energy Processing — U.S. Gas Gathering and Processing", "Energy Processing — U.S. Gas Gathering and Processing Outlook", "Energy Processing — Specialty Chemicals", "Energy Processing — Specialty Chemicals Outlook", "Energy Processing — Power Generation", and "Energy Processing — Power Generation Outlook" of the MD&A.

International

In 1995, the Company acquired a 17.5 per cent interest in the Oleoducto Central S.A. (OCENSA) crude oil pipeline located in Colombia. Construction of the expansion to the pipeline from the Cusiana and Cupiagua oil fields to the port of Coveñas commenced in 1995. Construction of the pipeline was completed in August 1997 and completion of the associated pump stations is anticipated by the second quarter of 1998.

In January 1996, construction on the TransGas de Occidente S.A. ("TransGas") natural gas pipeline from Mariquita to Cali, Colombia commenced. The Company is project manager and holds a 34 per cent interest in TransGas. In August 1997, TransGas commenced gas deliveries to the Cali, Colombia city gate.

The Company has a 40 per cent interest in and provides project management to Compañía Operadora del Gasoducto Centro Oriente S.A., ("CentrOriente") which in August 1996 was awarded a contract to operate and maintain the CentrOriente gas pipeline, coordinate the formation of the national dispatch center for Colombia, and provide technical and administrative consulting services related to the national gas transportation system.

In December 1996, TransCanada purchased an indirect 10 per cent interest in the Paiton power project, which consists of two 615-megawatt coal fired power plants located in East Java, Indonesia. Construction of the project commenced in April 1995; the first generating plant is scheduled for commercial operation in December 1998 and the second plant in May 1999.

The Company managed the construction of a 75-megawatt power plant located at Ubungu, Dar es Salaam in Tanzania in 1996. This is the first phase of the proposed U.S.\$320 million Songo Songo gas-to-electricity project being developed by TransCanada in conjunction with its partner, Ocelot Tanzania, Inc.

In March 1997, a three-company consortium led by TransCanada won a contract to build, own and operate a 700-kilometre natural gas pipeline (the "Mayakan Pipeline") in Mexico's Yucatan peninsula. For further information concerning this pipeline see "International — Mexico — Mayakan" of the MD&A.

In 1997, TransCanada opened energy marketing offices in Barbados and Singapore.

Additional information concerning TransCanada's international business segment can be found under the captions "International", "International — Colombia" and "International — International Outlook" of the MD&A.

Merger with NOVA

On January 26, 1998, TransCanada and NOVA Corporation ("NOVA"), a Canadian energy services and chemicals company, announced an agreement to combine the two companies under a plan of arrangement. Under the terms of the agreement, NOVA shareholders will exchange each NOVA common share for

0.52 TransCanada common shares. Pursuant to the plan of arrangement, immediately after the merger, the combined company will be split into separate energy services and chemicals businesses, each held in a separate public company owned by the combined TransCanada and NOVA shareholder groups. TransCanada and NOVA expect to complete the transaction in mid-1998, once shareholder approvals from both companies and necessary tax and regulatory clearances have been received and other conditions set forth in the agreement have been satisfied. The integration of TransCanada and NOVA is expected to create the fourth largest energy services company in North America and an independent world class chemicals company. The energy services company will continue to be headquartered in Calgary. There can be no assurance that the transaction will be consummated.

BUSINESS OF TRANSCANADA PIPELINES LIMITED

TransCanada operates in and reports financial results of four industry segments: Energy Transmission; Energy Marketing; Energy Processing; and International. The following table shows the Company's revenues by industry segment, classified geographically, for the years ended December 31, 1997 and 1996.

	Revenues	
	1997	1996
	All Customers ⁽¹⁾	All Customers ⁽¹⁾
	(millions of dollars)	(millions of dollars)
Energy Transmission		
Revenues		
Canada — Domestic Deliveries	1,007.1	1,006.8
Canada — Export Deliveries ⁽²⁾	1,169.1	979.6
United States	278.3	231.5
	<u>2,454.5</u>	<u>2,217.9</u>
Energy Marketing		
Revenues		
Canada — Domestic	2,787.6	2,376.1
Canada — Export	1,115.4	1,121.0
United States	7,181.0	4,573.0
	<u>11,084.0</u>	<u>8,070.1</u>
Energy Processing		
Revenues		
Canada — Domestic	310.5	205.7
Canada — Export	30.3	25.3
United States and International	337.6	262.6
	<u>678.4</u>	<u>493.6</u>
International		
Income from Equity Investments	25.9	9.0
Total Revenues	<u>14,242.8</u>	<u>10,790.6</u>

Notes:

- (1) Revenues from all customers include revenues received from investees. Investees are corporations, partnerships, joint ventures or other arrangements in which the Company holds an equity interest and that are not subsidiaries of the Company, controlled by the Company, or temporary investments of the Company. Revenues from investees were nil in 1997 (1996 — \$8.6 million). Joint ventures accounted for using the proportionate consolidation method of accounting are not considered investees for purposes of this table.
- (2) Export deliveries are deliveries to customers serving U.S. markets.

Energy Transmission

The Company's Energy Transmission operations include the Canadian Mainline, North American pipeline investments (including Express Pipeline) and project development activities. In addition to the information concerning Energy Transmission set out herein, further information is found under the captions "Energy Transmission", "Energy Transmission — Canadian Mainline", "Energy Transmission — Canadian Mainline Outlook", "Energy Transmission — Canadian Mainline Business Risks", "Energy Transmission — North American Pipeline Investments" and "Energy Transmission — North American Pipeline Investments Outlook" of the MD&A.

Canadian Mainline

TransCanada owns and operates the Canadian Mainline, a high pressure pipeline for the transportation of natural gas from western Canada to markets in eastern Canada and the United States. The Company's gas supply is sourced primarily from the Western Canadian Sedimentary Basin ("WCSB"), the conventional resources of which are expected to be able to support increasing levels of domestic and export natural gas deliveries through the rest of the decade and well into the next century.

Canadian Mainline Deliveries

The following table sets forth the revenues earned and volumes delivered for the years ended December 31, 1997 and 1996 for the Canadian Mainline.

	1997		1996	
	Revenues	Per cent	Revenues	Per cent
	(millions of dollars)		(millions of dollars)	
<i>Canadian Mainline Revenues</i>				
Domestic	963.3	52.6	988.3	52.4
Export	867.7	47.4	898.1	47.6
Total	<u>1,831.0</u>	<u>100.0</u>	<u>1,886.4</u>	<u>100.0</u>
	1997		1996	
	Volume	Per cent	Volume	Per cent
	(billions of cubic feet)		(billions of cubic feet)	
<i>Volumes Transported⁽¹⁾</i>				
Domestic	1,326.7	52.9	1,266.9	52.0
Export	1,179.5	47.1	1,170.9	48.0
Total	<u>2,506.2</u>	<u>100.0</u>	<u>2,437.8</u>	<u>100.0</u>

Note:

- (1) Of the total volumes transported, 392.7 billion cubic feet or 15.7 per cent of total volumes were transported for TCE, a wholly-owned subsidiary of TransCanada, during the year ended December 31, 1997. See "Energy Marketing — Contracted Natural Gas Supply" on page 8 of this Annual Information Form. See also "Energy Marketing — Natural Gas" of the MD&A.

Canadian Mainline Contracted Firm Transportation Service

As of December 31, 1997, the Canadian Mainline was providing transportation for 137 shippers pursuant to 348 firm service transportation contracts. Approximately 47 per cent of the total daily transportation volume represented by these contracts relates to contracts for delivery of natural gas to U.S. markets. Additional information concerning contracted transportation service can be found under the caption "Energy Transmission — Canadian Mainline Business Risks — Contract Term and Renewals" of the MD&A.

The percentages shown in the table below represent the portion of the total daily firm transportation contract volumes on the Canadian Mainline in each specified category of contract, for domestic and export transportation contracts and the aggregate of all transportation contracts.

	<u>Domestic</u> (Per cent)	<u>Export</u> (Per cent)	<u>Aggregate</u> (Per cent)
<i>Years Remaining in Term of Contract⁽¹⁾</i>			
Less than or equal to two	25.5	5.4	16.0
Greater than two and less than or equal to ten	70.2	72.3	71.2
Greater than ten	4.3	22.3	12.8
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note:

- (1) This table includes transportation contracts with TCE. Of the total aggregate daily transportation volumes, 15.4 per cent of the volumes are under contract with TCE.

North American Pipeline Investments

In addition to the Canadian Mainline, TransCanada has ownership interests in eight other North American natural gas pipelines and one crude oil pipeline. For further information concerning the Company's North American pipeline investments, see "Energy Transmission — North American Pipeline Investments" and "Energy Transmission — North American Pipeline Investments Outlook" of the MD&A.

Energy Marketing

In addition to the information concerning Energy Marketing set out below, further information is found under the captions "Energy Marketing", "Energy Marketing — Natural Gas", "Energy Marketing — Natural Gas Outlook", "Energy Marketing — Petroleum and Products", "Energy Marketing — Petroleum and Products Outlook", "Energy Marketing — Power" and "Energy Marketing — Outlook" of the MD&A.

Natural Gas Marketing

The following tables set forth the revenues earned and volumes marketed in Canada and the United States for the years ended December 31, 1997 and 1996 from the Company's natural gas marketing operations.

	<u>1997</u>		<u>1996</u>	
	<u>Revenues</u> (millions of dollars)	<u>Per cent</u>	<u>Revenues</u> (millions of dollars)	<u>Per cent</u>
<i>Natural Gas Marketing Revenues</i>				
Canada — Domestic	2,060.8	44.1	1,723.4	49.8
Canada — Export	916.9	19.6	862.8	25.0
United States	1,697.9	36.3	873.0	25.2
Total	<u>4,675.6</u>	<u>100.0</u>	<u>3,459.2</u>	<u>100.0</u>

	1997		1996	
	Volume	Per cent	Volume	Per cent
	(billions of cubic feet)		(billions of cubic feet)	
<i>Natural Gas Marketing Volumes</i>				
Canadian	924.3	50.4	978.4	60.6
United States ⁽¹⁾	910.7	49.6	635.1	39.4
Total	<u>1,835.0</u>	<u>100.0</u>	<u>1,613.5</u>	<u>100.0</u>

Note:

(1) Includes volumes sold in Canada for export to the United States.

Contracted Natural Gas Supply

Under a netback pricing arrangement with Alberta producers, the Company has supply contracts for dedicated natural gas reserves which extend for various terms up to the economic life of the reserves. The netback pricing arrangement provides that the pricing terms of all natural gas sales contracts for the sale of natural gas delivered under the supply contracts must be approved by the producers in accordance with Alberta legislation. The producers are paid a netback price for natural gas deliveries in each month, which is determined by deducting transportation costs and other specified costs from the total natural gas revenues received during the month. TCE, as agent for TransCanada, recovers a marketing fee in each month that is equal to \$0.02 per gigajoule plus 0.75 per cent of the netback price per gigajoule in effect for the month.

TransCanada also enters into contracts for the direct purchase and sale of natural gas where the principal risks are the price and performance risks associated with those contracts. TransCanada manages those risks by matching physical positions to the extent possible and through the use of financial instruments.

As at December 31, 1997, total natural gas supply contracted on a netback basis was estimated to be 9.5 trillion cubic feet. The following table sets forth the estimated percentage of total contracted natural gas reserves as at December 31, 1997, that will expire on November 1 in the years 1998 through 2001, pursuant to expiry notices which have been received from producers.

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
4.4%	1.8%	3.1%	2.7%

In the Company's opinion, the expiry of supply contracts will not materially impair the ability of TCE to supply natural gas to its customers under its existing long-term sales commitments. Pursuant to the terms of the netback pricing arrangement, TCE contracted an additional 50 MMcf per day of long-term gas supply during 1997. For further information concerning the risks associated with TCE contracted natural gas supply, see "Energy Marketing — Natural Gas" and "Corporate — Risk Management — Energy Marketing Risk Management" of the MD&A.

Petroleum and Products Marketing

The following tables set forth the revenues earned and volumes marketed in Canada and the United States for the years ended December 31, 1997 and 1996 from the Company's crude oil, refined products and natural gas liquids marketing operations.

	1997		1996	
	Revenues	Per cent	Revenues	Per cent
	(millions of dollars)		(millions of dollars)	
<i>Petroleum and Products Marketing Revenues</i>				
Canada — Domestic	756.7	11.8	682.4	14.9
Canada — Export	211.5	3.3	258.2	5.6
United States	5,450.7	84.9	3,643.9	79.5
Total	<u>6,418.9</u>	<u>100.0</u>	<u>4,584.5</u>	<u>100.0</u>

	1997		1996	
	Volume	Per cent	Volume	Per cent
	(millions of barrels)		(millions of barrels)	
<i>Petroleum and Products Marketing Volumes</i>				
Canadian	39.8	19.0	36.2	24.5
United States ⁽¹⁾	169.5	81.0	111.5	75.5
Total	<u>209.3</u>	<u>100.0</u>	<u>147.7</u>	<u>100.0</u>

Note:

(1) Includes volumes sold in Canada for export to the United States.

Energy Processing

The Company's energy processing operations consist of assets, including gas gathering, processing and extraction plants, specialty chemicals and carbon black manufacturing facilities, and independent power generation plants, which process hydrocarbons into other forms of energy and products. Information concerning the Company's Canadian and U.S. gas gathering and processing, specialty chemicals and power generation operations is found under the captions "Energy Processing", "Energy Processing — Canadian Gas Gathering and Processing", "Energy Processing — Canadian Gas Gathering and Processing Outlook", "Energy Processing — U.S. Gas Gathering and Processing", "Energy Processing — U.S. Gas Gathering and Processing Outlook", "Energy Processing — Specialty Chemicals", "Energy Processing — Specialty Chemicals Outlook", "Energy Processing — Power Generation", and "Energy Processing — Power Generation Outlook" of the MD&A. For information concerning the risks associated with the Company's energy processing business, see "Corporate — Risk Management — Energy Processing Risk Management" of the MD&A.

International

The Company has investments in and operates pipelines and other energy services businesses internationally and continues to pursue other international opportunities. The primary areas of focus are Latin America, Europe/Middle East and Asia Pacific.

A discussion of these projects is found under the captions "International", "International — Colombia", "International — Mexico" and "International Outlook", of the MD&A.

LEGAL PROCEEDINGS

The Company and its subsidiaries are subject to various legal proceedings and actions arising in the normal course of business. Management considers the aggregate liability, if any, to the Company and its subsidiaries in respect of these actions and proceedings to be immaterial.

Among these actions and proceedings is one in which a U.S. subsidiary of the Company is one of the subjects of an action in Montana alleging anti-trust conspiracy and violations and claiming treble damages. In addition, the Company is the subject of an action in Texas alleging breach of agreement and defamation and claiming damages and punitive damages. The Company is unable to determine at this time how these two matters will be resolved but believes that they will not have a material effect on its financial position.

REGULATION

Canada

TransCanada's Canadian pipeline operations are regulated by the NEB. Under the terms of the National Energy Board Act (Canada), the NEB regulates the construction and operation of interprovincial pipelines and the Canadian portion of international pipelines, sets pipeline tolls, approves tariffs and approves the import and export of natural gas and the export of oil and electricity.

Canadian Mainline Tolls

The NEB regulates the construction and operation of the Canadian Mainline, approves tolls, tariffs and the import and export of natural gas. Tolls for the transportation of gas on the Canadian Mainline are designed to generate sufficient revenues for the Company to recover forecasted operating expenses, depreciation, taxes and financing costs of the Canadian Mainline, including interest on debt and dividends on preferred shares attributable to the Canadian Mainline together with a return on deemed common equity.

The tolls are composed of a demand charge component and a commodity charge component. The demand charge component is independent of the volumes shipped and is designed to recover fixed costs, such as fixed operating expenses, financing costs (including a return on deemed common equity), taxes and depreciation. The commodity charge is designed to recover variable operating costs. These charges are paid by shippers under transportation contracts with TransCanada.

In 1995, the NEB approved both a mechanism for determining the rate of return on common equity and a capital structure without the need for an annual hearing. It determined a distinct capital structure for each pipeline regulated by it, including TransCanada, and a single rate of return on common equity to apply to all regulated pipelines, with a predetermined adjustment mechanism for the rate of return for each succeeding year. All other toll and tariff matters will continue to be addressed in individual tolls proceedings for each company under its jurisdiction.

The NEB has stated that it considers, in determining a rate of return on common equity, principles such as fairness, maintenance of financial integrity and the ability of the Company to continue to attract investment. In 1995, the NEB determined that a deemed 30 per cent common equity ratio was appropriate for the foreseeable future, absent major changes in business risk. The allowed rate of return on deemed common equity for 1998 is 10.21 per cent based on the predetermined adjustment mechanism approved by the NEB.

The Company has agreed not to seek any modifications to these mechanisms prior to January 1, 2000.

With a view to helping streamline the regulatory process and better align the interests of TransCanada and its customers, TransCanada and its major domestic and export customers and suppliers entered into discussions in 1995 respecting an incentive toll agreement. The Incentive Agreement was concluded in December 1995, filed with the NEB prior to the 1995 year end and approved by the NEB in February 1996. It is effective for a period of four years beginning January 1, 1996. The Incentive Agreement provides for a sharing of revenues from discretionary services, a sharing of additional costs and savings where TransCanada exerts some control over the level of costs, and the flow-through of costs in areas where TransCanada cannot exert control over the costs. The Incentive Agreement also incorporates the NEB's mechanism for determining the rate of return on common equity and is applied to determine TransCanada's net revenue requirement for toll-making purposes during its term. The Incentive Agreement reduces the need for lengthy annual tolls hearings before the NEB.

In December 1997, the NEB approved the 1998 interim tolls application, reducing the Eastern zone toll to 84.581 cents per gigajoule from 89.842 cents per gigajoule beginning January 1, 1998. The interim tolls were in effect throughout the first quarter of 1998. TransCanada filed an application on March 23, 1998 which resulted

in final tolls that will be effective April 1, 1998. The final tolls reflect, among other things, the NEB's decision on the allowed return on common equity for 1998, credits to the tollpayers to reflect 1997 performance under the four year Incentive Agreement, and higher deliveries in 1998 resulting from system expansion.

Alberta

The Gas Resources Preservation Act of Alberta provides that natural gas may not be removed from Alberta without a permit issued by the Alberta Energy and Utilities Board (the "AEUB"). Long-term permits may be granted by the AEUB with the approval of the Lieutenant Governor-in-Council on the basis that such permits would be in the public interest of Alberta taking into consideration, among other things, the present and future needs of Alberta residents, established natural gas reserves and trends in the growth and discovery of reserves. Short-term permits (two years or less) may be granted by the AEUB.

The Company has obtained all Alberta removal permits necessary to enable it to satisfy its delivery requirements under its current natural gas sales contracts, including authorized exports from Canada. As at December 31, 1997, the remaining quantity of natural gas that may be removed from Alberta under the terms of the removal permits is 13.1 trillion cubic feet.

United States

The Natural Gas Act of 1938 ("NGA") established the framework for regulation of interstate natural gas transportation, construction and terms and conditions of service. FERC is charged with implementing the NGA's requirements. The volumes of natural gas transported for the Company on Great Lakes are subject to NGA authorizations issued by FERC. Interconnected natural gas pipelines and other U.S. interstate pipeline projects in which the Company has investments are subject to FERC and NGA regulation, as well as certain state regulatory requirements.

The U.S. portion of Express Pipeline, 50 per cent owned by the Company, is subject to rate regulation by FERC under the Interstate Commerce Act, as amended by the Energy Policy Act of 1997, and related regulations, as well as by state agencies for intrastate shipments.

The cross-border import and export of natural gas from TransCanada's energy companies are subject to authorizations granted by the NEB and the United States Department of Energy.

TransCanada's investment in OSP and its U.S. electric power marketing activities are subject to the jurisdiction of FERC under the Federal Power Act, as well as the jurisdiction of certain state regulatory authorities.

International

In Colombia, the Ministry of Mines and Energy ("MME") is responsible for government policies with respect to exploration, production, transportation, refining, transformation and distribution of hydrocarbons. The Commission of Energy and Gas Regulation reports to MME and is primarily responsible for regulating the activities of the energy sector with the aim of promoting a competitive and efficient market in Colombia.

In Mexico, the major regulatory body overseeing the Mayakan pipeline is the Commission for Energy Regulation which regulates the construction and operation of the pipeline. On a more specialized basis, environment regulation is performed by the National Institute of Ecology, archaeological regulation is performed by the National Institute of Anthropology and History and many other matters (including land use, water use and river crossings) are controlled by numerous other federal, state and municipal bodies in Mexico.

Other international projects that the Company is pursuing are subject to contractual structures which incorporate compliance with jurisdictional regulations of the country of origin and often incorporate material compliance with international standards and regulations.

Safety, Health and Environment ("SH&E")

TransCanada is committed to providing a safe environment for the public and TransCanada employees and to the protection of the environment for future generations. TransCanada's Senior SH&E Management

Committee was established in 1997 and is comprised of senior officers of the Company. Operational SH&E Committees represent the four business segments and report to the Senior SH&E Committee.

TransCanada influences the SH&E management of its subsidiaries, affiliates and joint ventures to the extent its ownership interest allows. The Company's subsidiaries maintain their own SH&E management systems and employ qualified professionals.

The Audit and Environmental Committee of the board of directors is updated six times each year by senior management on matters of SH&E.

TransCanada incorporates environmental considerations into the planning, development, construction and operation of its projects. Environmental protection requirements have not had a material impact on the capital expenditures of TransCanada to date. For further information concerning the Company's environmental policies, see "Energy Transmission — Canadian Mainline Business Risks — Environmental Emissions" of the MD&A.

SH&E Audits

The SH&E audit function resides within the Internal Audit Department. TransCanada conducts SH&E audits on all TransCanada facilities and conducts and/or participates in audits on subsidiary and affiliated businesses. TransCanada's audit program is based on an assessment of both compliance and of the effectiveness of the SH&E management system. Summaries of findings and observations are submitted to the Audit and Environmental Committee of TransCanada's board of directors.

Business Segments SH&E Issues

Energy Transmission

Environmental Impact Assessments, conducted prior to project development, are used to identify methods to reduce or eliminate environmental impacts during construction and operations. Ongoing monitoring studies conducted during operations have shown that, as a result of mitigation measures, no significant long-term environmental impacts occurred as a result of construction activities.

TransCanada manages a number of polychlorinated biphenyl (PCB) storage sites along the Canadian Mainline. PCB waste is stored in compliance with the federal *Storage of PCB Materials Regulations*. TransCanada reports twice a year to the Federal Government regarding its PCB waste inventory.

Energy Marketing

TransCanada's policy requires that any accidental release within the TransCanada energy marketing unit be immediately reported to specified individuals on the incident contact list at TransCanada and to applicable emergency and regulatory agencies. This reporting process, the Energy Management Incident Tracking System (EMITS), operates 24 hours a day, 365 days a year. No accidental releases were reported in 1997.

Energy Processing

Each of the energy processing facilities is designed and procedures are in place for the handling, storage and use of harmful substances such as ammonia and hydrogen sulphide. All personnel are trained in emergency and spill response.

International

Protection of the environment and management of human health and safety issues are key concerns in all of TransCanada's international projects. Project managers and other staff address SH&E criteria during the evaluation, planning and implementation phases of each project. TransCanada staff undertake much of the initial scoping of project SH&E issues, with support from specialists in the corporate group, or external consultants familiar with the local circumstances of the project. As projects move into the detailed design and construction phases, qualified local SH&E specialists are added to the project team.

COMPETITION

Energy Transmission

TransCanada owns and operates the only interprovincial natural gas pipeline providing transportation service from the Alberta/Saskatchewan border to eastern Canada and export points serving the U.S. midwest and northeast. Great Lakes provides additional flexibility in serving these markets. However, both the Canadian and U.S. markets can access natural gas supplies using other pipeline systems. In addition, the flexibility and sources of alternative transportation have increased through the implementation of FERC Order No. 636 which required the unbundling, or separation, of the sales and transportation functions of U.S. interstate pipelines.

TransCanada's competitive position in the North American energy transportation industry benefits from the fact that the Canadian Mainline is connected to and supplied by one of North America's largest natural gas basins, the WCSB. The capacity of other pipeline systems connected to the WCSB, including some of the Company's interconnected pipelines, has expanded during the last four years and further expansion is anticipated. These expansions provide shippers with additional flexibility to use other pipeline systems to access markets which are served by the Canadian Mainline. The ability of the Canadian Mainline to service both existing and prospective shippers will depend on TransCanada's ability to provide a market-sensitive portfolio of reliable, cost effective and high quality transportation services.

A consortium of natural gas producers, marketers and pipeline companies ("Alliance") is seeking approval for the construction of a 3,000-kilometre pipeline from northeast British Columbia to the Chicago area to increase export capacity for Canadian natural gas. The NEB hearing into Alliance's application for a Certificate of Public Convenience and Necessity commenced on November 17, 1997. The evidentiary portion of the hearing commenced on January 6, 1998, and is expected to last well into 1998. The Alliance pipeline is proposed to be in service by 2000. TransCanada is not a member of Alliance. If built, Alliance will compete with certain of the Company's gas transportation operations. The outcome of Alliance's application and whether the pipeline will ultimately be constructed remain uncertain.

In addition, three pipeline proposals have been announced to transport natural gas from Chicago to eastern Canada. These projects, particularly in combination with Alliance, pose competition to the Canadian Mainline's core markets in eastern Canada. The outcome of these pipeline proposals and whether any of these pipelines will ultimately be constructed remain uncertain.

TransCanada believes that increased competition in the natural gas transmission industry in Canada and the United States is inevitable.

For further information concerning energy transmission competition, see "Energy Transmission — Canadian Mainline Business Risks — Competition" of the MD&A.

Energy Marketing

The gas marketing industry has become highly competitive in recent years. The marketing of natural gas and natural gas liquids is characterized by many participants and volatile margins. As a result, the Company's gas marketing business is constantly developing new services and strategies, ensuring reliable supply and maintaining sales volumes and margins in order to remain in a competitive position.

Both the petroleum and products and the power groups have and continue to operate in highly competitive markets driven mainly by price factors. However, the majority of TransCanada's power generating facilities are underpinned by long-term fixed price contracts which are unaffected by price changes in the marketplace. The power industry in North America is currently in the process of deregulation, with various states and provinces at different points in that process. TransCanada's power business continues to monitor this process and seek investment opportunities as they arise with deregulation.

Energy Processing

The Company's Cochrane extraction plant, acquired as part of the ANG acquisition, is the only extraction facility located on the western Alberta leg of the pipeline system operated by NOVA. This facility extracts natural gas liquids and ethane for shippers transporting gas to the Alberta/British Columbia border. To provide a

dedicated ethane feedstock for the Alberta petrochemical industry, an AEUB policy currently ensures that a minimum threshold volume of ethane is available for extraction at straddle plants such as the Company's Cochrane extraction plant. As one of the lowest cost producers of gas liquids and ethane in Alberta, the Company anticipates that it will remain a strong competitor in these products' markets. However, the Company is facing competition from other companies seeking to process natural gas liquids.

The Company also has a 50 per cent interest in the Empress II extraction plant located on the eastern Alberta leg of the mainline system operated by NOVA. Like the Cochrane facility, Empress II also extracts natural gas liquids and ethane, however the Empress production is sold under long-term contracts which provide a return on the Company's investment rather than participating in the profits produced from the sale of those products.

The Company faces significant competition for providing gas gathering and field processing services. Principal competitors include exploration and production companies, other processing companies, and in British Columbia, a major pipeline company. Competition for gas processing and gathering is based primarily on location of gas gathering and processing facilities, operating efficiency and reliability and the ability to offer flexible, competitive prices.

The products of the Company's specialty chemicals businesses are sold in highly competitive global markets where success depends upon product performance and customer service.

International

The Company's international business is conducted in a highly competitive forum, populated by major companies and consortiums with years of experience and established relationships. In order to be competitive, TransCanada endeavors to be responsive and innovative with regard to specific opportunities and clients by providing strategic services and competitive asset development plans.

TransCanada's international business group attempts to provide energy solutions that are tailored to the needs of the customer and not a pre-set solution that is the standard of any one company or country. Whether the Company is in negotiations or taking part in a bidding process, TransCanada endeavors to position itself close to its customers to understand and satisfy their needs in a cost competitive manner.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Eight-Year Selected Consolidated Financial Information

	1997	1996	1995	1994	1993	1992	1991	1990
	(millions of dollars except where indicated)							
Operating Results								
Revenues	14,242.8	10,790.6	7,005.6	5,218.5	4,531.7	3,981.2	3,236.2	3,106.5
Net income	457.0	425.0	397.5	358.6	355.6	328.7	251.2	214.9
Assets								
Plant, property and equipment								
Canadian Mainline	8,112.7	7,287.9	6,890.1	6,677.6	6,430.5	5,876.1	4,727.0	3,469.5
North American pipeline investments	2,558.7	2,311.0	1,746.7	1,743.1	1,644.9	1,577.1	1,417.9	960.9
Energy processing and other	1,401.5	1,091.2	404.3	339.5	300.7	313.7	301.6	197.8
Total assets	14,571.6	12,649.5	10,393.7	9,926.4	9,312.8	9,398.7	7,650.2	5,967.1
Capitalization								
Long-term debt	6,020.6	5,148.2	4,352.1	4,252.3	4,170.0	3,894.8	3,369.6	2,859.3
Non-recourse debt of joint ventures	982.8	964.6	973.1	907.9	889.1	975.1	868.5	494.2
Junior subordinated debentures	223.9	223.2	—	—	—	—	—	—
Preferred securities	280.0	261.1	—	—	—	—	—	—
Preferred shares								
Subject to mandatory redemption	—	—	75.0	75.0	75.0	75.0	155.0	155.0
Not subject to mandatory redemption	512.6	512.6	587.6	537.6	507.8	513.3	384.0	234.3
Equity preferred shares and common shareholders' equity	3,482.3	3,219.9	2,766.6	2,536.4	2,314.3	2,098.2	1,659.3	1,280.4
Cash Flow Data								
Funds generated from operations	876.2	831.0	684.7	647.3	600.7	597.5	410.9	399.7
Capital expenditures	1,693.9	1,294.2	673.7	623.0	833.1	1,426.2	1,911.6	646.5
Share Statistics								
Net income per share	\$1.85	\$1.85	\$1.75	\$1.60	\$1.62	\$1.56	\$1.34	\$1.23
Dividends declared per common share	\$1.18	\$1.10	\$1.02	\$0.94	\$0.86	\$0.78	\$0.73	\$0.69
Funds generated from operations per share	\$3.98	\$3.99	\$3.42	\$3.32	\$3.15	\$3.30	\$2.51	\$2.60
Return on Average Common Equity	12.38%	13.01%	13.14%	12.78%	13.92%	14.78%	14.77%	15.31%
Registered Common Shareholders, December 31	17,715	17,388	17,345	17,748	18,168	18,639	18,871	17,733
Number of Regular Employees, December 31	3,042	2,663	1,949	1,848	1,764	1,791	1,784	1,757
U.S. GAAP Information								
Net income	436.8	416.6	395.4	348.5	364.3	343.5	266.5	225.9
Net income per share	\$1.82	\$1.82	\$1.74	\$1.55	\$1.66	\$1.64	\$1.43	\$1.31
Equity preferred shares and common shareholders' equity	3,441.1	3,185.2	2,730.6	2,500.2	2,286.3	2,072.4	1,615.2	1,214.4

Consolidated Quarterly Financial Information

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(unaudited)			
1997				
Revenues	3,645.4	3,408.6	3,310.1	3,878.7
Net income applicable to common shares	105.2	100.0	101.9	100.5
Net income per share	\$0.48	\$0.46	\$0.46	\$0.45
Dividends declared per common share	\$0.29	\$0.29	\$0.29	\$0.31
1996				
Revenues	2,277.4	2,603.4	2,712.8	3,197.0
Net income applicable to common shares	91.8	95.4	96.0	102.0
Net income per share	\$0.45	\$0.46	\$0.46	\$0.48
Dividends declared per common share	\$0.27	\$0.27	\$0.27	\$0.29

Eight-Year Dividend Information

The Company has no stated dividend policy for its common shares. Dividends are reviewed periodically by the Company's board of directors. Cash dividends have been declared regularly on the common and preferred shares. The per share totals per annum during the past eight completed fiscal years are set forth in the following table.

	Dividends Declared							
	1997	1996	1995	1994	1993	1992	1991	1990
	(dollars per share)							
\$2.80 Cumulative Redeemable First Preferred Shares								
	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80
Cumulative Redeemable First Preferred Shares Retractable								
Series H	—	—	—	—	1.0875	4.35	4.35	4.35
Series I	—	—	—	—	0.975	3.90	3.90	3.90
Series J	—	—	—	—	—	2.5299	3.80	3.80
Series N	—	—	4.50	4.50	4.50	4.50	4.944	—
Series Q	3.275	3.275	3.275	0.7447	—	—	—	—
Series R	2.975	2.975	0.3994	—	—	—	—	—
Perpetual								
Series K	—	—	—	28,800.00	38,400.00	38,400.00	38,400.00	38,400.00
Series L	—	—	30,468.75	40,625.00	40,625.00	40,625.00	40,625.00	19,060.36
Series M	—	10,687.50	42,750.00	42,750.00	42,750.00	42,750.00	42,750.00	9,135.62
Other								
Series O	3.95	3.95	3.95	3.95	3.95	4.4478	—	—
Series P	3.875	3.875	3.875	3.875	3.875	2.43647	—	—
Cumulative Equity Second Preferred Shares								
Series B	—	—	0.625	1.25	1.25	0.9478	—	—
Common Shares	1.18	1.10	1.02	0.94	0.86	0.78	0.73	0.69

Notes:

- | | |
|---|---|
| <ul style="list-style-type: none"> (1) 959,909 Series H Shares retracted August 1, 1990 and outstanding balance redeemed May 1, 1993. (2) 2,128,980 Series I Shares retracted November 1, 1990 and outstanding balance redeemed May 1, 1993. (3) Series J Shares redeemed on October 1, 1992. (4) Series K Shares redeemed November 1, 1994. (5) Series L Shares redeemed December 1, 1995. (6) Series M Shares redeemed May 1, 1996. | <ul style="list-style-type: none"> (7) Series N Shares redeemed February 1, 1996. (8) Series O Shares issued December 17, 1991. (9) Series P Shares issued June 15, 1992. (10) Series Q Shares issued November 10, 1994. (11) Series R Shares issued December 14, 1995. (12) Cumulative Equity Second Preferred Shares Series B converted to common shares on May 1 & August 1, 1995. |
|---|---|

Dividend Restrictions

The provisions of the \$2.80 Cumulative Redeemable First Preferred Shares and the provisions attaching to each of the series of Cumulative Redeemable First and Second Preferred Shares restrict the payment of dividends on, and the purchase of, common shares of the Company or other shares ranking junior to such shares. This restriction states that no dividends shall be declared or paid on such junior shares unless all dividends payable on all shares ranking in priority thereto, with respect to payment of dividends, have been declared and paid. In addition to the foregoing, there are provisions in the various trust indentures to which the Company is a party which restrict the payment of dividends on the Company's common shares in certain circumstances. At December 31, 1997, under the most restrictive provisions, approximately \$1,026.3 million was available for payment of dividends on common shares.

MARKET FOR SECURITIES

The common shares, the \$2.80 Cumulative Redeemable First Preferred Shares, the Cumulative Redeemable Retractable First Preferred Shares, Series Q and Series R and the Cumulative Redeemable First Preferred Shares, Series O are listed on the Toronto, Montréal, Winnipeg, Alberta and Vancouver stock exchanges. The Cumulative Redeemable First Preferred Shares, Series P are listed on the Alberta Stock Exchange. The common shares are also listed on the New York Stock Exchange.

The 16½% First Mortgage Pipe Line Bonds due 2007 are listed on The London Stock Exchange.

The Trust Originated Preferred SecuritiesSM (TOPrSSM)(¹) due 2045 are listed on the New York Stock Exchange. TOPrS are obligations of TransCanada Capital, an unaffiliated business trust.

The Canadian Originated Preferred SecuritiesSM (COPrSSM)(¹) due 2045 are listed on the New York Stock Exchange.

Note:

(1) SMService marks of Merrill Lynch & Co., Inc.

DIRECTORS AND OFFICERS

As of March 31, 1998, directors and senior officers of TransCanada as a group beneficially owned, directly or indirectly, or exercised control or direction over, less than one per cent of the Company's common shares. The information as to shares beneficially owned or over which control or direction is exercised, not being within the knowledge of the Company, has been furnished by the respective directors and officers individually. The directors and officers do not beneficially own, directly or indirectly, any voting securities of any subsidiary of the Company.

Directors

Set forth below are the names of the 12 directors, their municipalities of residence, their principal occupations or employment during the past five years and the year from which each director has continually served as a director of the Company.

<u>Name</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Robert Emmet Dineen, Jr. New York, New York	Partner of Shearman & Sterling, Attorneys-at-Law, New York, New York.	April 1989
Wendy Dobson Uxbridge, Ontario	Professor, Faculty of Management and Director, Centre for International Business, University of Toronto, Toronto, Ontario.	April 1992
Louis Yves Fortier, C.C., Q.C. Montréal, Québec	Chairman and a senior partner of Ogilvy Renault, Barristers and Solicitors, Montréal, Québec.	April 1992
Kerry Lloyd Hawkins Winnipeg, Manitoba	President of Cargill Limited, Winnipeg, Manitoba (grain handlers and merchants, transporters and processors of agricultural products).	April 1996
The Hon. Donald Stovel Macdonald, P.C., C.C. Toronto, Ontario	Counsel to McCarthy Tétrault, Barristers and Solicitors, Toronto, Ontario.	October 1991
Gerald James Maier Calgary, Alberta	Chairman of the Company. Prior to April 1994, Mr. Maier was Chairman and Chief Executive Officer of the Company. Prior to April 1993 he was Chairman, President and Chief Executive Officer of the Company.	December 1983

<u>Name</u>	<u>Principal Occupation</u>	<u>Director Since</u>
James Robert Paul Houston, Texas	Chairman, James and Associates (retail investments), Houston, Texas. Prior to November 1997, Mr. Paul was Chairman, Worldwide Cellular Inc. Prior to 1994, Mr. Paul was President and Chief Executive Officer of The Coastal Corporation.	April 1996
Harry George Schaefer Calgary, Alberta	President of H.G. Schaefer & Associates, Calgary, Alberta (business advisory service company). Prior to May 1996, Mr. Schaefer was Chairman of TransAlta Utilities Corporation (generation and sale of electric energy). Prior to May 1993, Mr. Schaefer was also Chief Financial Officer of TransAlta Utilities.	April 1987
Allan Richard Taylor North York, Ontario	Former Chairman and Chief Executive Officer of Royal Bank of Canada ("Royal Bank") Toronto, Ontario (Canadian chartered bank). Prior to January 1995, Mr. Taylor was Chairman of Royal Bank and prior to November 1994, he was Chairman and Chief Executive Officer of Royal Bank.	December 1983
Joseph Dale Thompson Edmonton, Alberta	Chairman, PCL Construction Group Inc., Edmonton, Alberta (general construction contractors). Prior to July 1997, Mr. Thompson was Chairman, President and Chief Executive Officer of PCL Construction Group Inc. Prior to October 1993, Mr. Thompson was Vice-Chairman, President and Chief Executive Officer.	April 1995
George William Watson Calgary, Alberta	President and Chief Executive Officer of the Company. Prior to April 1994, Mr. Watson was President of the Company and prior to April 1993, he was Chief Financial Officer of the Company.	August 1993
Margaret Kent Witte Kirkland, Washington	Chairman, President and Chief Executive Officer of Royal Oak Mines, Kirkland, Washington (mining company).	April 1995

The Company is required to have an audit committee. The committees of the Board of Directors include the Audit and Environmental Committee, the Executive Committee, the Governance Committee and the Human Resources Committee. The Chair of the Audit and Environmental Committee is H.G. Schaefer and its members are R.E. Dineen, Jr., K.L. Hawkins, J.R. Paul, J.D. Thompson, M.K. Witte and G.J. Maier (ex officio). The Chair of the Executive Committee is G.J. Maier and its members are L.Y. Fortier, D.S. Macdonald, A.R. Taylor and G.W. Watson. The Chair of the Governance Committee is W. Dobson and its members are R.E. Dineen, Jr., L.Y. Fortier, D.S. Macdonald and G.J. Maier. The Chair of the Human Resources Committee is A.R. Taylor and its members are W. Dobson, K.L. Hawkins, H.G. Schaefer and G.J. Maier (ex officio).

Each director holds office until the next annual meeting or until his or her successor is duly elected or appointed.

Officers

As at March 31, 1998, the officers of TransCanada were as follows:

Executive Officers

<u>Name</u>	<u>Present Position Held</u>
George W. Watson	President and Chief Executive Officer
Gavin J. Couper	Senior Vice-President and Chief Technical Officer
A. Jake Epp	Senior Vice-President
Stephen J.J. Letwin	Senior Vice-President, Chief Financial Officer and President, TransCanada Energy USA Inc.
Wayne E. Lunt	Senior Vice-President
Garry P. Mihaichuk	Senior Vice-President
Walentin Mirosh	President, Alberta Natural Gas Company Ltd
Robert J. Reid	Senior Vice-President
Ray T. Smith	Senior Vice-President, Human Resources and Administration
G. Lawrence Spackman	President, TransCanada Gas Services and TransCanada Power, divisions of TransCanada Energy Ltd.
Robert A.M. Young, Q.C.	Senior Vice-President, Law and Chief Compliance Officer

Corporate Officers

<u>Name</u>	<u>Present Position Held</u>
Karyn A. Brooks	Vice-President and Controller
Doron J. Cohen	Vice-President, Information Systems and Telecommunications
Marcel R. Coutu	Vice-President, Finance
Lennard A. Jaskula	Vice-President, Strategic Coordination and Investor Relations
Alison T. Love	Corporate Secretary and Associate General Counsel
James M. Murray	General Counsel, Litigation and Regulatory and Assistant Corporate Secretary
Gary G. Penrose	Vice-President, Taxation
David E. Reid	Vice-President, Engineering and Construction
Bruce A. Westell	Vice-President and Treasurer
Paul R. Wigle	Vice-President, Planning and Evaluations

Notes:

- (1) All of the foregoing officers reside in Calgary, Alberta, with the exception of Mr. Letwin who resides in Kingwood, Texas.
- (2) All of the foregoing officers, with the exception of Messrs. Epp, Letwin, Lunt, Mihaichuk, Mirosh and Spackman, have been officers of the Company or have held management positions with the Company for five years or more.

Mr. Epp was appointed Senior Vice-President of the Company in September 1993. Prior to September 1993, Mr. Epp was a Member of Parliament for 21 years and served as a Member of Cabinet in a number of capacities including Minister of Energy.

Mr. Letwin was appointed President of TransCanada Energy Management Inc. (now known as TCE USA) in November 1996. In addition, Mr. Letwin was appointed President, Petroleum Group of TransCanada Energy Management Limited ("TEML") (now known as TCE) in January 1996. From October 1995 to January 1996, Mr. Letwin was Executive Vice-President of TEML. Mr. Letwin was Senior Vice-President Finance, Chief Financial Officer and Corporate Secretary of Numac Energy Inc. from August 1993 to October 1995. From October 1992 to August 1993, Mr. Letwin was Senior Vice-President, Chief Financial Officer and Corporate Secretary of Westcoast Petroleum Ltd.

Mr. Lunt was appointed Senior Vice-President, Associated Pipelines and Chemicals of the Company in April 1996. Prior to April 1996, Mr. Lunt was President and Chief Executive Officer of ANG and prior to May 1995, Mr. Lunt was Senior Vice-President, Chief Financial Officer and Treasurer of ANG.

Mr. Mihaichuk was appointed Senior Vice-President of the Company in July 1996. Prior to July 1996, Mr. Mihaichuk was Senior Vice-President of Amoco Corporation and Chairman of Amoco Orient Company. Prior to 1994, Mr. Mihaichuk was Vice-President of Amoco Production Company.

Mr. Mirosh was appointed President of ANG in April 1996. Prior to April 1996, Mr. Mirosh was Executive Vice-President, Operations of ANG. From May 1993 to May 1995 Mr. Mirosh was Senior Vice-President, Law of ANG.

Mr. Spackman was appointed President, Gas Marketing Group of TEML (now known as TCE) in January 1996. Prior to June 1995, Mr. Spackman was President of Northridge Gas Marketing Inc.

ADDITIONAL INFORMATION

- (i) Additional information including compensation of directors and officers, indebtedness of directors and officers, principal holders of TransCanada's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular.
- (ii) Additional financial information is provided in the Company's consolidated financial statements for the year ended December 31, 1997, contained in the Annual Report.
- (iii) The Company will provide to any person or company upon request to the Corporate Secretary of the Company:
 - (a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities:
 - (i) one copy of the Company's latest Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;
 - (ii) one copy of the comparative consolidated financial statements of the Company for the Company's most recently completed financial year in respect of which such financial statements have been issued, together with the report of the auditor thereon, Management's Discussion and Analysis, and one copy of any interim financial statements of the Company issued subsequent to the annual financial statements;
 - (iii) one copy of the information circular of the Company in respect of the most recent annual meeting of shareholders of the Company which involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate; and
 - (iv) one copy of any other document or report which is incorporated by reference into the preliminary short form prospectus or the short form prospectus and is not required to be provided under (i) to (iii) above; or
 - (b) at any other time, one copy of any other document referred to in paragraphs (a) (i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge from such person or company who is not a security holder of the Company where the documents are furnished by the Company pursuant to this clause (b).

SCHEDULE A
SUBSIDIARIES OF TRANSCANADA PIPELINES LIMITED

The following list shows the principal active subsidiaries of TransCanada as of December 31, 1997.

<u>Subsidiary⁽¹⁾</u>	<u>Organized under the Laws of</u>	<u>Percentage/ownership by TransCanada of Voting Shares</u>
Alberta Natural Gas Company Ltd	Canada	100
Cancarb Limited	Canada	100
701671 Alberta Ltd.	Alberta	100
TransCanada Energy Ltd.	Canada	100
TransCan Northern Ltd.	Delaware	100
TransCanada PipeLine USA Ltd.	Nevada	100
TCPL Power Ltd.	Rhode Island	100
TransCanada Border PipeLine Ltd.	Nevada	100
TransCanada Energy USA Inc.	Delaware	100
Northridge Petroleum Marketing U.S., Inc.	Colorado	100
TransCanada Gas Processing USA Inc.	Delaware	100
TransCanada GL, Inc.	Delaware	100
TransCanada Iroquois Ltd.	Delaware	100

Note:

- (1) Names shown in bold face are first tier subsidiaries of TransCanada. The indentation of the name of a subsidiary in the above table indicates that such subsidiary is held by a subsidiary of TransCanada. The percentage ownership shown for a subsidiary is the share in that subsidiary held directly by its immediate parent.



TransCanada

TRANSCANADA PIPELINES LIMITED

**Management's Discussion and Analysis
for the year ended December 31, 1997**

1997 Earnings At-a-Glance

TransCanada's consolidated net income to common shares (net earnings) for 1997 was \$407.6 million; Energy Transmission — \$333.9 million; Energy Marketing — \$7.6 million; Energy Processing — \$61.4 million; International — \$6.3 million.

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars except per share amounts)		
<i>Net Income/(Loss) Applicable to Common Shares</i>			
Energy Transmission	333.9	323.6	306.3
Energy Marketing	7.6	27.9	10.3
Energy Processing	61.4	41.6	32.1
International	6.3	(5.2)	(13.1)
	<u>409.2</u>	<u>387.9</u>	<u>335.6</u>
Unallocated amounts	(1.6)	(2.7)	14.5
Net income applicable to common shares	<u>407.6</u>	<u>385.2</u>	<u>350.1</u>
Net income per share	<u>\$1.85</u>	<u>\$1.85</u>	<u>\$1.75</u>

In 1997, the strong contributions from most of TransCanada's business operations were masked by the deterioration in petroleum and products prices and the costs associated with the ongoing expansion of the energy transmission business. The narrow movement in crude oil prices throughout most of 1997, and the sharp decline in prices in December, produced poor results in the petroleum and products marketing and U.S. gas processing businesses. The impact of the costs related to expansion of the energy transmission business is seen in the form of start-up losses associated with the Express oil pipeline system (Express Pipeline) and increased project development expenses.

Non-regulated operations contributed 18 per cent of total net earnings in 1997, increasing from 16 per cent and 13 per cent in 1996 and 1995, respectively. As TransCanada continues to expand into more market-based businesses, our earnings will become less predictable than in the past. However, management believes the move to market-based businesses will provide opportunities to increase value for our shareholders.

Energy Transmission

1997 net earnings from the Energy Transmission segment were \$333.9 million.

Canadian Mainline — 100% owned: The Canadian Mainline stretches from the Alberta/Saskatchewan border to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S. It is a major transporter to Canadian markets.

Great Lakes — 50% owned: Great Lakes connects with the Canadian Mainline at Emerson, Manitoba and carries gas to markets in Canada and the eastern and midwestern U.S.

Northern Border — 30% owned: Northern Border connects with Foothills (Sask.) and carries gas to U.S. midwest markets.

Iroquois — 29% owned: Iroquois Gas Transmission System connects with the Canadian Mainline in eastern Ontario and carries gas across the St. Lawrence River to customers in the U.S. northeast.

Tuscarora — 50% owned: Tuscarora Gas Transmission Company connects with the PG&E Gas Transmission — Northwest system (PGTN) and transports gas from Oregon to markets in northeastern California and Nevada.

Foothills (Sask.) — 44% owned: Foothills (Sask.) carries gas from Alberta's eastern border to Northern Border.

TQM — 50% owned: TQM connects with the Canadian Mainline and transports natural gas from Montréal to Québec City.

ANG Pipeline — 100% owned: ANG Pipeline carries gas from Alberta's western border through British Columbia to the U.S. border, where it connects with PGTN.

Foothills (South B.C.) — 49% owned: Foothills Pipe Lines (South B.C.) connects with the NOVA system and transports gas to markets in California and the U.S. Pacific northwest.

Express Pipeline — 50% owned: Express Pipeline moves crude oil from Hardisty, Alberta to Wood River, Illinois.

Canadian Mainline

The Canadian Mainline posted a strong financial performance in 1997; net earnings of \$257.8 million represent a \$7.1 million increase over 1996. These results were achieved despite the 58 basis point reduction in the approved rate of return on common equity to 10.67 per cent. The reduction in the rate of return was more than offset by earnings on the increase in average rate base and the positive effects of TransCanada's second year under incentive regulation.

Annual deliveries of natural gas on the Canadian Mainline set another record in 1997; a total of 2,506.2 billion cubic feet (Bcf) was transported, or an increase of 2.8 per cent over 1996 volumes of 2,437.8 Bcf.

This represents the tenth consecutive year of record volumes, a reflection of increased services to customers resulting from the construction of new facilities. In 1997, export deliveries were 47.1 per cent of total deliveries, compared to 48 per cent and 49.3 per cent in 1996 and 1995, respectively.

During 1997, the Canadian Mainline met firm service requirements and raised a significant amount of discretionary revenue while successfully implementing modifications to compressor stations and undertaking an accelerated pipeline maintenance program. The Canadian Mainline again undertook a successful construction program in 1997, adding 287 million cubic feet (MMcf) per day to its pipeline system by November 1997, at a cost of approximately \$900 million.

The Canadian Mainline is regulated by the National Energy Board (NEB). The NEB sets tolls for the Canadian Mainline which allow for the recovery of projected costs of transporting natural gas and provide a return on the investment in the Canadian Mainline rate base. Approved tolls set by the NEB are based on TransCanada's Incentive Cost Recovery and Revenue Sharing Settlement (Incentive Agreement). New facilities are approved by the NEB before construction begins. Changes in rate base or the return on common equity affect net earnings of the Canadian Mainline. Most of the operating and financing costs of the Canadian Mainline are fixed and are recovered monthly from customers.

The NEB also allows the Canadian Mainline to record an Allowance for Funds Used During Construction (AFUDC) which includes a return on common equity. AFUDC varies from year to year depending on the size of the construction program and the rate of return. Total AFUDC in 1997 was \$22.7 million, compared to \$14.1 million and \$9.2 million in 1996 and 1995, respectively.

Incentive Regulation

The Incentive Agreement, approved by the NEB in February 1996, has a term of four years and began January 1, 1996. The Incentive Agreement was developed via a multi-party negotiation process with our major domestic and export customers and suppliers and provides an incentive to minimize costs, maximize discretionary revenues and manage foreign exchange and interest costs.

In 1997, TransCanada generated discretionary revenues and managed costs to earn a rate of return on common equity for the Canadian Mainline of 11.25 per cent — 58 basis points greater than our approved rate of return of 10.67 per cent. This is comparable to 1996 results when we achieved an increase of 60 basis points above the 1996 approved rate of 11.25 per cent. Under the terms of the Incentive Agreement, our customers will

receive their share of discretionary revenues earned in 1997 — estimated to be approximately \$26 million — through a credit to the cost of service in 1998.

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
			(Bcf)		
<i>Canadian Mainline Peak Day Delivery</i>	7.1	7.3	7.8	7.8	8.2
			(Bcf)		
<i>Canadian Mainline Volumes Delivered</i>					
Domestic	1,205.3	1,203.0	1,193.0	1,266.9	1,326.7
Export	922.5	1,016.8	1,158.5	1,170.9	1,179.5
	<u>2,127.8</u>	<u>2,219.8</u>	<u>2,351.5</u>	<u>2,437.8</u>	<u>2,506.2</u>
			(millions of dollars)		
<i>Canadian Mainline Capital Expenditures</i>	741.0	455.3	433.6	629.3	1,056.4
			(billions of dollars)		
<i>Canadian Mainline Revenues</i>	1.58	1.65	1.79	1.89	1.83

Canadian Mainline Outlook

In 1998, the Canadian Mainline must continue to provide a variety of cost-effective services to our customers while respecting safety and environmental considerations. The Canadian Mainline is working with the other business operations within TransCanada to maximize skills and resources for greater profit and to develop new, non-regulated businesses that are complementary to its operations.

Our long-term objective is to strengthen the Canadian Mainline's competitive position as the low-cost transporter of western Canadian natural gas to multiple markets across North America, thereby minimizing the risk associated with short-term contract renewals. The demand for capacity out of the Western Canadian Sedimentary Basin (WCSB) remains strong and TransCanada intends to address this demand in a market-responsive manner.

Rate of Return

The allowed rate of return on common equity for 1998 is 10.21 per cent on a deemed common equity ratio of 30 per cent, based on the predetermined adjustment mechanism in the NEB's 1995 Multi-Pipeline Cost of Capital Decision. The decrease in the return of 46 basis points, when compared to 1997, will reduce net earnings in 1998 by approximately \$11.3 million. However, this decrease should be offset by increased earnings of approximately \$24.1 million on higher average rate base and the contribution from incentive regulation.

Capital Expenditures

The Canadian Mainline expects to spend approximately \$1.1 billion in 1998, of which about \$839 million is for capacity expansion of 447 MMcf per day and the balance is for system integrity. When complete, the total capacity added since November 1996 will be approximately 900 MMcf per day. NEB approval for the majority of facilities has been received.

Canadian Mainline Business Risks

Safety

Public safety has always been a top priority at TransCanada. Recent line breaks caused by stress corrosion cracking and general corrosion have increased our focus on safety. TransCanada accelerated its pipeline maintenance program in 1997 and set an objective to inspect internally, by the end of 1999, more than

10,000 kilometres of pipeline coated with materials other than fusion-bonded epoxy, the most technologically advanced pipe coating available. By the end of 1997, TransCanada had inspected 3,396 kilometres of pipeline. TransCanada's risk reduction program also resulted in replacement of approximately 34 kilometres of pipeline. Another 3,527 kilometres of pipeline is planned for internal inspection in 1998.

Environmental Emissions

A key issue for 1998 and beyond is the potential effect to TransCanada of the Kyoto Conference on climate change. TransCanada has taken a number of steps to respond to emission concerns. As a participant in Canada's Voluntary Climate Change Challenge and Registry, we have several initiatives under way to limit, reduce or offset the emission of greenhouse gases from the Canadian Mainline. These include increased use of transfer compression, conversion to dry gas seals, instrument air displacement, use of hot tapping procedures, retirement of less efficient compressor units and planting trees to offset emissions.

TransCanada has adopted a target to reduce emissions by 30 per cent on a per unit of throughput basis when compared to 1990 levels by 2000. We are on track to achieving this target, although the implementation of the accelerated pipeline maintenance program will result in a temporary increase in greenhouse gas emissions in 1998 and 1999. However, the long-term savings after 1999 are expected to offset these short-term emission increases.

Competition

TransCanada believes that competition in the natural gas transmission industry in Canada and the United States is inevitable. Alliance Pipeline (Alliance) is proposing to construct, by 2000, a 3,000-kilometre pipeline from northeast British Columbia to the Chicago area to increase export capacity for Canadian natural gas. If built, Alliance will compete with the Canadian Mainline and Northern Border Pipeline Company (Northern Border). The NEB hearing of Alliance's application is currently in progress and we cannot predict the outcome of that hearing.

Contract Term and Renewals

As TransCanada's existing long-term contracts expire, our shippers currently have the right, in perpetuity, to renew contracts for a minimum of one year with six months notice. This renewal right places TransCanada at risk because facilities could be built to serve specific customers only to have those or other customers not renew their contracts, leaving TransCanada with unused capacity. This risk has been heightened by proposals to build new pipelines which may intensify competition in the Canadian Mainline's core market of eastern Canada.

TransCanada has made unsuccessful attempts to change the renewal rights through the regulatory process in 1989 and 1993. In 1997, the matter was to be addressed in an NEB hearing, but that hearing was adjourned indefinitely. We are aggressively pursuing development of a solution that gives us the longer-term commitment necessary to build facilities, while providing shippers with options that encourage them to sign longer-term contracts.

Gas Supply

Production of natural gas from the WCSB has steadily increased since 1986, although the rate of increase has slowed in recent years. TransCanada believes that supply can be expected to meet domestic and export demands for the foreseeable future. However, if both Alliance and the 1999 Canadian Mainline expansion are built, an increase in supply is expected to be needed.

North American Pipeline Investments

TransCanada's proportionate share of net earnings from its North American pipeline investments was \$76.1 million in 1997, compared to \$72.9 million and \$52.7 million in 1996 and 1995, respectively. Fiscal 1997 results reflect the strong operating performance from the Great Lakes Gas Transmission system (Great Lakes) resulting from higher short-term firm service revenues and lower operating expenses, as well as the impact of the weakening Canadian dollar relative to the United States dollar during the year. Losses incurred during the initial

period of operations of Express Pipeline and the development expenses related to TransCanada's participation in several proposed North American pipeline projects partially offset these positive factors.

The results from Express Pipeline were negatively impacted by ongoing refurbishments to the section that runs from Casper, Wyoming to Wood River, Illinois and the 25,000 barrels per day throughput reduction imposed by the U.S. Office of Pipeline Safety (OPS) in July 1997. The after-tax loss incurred by Express Pipeline in 1997 was approximately \$8.5 million.

Project development costs of North American pipeline investments increased \$8.1 million to \$17.5 million (before tax) for the year ended December 31, 1997. The year-over-year increase reflects the higher level of activity associated with new pipeline projects.

Increased contributions from our North American pipeline investments in 1996, compared to 1995, were primarily due to the strong results from Great Lakes. The 1996 results reflect Great Lakes' increased throughput, as well as recoveries based on the Federal Energy Regulatory Commission (FERC) decision to allow rolled-in tolls related to a previous expansion.

North American Pipeline Investments Outlook

Great Lakes Construction of approximately 71 miles of pipeline loop and the addition of two compressor units are planned to be complete by November 1998. The expansion is designed to add 126 MMcf per day of longhaul capacity from Emerson, Manitoba to St. Clair, Ontario.

Northern Border The expansion of Northern Border's facilities to Chicago is under way and is planned to be in service by November 1998. It is designed to increase capacity by 700 MMcf per day.

Foothills (Sask.) Foothills Pipe Lines (Sask.) Ltd. (Foothills (Sask.)) is expanding its system by 700 MMcf per day to accommodate the increased capacity on Northern Border. Construction has commenced and the planned in-service date is November 1998.

TQM In February 1998, Trans Québec & Maritimes Pipeline Inc. (TQM) received conditional approval from the NEB for the construction of a 213-kilometre extension of its system from Lachenaie, Québec to East Hereford at the New Hampshire border. The extension is estimated to cost \$270 million and will connect TQM to Portland Natural Gas Transmission System (Portland). The proposed extension is designed to deliver about 190 MMcf per day in 1998 and about 260 MMcf per day in 1999.

Portland (20% owned) Portland will interconnect with TQM at the U.S./Canadian border in Pittsburg, New Hampshire and with Tennessee Gas Pipeline in Haverhill and Dracut, Massachusetts. FERC has approved the project, and construction is expected to commence in the second quarter of 1998. The pipeline is expected to be in service in the fourth quarter of 1998.

	<u>Length</u>	<u>1997 Peak Day Delivery</u>	<u>1997 Deliveries</u>	<u>1996 Deliveries</u>
	(kilometres)	(Bcf)	(Bcf)	(Bcf)
Canadian Mainline	14,492	8.168	2,506.2	2,437.8
Great Lakes	3,226	3.570	921.3	933.8
Northern Border	1,560	1.850	633.3	633.9
Iroquois	604	1.000	329.2	314.3
Tuscarora	369	0.113	22.2	18.8
Foothills (Sask.)	259	1.692	558.5	558.9
TQM	355	0.495	120.0	117.0
ANG Pipeline	177	1.471	510.7	467.1
Foothills (South B.C.)	166	1.094	375.3	367.9

ANG Pipeline ANG Pipeline is proposing to build a new pipeline across southern British Columbia to provide Alberta gas producers with direct access to markets in the interior and the lower mainland of British Columbia and the U.S. Pacific northwest. The proposed Kootenay Pacific Pipeline will be 560 kilometres in length with a capacity of 550 MMcf per day. It will extend from the ANG Pipeline to the B.C. lower mainland. If market support is sufficient, an application will be filed with the NEB seeking approval to start construction in the spring of 1999 for completion in late 2000. The estimated cost of the project is \$530 million.

Millennium (21% owned) Millennium Pipeline (Millennium) is a proposed 425-mile pipeline extending from an interconnect with the Canadian Mainline in Lake Erie to Mt. Vernon, New York. If built, the pipeline will have a capacity of up to 700 MMcf per day with an anticipated cost of approximately U.S.\$680 million. In December 1997, Millennium filed for a Certificate of Public Convenience and Necessity with FERC.

Express Pipeline A pressure reduction imposed by OPS that lowered throughput by 25,000 barrels per day continues to be in effect. Discussions with OPS are ongoing to determine the remedial action required before the pressure reduction can be lifted. Options intended to improve the market conditions affecting Express Pipeline, including expanding market access to Salt Lake City, are being pursued.

Energy Marketing

1997 net earnings from the Energy Marketing segment were \$7.6 million.

Natural Gas: TransCanada markets 5 Bcf per day of natural gas in Canada, the U.S. midwest, northeast and Pacific northwest. In 1997, we sold 1.8 trillion cubic feet of natural gas.

Petroleum and Products: In 1997, TransCanada sold 110.7 million barrels of crude oil, 80.6 million barrels of refined products, and 18 million barrels of natural gas liquids throughout Canada and the U.S.

Power: In 1997, TransCanada marketed 1,654 gigawatt hours of electricity in Canada and the U.S.

The Energy Marketing segment contributed mixed results in 1997. The natural gas marketing business delivered a strong performance fuelled by its ability to capture marketing opportunities created by price volatility and by increased volumes sold during 1997. However, this strong contribution was offset by the reduction in net earnings from our petroleum and products marketing business. Net earnings from the Energy Marketing segment totalled \$7.6 million in 1997, a decrease of \$20.3 million compared to 1996.

Higher volumes and prices for natural gas, capturing marketing opportunities arising from high volatility in gas prices and strong refined products margins contributed to the increase in 1996 net earnings compared to 1995. The 1996 net earnings amount includes provisions totalling \$11.1 million (after tax) related to the writedown of storage assets and the costs of relocating Calgary energy marketing employees to a single facility.

Natural Gas

Consistent with 1996 performance, volumes and revenues increased during fiscal 1997. Natural gas marketing volumes sold during 1997 totalled 1,835 Bcf, increases of 14 and 42 per cent over volumes marketed in 1996 and 1995, respectively. This growth in volumes and revenues reflects market expansion from the acquisition of Cibola Energy Services Corporation (Cibola) and CanStates Gas Marketing in 1996, as well as increased marketing efforts in our pre-existing lines of business, particularly in Alberta, the western United States and the U.S. northeast. In addition, we captured marketing opportunities presented by volatility in natural gas prices which was partly due to the severe winter conditions experienced in eastern Canada and the United States in the first quarter of 1997.

TransCanada is one of the largest marketers of natural gas in North America; in 1997 we marketed approximately 5 Bcf per day of natural gas, up from 4.4 Bcf per day in 1996. Our gas marketing business extends from Alberta throughout Canada and into the western United States and across the northern tier of the United States, a sign of the geographically diverse nature of TransCanada's gas marketing activities. We offer customers a wide selection of supply, marketing, storage and transportation alternatives.

TransCanada generates approximately 49 per cent of its natural gas marketing revenues from sales of natural gas under a netback agreement with Alberta producers and marketers. The netback agreement provides for the purchase of natural gas in Alberta and its subsequent sale in Canada and the United States. TransCanada earns a marketing fee on the sale of natural gas under the terms of the netback agreement. The marketing fee is based on both volumes sold and prices obtained for natural gas. The principal risk to TransCanada with respect to netback sales is the level of the marketing fee in relation to operating costs. We also enter into contracts for the direct purchase and sale of natural gas where the principal risks are the price and performance risks associated with those contracts. These risks are managed by matching physical purchases and sales to the extent possible and through the use of financial instruments.

The net earnings from the natural gas marketing business are dependent upon a number of factors, including weather, pipeline operations, pipeline tariff structures and supply and demand. The industry has become highly competitive and the gas marketing business is constantly developing new services and strategies to maintain its competitive position.

	<u>1995</u>	<u>1996</u>	<u>1997</u>
		(Bcf)	
<i>Natural Gas Marketing Volumes Sold</i>			
Netback	987.7	943.4	916.6
Non-Netback	307.4	670.1	918.4
	<u>1,295.1</u>	<u>1,613.5</u>	<u>1,835.0</u>
		(billions of dollars)	
<i>Natural Gas Marketing Revenues</i>	2.17	3.46	4.68
		(millions of barrels)	
<i>Petroleum and Products Marketing Volumes Sold</i>			
Crude Oil	61.0	71.1	110.7
Refined Products	29.5	63.5	80.6
NLG's	5.1	13.1	18.0
	<u>95.6</u>	<u>147.7</u>	<u>209.3</u>
		(billions of dollars)	
<i>Petroleum and Products Marketing Revenues</i>	2.61	4.58	6.42

Natural Gas Outlook

The strategy of the natural gas marketing business is to continue to build relationships with producers and customers by providing new and diverse services, to maintain a strong presence in Canada, the western United States and the northern tier of the United States, and to expand our market presence in the northwest and northeastern United States.

Petroleum and Products

The petroleum and products marketing business sold higher volumes in 1997 compared to 1996. However, financial results were negatively impacted by the narrow movement in petroleum and products prices throughout most of 1997 and the decline in prices in the month of December. Products marketing in both Canada and the United States was affected by the decline in the crude oil price, mild weather, price discounting by refiners, and, in anticipation of spring sales, an increase in inventories during a period of declining prices. These factors substantially reduced margins and produced a net loss from petroleum and products marketing activities in 1997.

Volumes of crude oil, refined products and natural gas liquids are purchased and sold primarily under short-term contracts with producers, customers and marketers in Canada and the United States.

TransCanada gathers, aggregates and markets crude oil on behalf of independent, small to medium size producers in western Canada, Texas and Louisiana. We provide transportation services to producers and a full range of crude oil services to refiners in North America. TransCanada marketed 110.7 million barrels of crude oil in 1997, increases of 56 and 81 per cent compared to 1996 and 1995, respectively.

TransCanada enters into crude oil processing arrangements with refiners, buys refined products on a spot or term basis and sells to independent wholesalers, retailers and industrial customers in Canada and the United States. Our product line includes all grades of gasolines and distillates and we have the ability to provide innovative pricing alternatives. A total of 80.6 million barrels of refined products was marketed during 1997, compared to 63.5 million barrels and 29.5 million barrels in 1996 and 1995, respectively.

We also purchase and sell natural gas liquids and liquefied petroleum gases in Canada and the United States. Throughout 1997, we continued to provide producers with services not readily available from other marketers, including marketing, transportation, storage and gas processing. TransCanada's five gas gathering and processing facilities, located in Alberta and Saskatchewan, and our U.S. gas processing plants enhance our flexibility and netbacks to producers. We marketed 18 million barrels of natural gas liquids in 1997, an increase of 4.9 million barrels and 12.9 million barrels compared to 1996 and 1995, respectively.

The principal risk in the petroleum and products business is that margins generated on sales are insufficient to cover operating costs.

Petroleum and Products Outlook

The petroleum and products marketing business has one primary objective for 1998 — a return to profitability. Because of the disappointing results in 1997, we are re-evaluating the short-term plans and activities of this business, since it is essential to the achievement of our long-term strategic objectives.

Power

TransCanada marketed a total of 1,654 gigawatt hours of electricity in 1997, a decrease compared to the 2,178 gigawatt hours marketed in 1996. Marketing efforts in 1997 were focused on preparing both TransCanada and its customers for the opportunities resulting from deregulation. In 1997, we concluded agreements to manage 100 per cent of the electricity surplus for the city of Medicine Hat, as well as electricity requirements for several oil and gas companies.

The power marketing group works in tandem with the power generation group so that all TransCanada facilities can compete in an open marketplace. The power marketing business works in cooperation with the Canadian Mainline, Express Pipeline and other TransCanada businesses to proactively respond to electricity deregulation and the convergence of electricity with other energy commodities such as natural gas.

Energy Marketing Outlook

The objective of the Energy Marketing businesses is to become one of the continent's leading marketers of natural gas, crude oil and petroleum products, and electricity. We will continue to search for niche marketers for acquisition to expand or complement our existing businesses. The financial results for the non-netback marketing businesses are dependent upon the volatility in prices and our ability to capture opportunities created by that volatility.

Energy Processing

1997 net earnings from the Energy Processing segment were \$61.4 million.

Canadian Gas Gathering and Processing: TransCanada owns five gathering and processing plants in Alberta and Saskatchewan, a natural gas liquids extraction plant at Cochrane, Alberta, and a 50% interest in the Empress II natural gas liquids extraction plant on the Alberta/Saskatchewan border.

U.S. Gas Gathering and Processing: TransCanada owns four Louisiana-based gas processing plants with capacity of 2.2 Bcf per day, two fractionators with capacity of 53,000 barrels per day, connecting pipelines and gas liquids storage facilities.

Specialty Chemicals: Cancarb is the world's leading manufacturer of thermal carbon black. ANGUS is one of the world's leading manufacturers of specialty chemical products derived from nitroparaffins.

Power Generation: TransCanada currently owns a 40% interest in the Ocean State Power plant in Rhode Island. In 1997, TransCanada transferred 100% of its three Ontario-based power generation plants to a limited partnership, TransCanada Power, L.P., and retained a 50% interest.

The Energy Processing segment is the largest contributor to the 1997 growth in TransCanada's non-regulated businesses. Net earnings of \$61.4 million were 48 per cent above 1996 due to higher contributions from the specialty chemicals, power generation and Canadian gas gathering and processing businesses. These positive results were partially offset by reduced margins in the U.S. gas gathering and processing business which were caused by a decline in gas liquids prices and a rise in natural gas prices during the latter part of the year.

Higher net earnings and revenues from this segment in 1996, compared to 1995, reflected the acquisition of the remaining shares of Alberta Natural Gas Company Ltd (ANG) in March 1996, higher margins in the extraction business and the acquisition of Canadian gas gathering and processing facilities.

Canadian Gas Gathering and Processing

Through our ownership of the Cochrane extraction plant and our interest in the Empress II extraction plant, TransCanada extracts more than 100,000 barrels of natural gas liquids per day from gas leaving Alberta.

TransCanada also gathers and processes gas on behalf of producers. We gather raw gas from wells and transport it to field processing facilities where the gas is processed to remove impurities and natural gas liquids.

We own and operate five gas processing plants and associated gas gathering systems located in Alberta and southern Saskatchewan, acquired from various oil and gas producers since 1994. The total processing capacity of these plants is currently 264 MMcf per day, plus an additional 90 MMcf per day of gathering system capacity. TransCanada's expansion into the gathering and processing business is part of our strategy to become a third-party raw gas transporter and processor, enabling producers to focus their resources on exploration and development activities.

Canadian Gas Gathering and Processing Outlook

In 1998, this business intends to acquire and construct new gas gathering and processing facilities, maximize throughputs and revenues from existing facilities and develop new products and services. Construction of a new extraction plant at Empress, which will be 50 per cent owned by TransCanada, will begin in 1998 and is expected to be complete in the second half of 1999. The need for this plant was triggered by the expansions of the Canadian Mainline.

In January 1998, the Alberta Energy and Utilities Board approved the construction and operation of a new \$65 million sour gas gathering pipeline extending from west central Alberta to various field processing plants. This gathering line is expected to be operational during the second half of 1998.

U.S. Gas Gathering and Processing

TransCanada entered the gas processing business in the United States with the 1997 acquisition of Enron Louisiana Energy Company. TransCanada is expanding the largest plant at Eunice and has connected the Louisiana Chalk gathering system pipeline to the plant. Debottlenecking and expansion of fractionation capacity is continuing and major tie-ins were completed by the end of the year. These plants are strategically positioned to capitalize on new deepwater and Chalk gas production. Negotiations with producers are ongoing.

U.S. Gas Gathering and Processing Outlook

The objective of the U.S. gas gathering and processing business in 1998 is to become profitable. For that to occur, the spread between the cost of natural gas and the selling price of natural gas liquids must increase. In addition, we must continue to manage the spread through our risk management practices to maximize margins to the extent possible.

Specialty Chemicals

Cancarb Limited (Cancarb), a manufacturer of thermal carbon black, and ANGUS Chemical Company (ANGUS), our specialty chemicals businesses, use hydrocarbons as feedstock in production operations.

Cancarb produces thermal carbon black for use in the manufacture of mechanical rubber goods, in wire and cable insulation and in the manufacture of carbide powders. Sales volumes for Cancarb have increased substantially since the plant was expanded in 1996 and the plant operates at 95 per cent of capacity. Cancarb recently formed a partnership with China United Rubber Corporation, a rubber manufacturer, to distribute accelerators and anti-degradents under the Cancarb name.

ANGUS owns and operates nitroparaffin and nitroparaffin derivatives production facilities in Louisiana, a nitroparaffin derivatives plant in Germany and a facility that manufactures biochemical materials in New York. ANGUS produces pharmaceutical feedstocks, agricultural chemicals, and additives used in coatings, metalworking fluids, personal care products, adhesives, rubber polymerization and water treatment. In 1997, ANGUS purchased two biocide product lines and started construction of a U.S.\$9.3 million hydrogen plant.

Specialty Chemicals Outlook

Cancarb expects to increase sales volumes in 1998 and intends to continue its efforts to find new applications and new customers for its products. In 1998, demand for ANGUS products is expected to remain steady with the exception of the Asian market, where demand may be curtailed.

Power Generation

In June 1997, TransCanada transferred 100 per cent of its Ontario-based power generation assets — a 38-megawatt plant at Nipigon, in commercial operation since May 1992, and 40-megawatt plants at Kapuskasing and North Bay completed in 1996 — to a limited partnership, TransCanada Power, L.P. (Power L.P.). Fifty per cent of the partnership units were sold to the public and TransCanada retained the remaining 50 per cent interest. TransCanada continues to operate the plants as well as control and manage the limited partnership. After 20 years, the Company will fund the redemption of the outstanding units at the then-fair market value, ensuring liquidity of the partnership units. This vehicle provides the power generation group with a competitive cost of capital, which is expected to be advantageous in achieving its growth strategies.

TransCanada and U.S. Generating Company (USGen) announced in October 1997 an agreement in principle whereby TransCanada will acquire USGen's interest in Ocean State Power (OSP). The acquisition includes USGen's 10.1 per cent interest in OSP and an additional 20 per cent of OSP currently owned by Narragansett Energy Resources Company which USGen expects to acquire in 1998. These transactions are subject to federal and state regulatory approvals. TransCanada currently owns 40 per cent and is the operator of OSP, a 500-megawatt combined cycle, gas-fired power generation facility located in Rhode Island.

Power Generation Outlook

In December 1997, TransCanada announced plans to build an \$80 million power generation plant at Calstock, Ontario. The 33-megawatt plant will be fired by wood waste and waste heat from an adjacent TransCanada compressor station. Construction of the Calstock power plant is expected to be complete in 2000.

In December 1997, Power L.P. entered into an agreement in principle to acquire the 42.6 megawatt Potter Station power generation facility in northern Ontario. The acquisition is expected to be financed through the issuance of additional units to the public. With the addition of the Potter Station facility, Power L.P. will own facilities that have a capacity of 161 megawatts of electricity.

TransCanada's power generation business is pursuing a number of potential acquisitions and new power plant opportunities. It is expected that deregulation of the power industry in both Canada and the United States will continue to provide opportunities for investment.

International

1997 net earnings from the International segment were \$6.3 million.

OCENSA, Colombia — 17.5% owned: The U.S.\$2.2 billion OCENSA pipeline transports crude oil from fields in the interior of Colombia to the Port of Coveñas on the Caribbean coast.

TransGas, Colombia — 34% owned: The U.S.\$320 million natural gas pipeline from Mariquita to Cali is part of Colombia's national gasification program.

CentrOriente, Colombia — 40% owned: TransCanada and its partners operate and maintain the CentrOriente natural gas pipeline system, operate a natural gas dispatch centre and provide technical and consulting services to ECOGAS, Colombia's national natural gas company.

Paiton, Indonesia — 10% owned: TransCanada has an interest in two 615-megawatt power plants in Indonesia currently under construction.

Mayakan, Mexico — 62.5% owned: In 1997, TransCanada and its partners won a bid to build a U.S.\$266 million, 700-kilometre natural gas pipeline in Mexico's Yucatan peninsula.

In 1997, the International segment achieved its first full year of profitability since its inception in the early 1990s. This is a significant accomplishment considering that many of our international investments have taken a number of years to negotiate and to construct and all costs to develop new projects are expensed as incurred. TransCanada capitalizes only costs related to projects which are determined to be commercially viable.

Net earnings were \$6.3 million in 1997, compared to losses of \$5.2 million in 1996 and \$13.1 million in 1995. Contributing to the increase is higher equity income from our Colombian investments — the Oleoducto Central S.A. (OCENSA) crude oil pipeline, the TransGas de Occidente S.A. (TransGas) natural gas pipeline and CentrOriente.

In much of the world, industrialization and population growth have boosted the demand for reliable sources of affordable energy. With our experience in energy transmission, marketing and processing, TransCanada believes it is positioned to meet the needs of our international customers. In-house, we can tap the services of product specialists in energy commodities and experts in pipeline design and operation. We also provide marketing, consulting and contract services to assist with the development of energy services businesses in industrializing countries.

During 1997, we also improved the foundation for the future. We won a bid to construct the first significant natural gas pipeline development in Mexico to be owned by the private sector, established marketing operations in Barbados and Singapore, and staffed and opened regional business development offices in Caracas, Venezuela; Mexico City, Mexico; and Singapore.

In 1997, we signed a memorandum of understanding giving TransCanada rights to build and operate a petroleum products pipeline in Thailand. The pipeline is estimated to cost U.S.\$350 million. TransCanada has also signed an agreement of intent to work jointly with JSC Ukgazprom (Ukgazprom), Ukraine's national energy company, to identify possible upgrading and reconstruction projects on Ukgazprom's natural gas transmission facilities in Ukraine. Since Ukgazprom's facilities currently transport 95 per cent of the Russian gas delivered to Europe, TransCanada's relationship with Ukgazprom may provide an opportunity to become a significant player in the European energy market, help open the lines of communication and identify potential new projects in Ukraine. With 50 per cent of the world's gas reserves in its territory, Russia is expected to continue to be a significant supplier of Europe's natural gas.

Colombia

OCENSA

At the end of 1997, the 800-kilometre, U.S.\$2.2 billion OCENSA pipeline was transporting in excess of 400,000 barrels per day of crude oil from the Cusiana and central Llanos regions of Colombia. With the completion of pump station construction, expected in the second quarter of 1998, OCENSA will have a capacity of more than 600,000 barrels per day for export from the Port of Coveñas. No further capital expenditures are anticipated for OCENSA. TransCanada provides technical services and jointly operates the pipeline system.

Mexico

Mayakan

In March 1997, a three-company consortium led by TransCanada won a contract to build, own and operate a 700-kilometre natural gas pipeline in Mexico's Yucatan peninsula. The cost of the Energía Mayakan S. de R.L. de C.V. (Mayakan) pipeline is expected to be U.S.\$266 million. Originating at Ciudad Pemex in the state of Tabasco, the 370 MMcf per day pipeline is intended to provide natural gas service to power plants and other industrial customers in the cities of Campeche, Mérida and Valladolid. Mayakan is Mexico's first significant pipeline development to be owned and operated by the private sector. Debt financing for the project has been completed and a total of approximately U.S.\$56 million of equity is planned to be invested. Construction will continue throughout 1998 and the pipeline is expected to be in service in 1999. TransCanada's cash contributions to the project in 1998 are expected to be approximately \$17 million.

Tanzania

Songo Songo

Throughout 1997, TransCanada and its partners worked to complete the well testing and servicing program and to further define the scope, costs and timing of the project. Although the well testing program has proven that there are sufficient gas reserves for the Songo Songo project, its timing remains uncertain and further analysis of the growth in power and natural gas demand is required.

International Outlook

International's objectives for 1998 are to layer complementary businesses, such as contract and consulting services and energy marketing businesses, on existing assets, and to expand through construction or acquisition of new energy services businesses. Privatization and infrastructure requirements in much of the world provide abundant opportunities for growth, but these require a thorough understanding of the country dynamics and potential for success. TransCanada continues to evaluate risks against economic rewards to mitigate the effects of product and economic cycles.

Corporate

Safety, Health and Environment TransCanada's Safety, Health and Environment program seeks to ensure a safe operating environment for the public and TransCanada employees and the protection of the environment for future generations. TransCanada incorporates environmental considerations into the planning, development, construction and operation of all projects. In 1997, TransCanada donated more than \$155,000 to various conservation and environmental programs. In addition, as part of our participation in Canada's initiative to reduce greenhouse gases, TransCanada contributed \$540,000 to the Tree Canada Foundation, a non-profit organization that plants trees to help reduce the effect of carbon dioxide emissions.

Donations In 1997, TransCanada donated approximately \$2.9 million to support organizations involved in education, culture, health care, sports and civic activities.

Employees Our success depends on our ability to keep TransCanada competitive — and profitable — and to increase shareholder value. Once the strategic planning process is completed each year, our employees align their work objectives and skill development with TransCanada's strategic objectives. To ensure they meet the

challenges of an evolving industry, TransCanada helps employees improve performance by providing internal and external training programs, self-study aids, occupational on-the-job training, and sponsoring membership in professional associations to ensure they remain current with industry best practices. As well, we provide financial assistance to employees who wish to further their education in areas that will benefit both them and TransCanada.

Liquidity and Capital Resources

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
<i>Cash Generated From Operations</i>			
As reported (proportionate consolidation method)	624.8	768.6	703.0
Equity method	476.8	644.3	618.3

Cash generated from operations is presented using both the proportionate consolidation method of accounting for our investments in joint venture operations and using the equity method of accounting. Management believes that the equity method amounts are more meaningful because they represent the cash flow from operations over which TransCanada has direct control.

Cash generated from operations was \$624.8 million in 1997 compared to \$768.6 million in 1996. This decrease is attributable to a greater investment in operating working capital, particularly in the energy marketing businesses.

The nine per cent increase in cash generated from operations in 1996 over 1995 resulted from stronger contributions from all segments, partially offset by increased operating working capital.

Investing Activities

Capital expenditures totalled \$1,693.9 million in 1997, an increase of \$399.7 million compared to 1996. The major element of fiscal 1997's capital spending program was the continued expansion of TransCanada's energy transmission business. Of the \$1.4 billion attributed to the Energy Transmission segment, the Canadian Mainline accounted for just over \$1 billion of 1997 capital expenditures.

Capital expenditures in 1996 were \$620.5 million more than in 1995. The 1996 increase related to the construction of Express Pipeline and the North Bay and Kapuskasing power plants in Ontario, as well as increased capital spending for the Canadian Mainline and International activities.

TransCanada's 1997 investing activities also included the acquisition of the U.S. gas gathering and processing business. Acquisition of the remaining shares of ANG and the purchase of Cibola during 1996 resulted in a net use of cash of \$358.1 million.

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
<i>Capital Expenditures by Segment</i>			
Energy Transmission	1,413.4	1,034.3	534.9
Energy Marketing	22.3	2.1	7.5
Energy Processing	169.9	158.8	57.2
International	81.8	97.9	53.0
Corporate	6.5	1.1	21.1
	<u>1,693.9</u>	<u>1,294.2</u>	<u>673.7</u>

Financing Activities

TransCanada has increased the quarterly dividend on common shares by two cents per share in the fourth quarter of each of the last six years. The increase announced by TransCanada's board of directors in December 1997 raised the quarterly dividend to 31 cents per share. The 1996 and 1995 fourth-quarter increases brought quarterly dividends per common share to 29 and 27 cents, respectively.

In 1997, TransCanada generated cash of \$1,222.8 million from the issuance of medium-term notes and common equity. An additional \$219 million was provided by the issuance of partnership units in Power L.P. in June 1997. Cash from these financing activities, combined with cash generated from operations, was used to finance capital expenditures and investments, retire debt and pay dividends on preferred and common shares.

In addition to the issuance of medium-term notes and common equity, 1996 financing activities included the issuance of junior subordinated debentures and preferred securities which generated cash of \$474.8 million.

TransCanada's proportionate share of non-recourse debt of joint ventures decreased \$16.2 million in 1997, reflecting repayments of non-recourse debt of joint ventures, offset partially by non-recourse debt issued during the year. Non-recourse joint venture debt decreased \$51.2 million and increased \$31.5 million in 1996 and 1995, respectively.

Credit Activities

Unused lines of credit of \$2 billion were available to support TransCanada's commercial paper program and were available to secure energy commodity purchases and for general corporate purposes at December 31, 1997. This amount includes the \$1.5 billion revolving credit facilities, syndicated among a number of Canadian and international banks, which TransCanada established in January 1997.

At December 31, 1997, \$1,070.1 million and U.S.\$707 million of medium-term notes could be issued under our medium-term note programs in Canada and the United States, respectively.

Risk Management

The Company identifies and monitors market risk exposure associated with business transactions in order to manage market risk within levels acceptable to senior management and in accordance with corporate market risk policies and position limits. The policies and limits are designed to mitigate the risk of significant loss. The effects of market risk are evaluated in terms of their impact on net income and on the values of assets and liabilities. TransCanada manages its market risk exposure on a consolidated basis and analyzes the impact of exposures on earnings objectives. The Company's primary market risks result from volatility in interest and foreign currency exchange rates and commodity prices. The Company also has credit policies used to evaluate the financial condition of potential counterparties and to manage credit risk exposure. Credit risk is the risk that the Company will incur a loss due to the failure of a counterparty to meet its contractual financial obligation.

Financial Risk Management

TransCanada monitors the financial market risk exposures relating to its investments in U.S. dollar net assets, its regulated and non-regulated long-term debt portfolios and its foreign currency exposure on transactions. The market risk exposures created by these business activities are managed by identifying offsetting positions or through the use of derivative financial instruments.

Energy Marketing Risk Management

The market risks of the Company's energy marketing portfolio of natural gas, natural gas liquids, crude oil, refined products and electricity are managed by entering into offsetting physical positions, when possible, to manage market risk exposures created by fixed and variable pricing arrangements, different pricing indices and different delivery points. Market risk is also managed through the use of derivative financial instruments. Exposures are quantified using value-at-risk methodology and are reviewed weekly by senior management.

Energy Processing Risk Management

The significant market risks of contracts entered into by TransCanada's energy processing businesses are identified and managed. Risks associated with interest rates, foreign currency exchange rates and energy commodity prices are reviewed and managed with the objective of protecting short-term and long-term earnings. Senior management reviews these exposures regularly, and at least monthly.

Year 2000

TransCanada is currently reviewing its systems for Year 2000 compliance. To date, the estimated costs to alter non-compliant systems are not significant. However, there can be no assurance that the systems of other companies, on which TransCanada relies, will be Year 2000 compliant or that a failure by another company to be Year 2000 compliant would not have an adverse impact on our systems or operations.

Merger with NOVA

On January 24, 1998, TransCanada and NOVA Corporation (NOVA) signed an agreement to combine the two companies under a plan of arrangement. Under the terms of the agreement, each NOVA common share will be exchanged for 0.52 TransCanada common shares. After the merger, the existing chemicals business of NOVA will be split off into a separate, publicly traded company owned by the combined TransCanada and NOVA shareholder groups. The merger is expected to be completed in 1998 and is subject to shareholder and regulatory approvals.

The merger of TransCanada and NOVA will create an independent, world-class chemicals business and a world-class Canadian energy services company. The greater breadth and financial strength of the new energy services organization should create a stronger platform to grow the energy services businesses. It also will facilitate operating cost reductions, capital efficiencies and improved customer services, and help to preserve Canadian ownership and control.



TransCanada

TRANSCANADA PIPELINES LIMITED

**Audited Comparative Consolidated Financial
Statements for the year ended
December 31, 1997 together with
the Auditors' Report thereon**

AUDITORS' REPORT

To the Shareholders of TransCanada PipeLines Limited

We have audited the consolidated statements of financial position of TransCanada PipeLines Limited as at December 31, 1997 and 1996 and the consolidated statements of income, contributed surplus and retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1997 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
January 24, 1998

“KPMG”
KPMG
Chartered Accountants

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED INCOME

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars except per share amounts)		
Revenues	14,242.8	10,790.6	7,005.6
Cost of Sales	11,157.0	8,063.5	4,775.3
Other Costs and Expenses	1,433.6	1,059.1	798.3
Depreciation	424.8	380.8	320.3
	<u>13,015.4</u>	<u>9,503.4</u>	<u>5,893.9</u>
Operating Income	1,227.4	1,287.2	1,111.7
Other Expense/(Income)			
Financial charges (Note 6)	567.6	553.1	508.8
Financial charges of joint ventures (Note 7)	97.5	91.2	89.3
Allowance for funds used during construction	(27.4)	(18.6)	(12.1)
Interest and other income	(28.6)	(18.0)	(14.7)
	<u>609.1</u>	<u>607.7</u>	<u>571.3</u>
Income before Income Taxes	618.3	679.5	540.4
Income Taxes (Note 12)	161.3	254.5	142.9
Net Income	457.0	425.0	397.5
Preferred Securities Charges (Note 8)	13.1	1.9	—
Preferred Share Dividends	36.3	37.9	47.4
Net Income Applicable to Common Shares	<u>407.6</u>	<u>385.2</u>	<u>350.1</u>
Net Income Per Share (Note 10)	<u>\$ 1.85</u>	<u>\$ 1.85</u>	<u>\$ 1.75</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED CHANGES IN FINANCIAL POSITION

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Cash Generated From Operations			
Net income	457.0	425.0	397.5
Depreciation	424.8	380.8	320.3
Deferred income taxes	15.4	24.1	(22.9)
Allowance for equity funds used during construction	(9.6)	(8.9)	(5.4)
Other	(11.4)	10.0	(4.8)
Funds generated from operations	876.2	831.0	684.7
(Increase)/decrease in operating working capital (Note 15)	(251.4)	(62.4)	18.3
	<u>624.8</u>	<u>768.6</u>	<u>703.0</u>
Investing Activities			
Capital expenditures	(1,693.9)	(1,294.2)	(673.7)
Acquisitions, net of cash acquired	(226.9)	(358.1)	—
Deferred amounts and other	(34.6)	69.3	18.8
	<u>(1,955.4)</u>	<u>(1,583.0)</u>	<u>(654.9)</u>
Financing Activities			
Dividends and preferred securities charges	(310.3)	(267.2)	(248.4)
Notes payable issued/(repaid), net	441.5	59.2	(114.5)
Long-term debt issued	1,106.8	887.5	441.1
Reduction of long-term debt	(274.2)	(358.0)	(187.9)
Non-recourse debt of joint ventures issued	109.0	5.1	151.4
Reduction of non-recourse debt of joint ventures	(125.2)	(56.3)	(119.9)
Partnership units issued by a subsidiary	219.0	—	—
Settlement of convertible debentures	—	(150.0)	—
Junior subordinated debentures issued	—	217.5	—
Preferred securities issued	—	257.3	—
Preferred shares issued	—	—	98.5
Preferred shares redeemed	—	(150.0)	(50.0)
Common shares issued	116.0	313.5	87.3
	<u>1,282.6</u>	<u>758.6</u>	<u>57.6</u>
(Decrease)/Increase in Cash and Short-Term Investments	(48.0)	(55.8)	105.7
Cash and Short-Term Investments			
— at beginning of year	<u>163.2</u>	<u>219.0</u>	<u>113.3</u>
Cash and Short-Term Investments			
— at end of year	<u>115.2</u>	<u>163.2</u>	<u>219.0</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED FINANCIAL POSITION

	December 31	
	1997	1996
	(millions of dollars)	
ASSETS		
Current Assets		
Cash and short-term investments	115.2	163.2
Accounts receivable	1,513.4	1,302.3
Inventories	352.5	222.0
Other	34.2	12.6
	<u>2,015.3</u>	<u>1,700.1</u>
Long-Term Investments (Note 5)	274.8	171.2
Plant, Property and Equipment (Notes 3, 6 and 7)	12,072.9	10,690.1
Other Assets	208.6	88.1
	<u>14,571.6</u>	<u>12,649.5</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 13)	668.0	226.5
Accounts payable	1,447.7	1,363.9
Accrued interest	178.7	167.7
Long-term debt due within one year (Note 6)	282.3	273.1
Non-recourse debt of joint ventures due within one year (Note 7)	51.0	51.1
	<u>2,627.7</u>	<u>2,082.3</u>
Deferred Amounts	113.1	34.1
Long-Term Debt (Note 6)	6,020.6	5,148.2
Non-Recourse Debt of Joint Ventures (Note 7)	982.8	964.6
Deferred Income Taxes	232.5	203.5
Junior Subordinated Debentures (Note 8)	223.9	223.2
Non-Controlling Interests	96.1	—
Shareholders' Equity		
Preferred securities (Note 8)	280.0	261.1
Preferred shares (Note 9)	512.6	512.6
Common shares (Note 10)	1,660.5	1,544.5
Contributed surplus	263.1	263.1
Retained earnings	1,530.4	1,383.1
Foreign exchange adjustment	28.3	29.2
	<u>4,274.9</u>	<u>3,993.6</u>
Contingencies (Note 16)	<u>14,571.6</u>	<u>12,649.5</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board:

“GEORGE W. WATSON”
 GEORGE W. WATSON
 Director

“HARRY G. SCHAEFER”
 HARRY G. SCHAEFER
 Director

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED CONTRIBUTED SURPLUS AND RETAINED EARNINGS

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars except per share amounts)		
Contributed Surplus			
Balance at beginning of year	263.1	264.6	266.8
Preferred share issue expenses	—	(1.5)	(2.2)
Balance at end of year	<u>263.1</u>	<u>263.1</u>	<u>264.6</u>
Retained Earnings			
Balance at beginning of year	1,383.1	1,234.4	1,089.7
Net income	457.0	425.0	397.5
Preferred securities charges and issue expenses	(13.1)	(6.9)	—
Preferred share dividends	(36.3)	(37.9)	(47.4)
Equity preferred and common share dividends (Note 10)	(260.3)	(231.5)	(205.4)
Balance at end of year	<u>1,530.4</u>	<u>1,383.1</u>	<u>1,234.4</u>
Dividends declared per common share	<u>\$ 1.18</u>	<u>\$ 1.10</u>	<u>\$ 1.02</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TransCanada PipeLines Limited (the Company or TransCanada) is one of North America's leading energy services companies. It operates in four business segments.

Energy Transmission

This segment owns and operates the Canadian natural gas transmission system (the Canadian Mainline) and holds the Company's investments in interconnected natural gas pipelines and the Express oil pipeline (Express Pipeline). Energy Transmission activities also include the investigation and development of new energy transmission facilities in Canada and the United States. The majority of net income is contributed by this segment, of which the Canadian Mainline generated \$257.8 million in 1997.

Energy Marketing

The Energy Marketing segment markets energy commodities, including natural gas, natural gas liquids, crude oil, refined products, and electricity, and manages the Company's natural gas storage operations.

Energy Processing

This segment operates assets which process hydrocarbons into other forms of energy and products. The processing assets include: Independent power generation plants; gas gathering, processing and extraction plants; and specialty chemicals and carbon black manufacturing facilities. This segment also investigates and develops energy processing projects in Canada and the United States.

International

The International segment invests in international energy transmission and power generation operations and investigates and develops energy-related business opportunities outside of Canada and the United States.

Note 1 Accounting Policies

The consolidated financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These accounting principles are different in some respects from United States generally accepted accounting principles (U.S. GAAP) and the significant differences are described in Note 17. Amounts are stated in Canadian dollars unless otherwise indicated.

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of Management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of Presentation

The consolidated financial statements include the accounts of TransCanada PipeLines Limited, its subsidiaries and its proportionate share of the accounts of its joint ventures. The Company uses the equity method of accounting for investments over which it is able to exercise significant influence. Other investments are carried at cost.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Accounting Policies (Continued)

Regulation

The Company's Canadian natural gas transmission operations are subject to the authority of the National Energy Board (NEB) with respect to the determination of tolls, construction, operations and accounting. The United States interconnected natural gas pipelines and the Ocean State Power Plant are also subject to the authority of regulatory bodies. In order to achieve a proper matching of revenues and expenses, the timing of recognition of certain revenues and expenses in these businesses may differ from that otherwise expected under generally accepted accounting principles.

Cash and Short-Term Investments

The Company's short-term investments are considered to be cash equivalents and are recorded at cost, which approximates market value.

Inventories

Inventories are carried at the lower of average cost or net realizable value, other than certain specialty chemicals inventories for which cost is determined using the last-in, first-out method.

Plant, Property and Equipment

Energy Transmission

Plant, property and equipment of the natural gas transmission operations are carried at cost. Depreciation is calculated on the straight-line basis using rates approved by the regulators. Pipeline and compression equipment are depreciated at annual rates ranging from two to five per cent and metering and other plant are depreciated at various rates. Removal and site restoration costs are not determinable and will be recorded when reasonably estimable and when approved by the regulators. An allowance for funds used during construction, using the rate of return on rate base approved by the regulators, is capitalized and included in the cost of gas transmission plant.

Express Pipeline plant, property and equipment are recorded at cost and includes interest capitalized during construction. Depreciation is calculated on the straight-line basis at an average annual rate of approximately three per cent.

Energy Marketing and Processing

Plant, property and equipment are recorded at cost and depreciated on the straight-line basis over estimated service lives at average annual rates ranging from three to five per cent. Interest is capitalized on new plant under construction and included in the cost.

Foreign Currency Translation

The Company's foreign operations are self-sustaining and are translated into Canadian dollars using the current rate method. Translation adjustments are reflected in the foreign exchange adjustment in Shareholders' Equity.

Exchange gains and losses on the principal amounts of foreign currency debt related to the Canadian Mainline are included in income when they are recovered in tolls.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Accounting Policies (Continued)

Income Taxes

For tollmaking purposes, the NEB has prescribed the taxes payable method for income taxes related to the Canadian natural gas transmission operations. This method is also used for accounting purposes, since there is reasonable expectation that future taxes payable will be included in future costs of service and recovered in revenues at that time. The deferral method of accounting for income taxes is used for other operations.

Canadian taxes are not provided on the unremitted earnings of foreign investments which are considered to be indefinitely reinvested in foreign operations.

Derivative Financial Instruments

The Company utilizes derivative financial instruments and derivative commodity instruments (collectively, derivatives) to manage its exposure to foreign currency exchange rates, interest rates and energy prices. Gains and losses relating to derivatives that are hedges are deferred and recognized in the same period and in the same financial statement category as the corresponding hedged positions.

A derivative must be designated and effective to be accounted for as a hedge. For cash flow hedges, effectiveness is achieved if the cash flows of the derivative substantially offset the cash flows of the hedged position and the timing of the cash flows is similar. Effectiveness for fair value hedges is achieved if the fair value of the derivative substantially offsets changes in fair value attributable to the hedged item. In the event that a derivative does not meet the designation or effectiveness criteria, the gain or loss on the derivative is recognized immediately in income. If a derivative is settled early, the gain or loss at settlement is deferred and recognized when the gain or loss on the hedged transaction is recognized.

Premiums paid or received with respect to derivatives are deferred and amortized to income over the term of the hedge. The recognition of gains and losses on derivative financial instruments used as hedges in the Canadian Mainline is determined through the regulatory process.

Project Development Costs

Investment and project costs incurred during the development stage are expensed until the project is considered to be commercially viable, after which costs are capitalized.

Post-Employment Benefits Other Than Pensions

The Company provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. The cost of these benefits is expensed when paid.

Comparative Figures

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Segmented and Other Information

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Operations			
Energy Transmission			
Revenues	2,454.5	2,217.9	2,017.1
Costs and expenses	(1,046.2)	(761.3)	(681.3)
Depreciation	(354.9)	(324.8)	(297.3)
Operating income	1,053.4	1,131.8	1,038.5
Financial charges and other	(551.1)	(571.6)	(540.8)
Income taxes	(132.1)	(198.7)	(144.0)
Preferred share dividends	(36.3)	(37.9)	(47.4)
Net income applicable to common shares	333.9	323.6	306.3
Energy Marketing			
Revenues	11,084.0	8,070.1	4,786.8
Cost of sales	(10,947.0)	(7,899.4)	(4,698.2)
Other costs and expenses	(102.9)	(110.1)	(59.2)
Operating income	34.1	60.6	29.4
Financial charges and other	(9.6)	(6.3)	(6.3)
Income taxes	(16.9)	(26.4)	(12.8)
Net income applicable to common shares	7.6	27.9	10.3
Energy Processing			
Revenues	678.4	493.6	197.0
Cost of sales	(210.0)	(164.1)	(77.1)
Other costs and expenses	(257.6)	(168.5)	(37.4)
Depreciation	(63.3)	(52.2)	(19.8)
Operating income	147.5	108.8	62.7
Financial charges and other	(41.8)	(33.5)	(24.4)
Income taxes	(44.3)	(33.7)	(6.2)
Net income applicable to common shares	61.4	41.6	32.1
International			
Revenues	25.9	9.0	4.7
Costs and expenses	(33.5)	(23.0)	(23.6)
Operating loss	(7.6)	(14.0)	(18.9)
Other income and expenses	2.0	0.9	—
Income taxes	11.9	7.9	5.8
Net income/(loss) applicable to common shares	6.3	(5.2)	(13.1)
Unallocated Amounts			
Financial charges and other	(1.6)	(2.7)	14.5
Net Income Applicable to Common Shares	<u>407.6</u>	<u>385.2</u>	<u>350.1</u>

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Segmented and Other Information (Continued)

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Revenues by Geographic Area			
Canada — domestic	4,105.2	3,588.6	2,916.2
Canada — export	2,314.8	2,125.9	1,986.1
United States and International	7,822.8	5,076.1	2,103.3
	<u>14,242.8</u>	<u>10,790.6</u>	<u>7,005.6</u>
Operating Income by Geographic Area			
Canada	998.1	1,034.7	922.6
United States and International	229.3	252.5	189.1
	<u>1,227.4</u>	<u>1,287.2</u>	<u>1,111.7</u>

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Capital Expenditures			
Energy Transmission	1,423.0	1,043.2	540.3
Allowance for equity funds used during construction	(9.6)	(8.9)	(5.4)
	<u>1,413.4</u>	<u>1,034.3</u>	<u>534.9</u>
Energy Marketing	22.3	2.1	7.5
Energy Processing	169.9	158.8	57.2
International	81.8	97.9	53.0
Corporate	6.5	1.1	21.1
	<u>1,693.9</u>	<u>1,294.2</u>	<u>673.7</u>

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Segmented and Other Information (Continued)

	December 31	
	1997	1996
	(millions of dollars)	
Assets		
Energy Transmission		
Canada	9,075.0	8,081.8
United States	2,005.9	1,802.4
	<u>11,080.9</u>	<u>9,884.2</u>
Energy Marketing (primarily current assets)		
Canada	661.4	610.5
United States	688.7	500.1
	<u>1,350.1</u>	<u>1,110.6</u>
Energy Processing		
Canada	705.7	775.8
United States	877.6	504.1
	<u>1,583.3</u>	<u>1,279.9</u>
International	<u>346.8</u>	<u>181.1</u>
Corporate	<u>210.5</u>	<u>193.7</u>
	<u>14,571.6</u>	<u>12,649.5</u>

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Plant, Property and Equipment

	December 31			
	1997		1996	
	Cost	Accumulated Depreciation	Net Book Value		Net Book Value
	(millions of dollars)			
Energy Transmission				
Canadian Mainline				
Pipeline	7,608.8	1,949.3	5,659.5	5,368.1
Compression	2,499.6	519.4	1,980.2	1,546.0
Metering and other	382.0	91.8	290.2	259.3
	<u>10,490.4</u>	<u>2,560.5</u>	<u>7,929.9</u>	<u>7,173.4</u>
Under construction	182.8	—	182.8	114.5
	<u>10,673.2</u>	<u>2,560.5</u>	<u>8,112.7</u>	<u>7,287.9</u>
Interconnected Pipelines				
Pipeline	2,134.3	744.6	1,389.7	1,394.4
Compression	566.0	131.6	434.4	420.4
Metering and other	216.0	74.2	141.8	136.8
	<u>2,916.3</u>	<u>950.4</u>	<u>1,965.9</u>	<u>1,951.6</u>
Under construction	129.4	—	129.4	16.9
	<u>3,045.7</u>	<u>950.4</u>	<u>2,095.3</u>	<u>1,968.5</u>
Express Pipeline	474.7	11.3	463.4	342.5
	<u>14,193.6</u>	<u>3,522.2</u>	<u>10,671.4</u>	<u>9,598.9</u>
Energy Marketing	<u>72.9</u>	<u>16.3</u>	<u>56.6</u>	<u>33.0</u>
Energy Processing				
Power Generation	424.7	82.2	342.5	351.3
Chemicals	365.0	61.7	303.3	296.6
Gas Gathering and Processing	727.6	91.3	636.3	374.9
	<u>1,517.3</u>	<u>235.2</u>	<u>1,282.1</u>	<u>1,022.8</u>
Corporate	<u>83.6</u>	<u>20.8</u>	<u>62.8</u>	<u>35.4</u>
	<u>15,867.4</u>	<u>3,794.5</u>	<u>12,072.9</u>	<u>10,690.1</u>

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Joint Venture Investments

	Ownership Interest	TransCanada's Proportionate Share				
		Income/(Loss) Before Income Tax			Net Assets	
		Year Ended December 31			December 31	
		1997	1996	1995	1997	1996
(millions of dollars)						
Energy Transmission						
Interconnected Pipelines						
Great Lakes System	50.0%	77.2	84.2	64.5	413.7	375.3
Northern Border Pipeline	30.0%	29.7	32.6	30.7	249.1	216.9
Iroquois System	29.0%	22.0	13.5	9.9	79.7	75.8
Tuscarora Pipeline	50.0%	3.6	3.8	0.8	22.5	22.8
Foothills Pipe Lines (Sask.)	44.0%	5.1	5.5	5.9	30.7	34.1
Trans Quebec & Maritimes Pipeline	50.0%	7.0	10.9	10.3	48.4	46.3
Foothills Pipe Lines (South B.C.)	49.0%	3.6	3.2	—	20.7	21.4
Express Pipeline	50.0%	(18.7)	—	—	331.3	312.7
Energy Marketing and Processing						
Ocean State Power Plant	40.0%	17.3	17.6	19.7	99.5	96.9
Other	25.0-60.0%	11.3	(0.5)	13.5	65.6	54.4
International						
Energia Mayakan	62.5%	—	—	—	18.4	—
		<u>158.1</u>	<u>170.8</u>	<u>155.3</u>	<u>1,379.6</u>	<u>1,256.6</u>

Consolidated retained earnings at December 31, 1997 include undistributed earnings from joint ventures of \$308.0 million (1996 — \$302.4 million).

Summarized Financial Information of Joint Ventures

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Revenues	844.3	552.2	520.5
Costs and expenses	(481.3)	(189.0)	(191.4)
Depreciation	(108.3)	(111.2)	(91.4)
Joint venture financial charges and other	(96.6)	(81.2)	(82.4)
Proportionate share of income before corporate financing and income tax of joint ventures	<u>158.1</u>	<u>170.8</u>	<u>155.3</u>
	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Cash Flows			
Operations	305.0	288.0	233.7
Investing activities	(413.7)	(357.4)	(119.5)
Financing activities	94.0	55.9	(104.5)
Proportionate share of changes in cash and short-term investments of joint ventures	<u>(14.7)</u>	<u>(13.5)</u>	<u>9.7</u>

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Joint Venture Investments (Continued)

	December 31	
	1997	1996
	(millions of dollars)	
Cash and short-term investments	37.4	52.1
Other current assets	108.7	126.6
Plant, property and equipment	2,609.2	2,365.1
Other assets	34.3	12.0
Current liabilities	(338.0)	(231.7)
Long-term non-recourse debt	(982.8)	(964.6)
Deferred income taxes	(89.2)	(102.9)
Proportionate share of net assets of joint ventures	<u>1,379.6</u>	<u>1,256.6</u>

Note 5 Long-Term Investments

	Ownership Interest	December 31	
		1997	1996
		(millions of dollars)	
Equity Investments			
TransGas de Occidente	34.0%	37.0	31.2
Oleoducto Central	17.5%	164.8	103.5
CentrOriente	40.0%	3.5	2.1
		<u>205.3</u>	<u>136.8</u>
Cost Investment			
PT Paiton Energy Company	10.0%	69.5	34.4
		<u>274.8</u>	<u>171.2</u>

Consolidated retained earnings at December 31, 1997 include undistributed earnings from equity investments of \$38.2 million (1996 — \$13.7 million).

The Company's investment in PT Paiton Energy Company (Paiton) has been pledged as security for the non-recourse debt of Paiton.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Long-Term Debt

	<u>Maturity Dates</u>	1997		1996	
		<u>Outstanding December 31⁽¹⁾</u>	<u>Weighted Average Interest Rate⁽²⁾</u>	<u>Outstanding December 31⁽¹⁾</u>	<u>Weighted Average Interest Rate⁽²⁾</u>
Canadian Mainline					
First Mortgage Pipe Line Bonds					
U.S. dollars (1997 — nil; 1996 — US\$44.5)		—	—	60.9	16.8%
Pounds Sterling (1997 and 1996 — £25.0)	2007	58.7	16.5%	58.7	16.5%
Debentures					
Canadian dollars	1998 to 2020	1,655.0	10.9%	1,655.0	10.9%
U.S. dollars (1997 and 1996 — US\$800.0)	2012 to 2023	1,143.3	9.2%	1,095.7	9.2%
Medium-Term Notes					
Canadian dollars	1998 to 2031	<u>2,111.3</u>	8.0%	<u>1,609.0</u>	8.6%
		4,968.3		4,479.3	
Foreign exchange differential recoverable through the tollmaking process					
		<u>(195.6)</u>		<u>(147.9)</u>	
		<u>4,772.7</u>		<u>4,331.4</u>	
Other					
Medium-Term Notes					
Canadian dollars	1998 to 2005	352.0	8.7%	352.0	8.7%
U.S. dollars (1997 — US\$513.0; 1996 — US\$220.0)	2001 to 2025	733.1	7.1%	301.3	7.2%
Subordinated Debentures					
U.S. dollars (1997 and 1996 — US\$200.0)	2006	285.8	9.1%	273.9	9.1%
Notes, Debentures and Bonds of Subsidiaries					
Canadian dollars	2003	110.0	8.4%	110.0	8.4%
U.S. dollars (1997 — US\$34.4; 1996 — US\$38.4)	1998 to 2008	<u>49.3</u>	6.6%	<u>52.7</u>	6.6%
		<u>1,530.2</u>		<u>1,089.9</u>	
		<u>6,302.9</u>		<u>5,421.3</u>	
Less: Long-Term Debt Due Within One Year					
		<u>282.3</u>		<u>273.1</u>	
		<u><u>6,020.6</u></u>		<u><u>5,148.2</u></u>	

- (1) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in currencies other than Canadian dollars are stated in millions.
- (2) Weighted average interest rates are stated as at the respective outstanding dates. The effective weighted average interest rate on the U.S. dollar denominated subordinated debentures, resulting from swap agreements, is 8.3 per cent at December 31, 1997 (1996 — 8.2 per cent).

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Long-Term Debt (Continued)

First Mortgage Pipe Line Bonds

The Deed of Trust and Mortgage securing the Company's First Mortgage Pipe Line Bonds limits the specific and floating charges to those assets comprising the present and future Canadian Mainline and the Company's present and future gas transportation contracts. No further bonds will be issued under the Deed of Trust and Mortgage.

Notes, Debentures and Bonds of Subsidiaries

The notes and debentures are unsecured. Bonds amounting to US\$18.6 million are secured by a subsidiary's assets.

Medium-Term Notes

The Company has established medium-term note programs in Canada and the United States. At December 31, 1997, the Company can issue additional medium-term notes of up to \$1,070.1 million in Canada and US\$707.0 million in the United States under these existing programs.

Mandatory Retirements

Mandatory retirements of long-term debt of the Company approximate: 1998 — \$282.3 million; 1999 — \$205.4 million; 2000 — \$286.2 million; 2001 — \$306.6 million; and 2002 — \$284.1 million.

Financial Charges

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Interest on long-term debt	551.4	532.6	492.6
Regulatory deferrals and amortizations	2.6	28.2	6.7
Non-regulatory foreign exchange	(2.4)	(5.0)	0.5
Short-term interest and other financial charges	23.2	9.7	11.9
Interest capitalized	(7.2)	(12.4)	(2.9)
	<u>567.6</u>	<u>553.1</u>	<u>508.8</u>

The Company made interest payments of \$561.3 million, \$538.9 million and \$512.3 million for the years ended December 31, 1997, 1996 and 1995, respectively.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Non-Recourse Debt of Joint Ventures

	1997			1996	
	Maturity Dates	Outstanding December 31 ⁽¹⁾	Weighted Average Interest Rate ⁽²⁾	Outstanding December 31 ⁽¹⁾	Weighted Average Interest Rate ⁽²⁾
Great Lakes System					
Senior Unsecured Notes (1997 — US\$201.9; 1996 — US\$235.4)	2000 to 2021	288.6	9.2%	322.4	9.2%
Northern Border Pipeline					
Senior Secured Notes (1997 and 1996 — US\$75.0)	2000 to 2003	107.2	8.4%	102.7	8.4%
Bank Loan (1997 — US\$62.7; 1996 — US\$38.3)	2000 to 2002	89.6	6.3%	52.5	6.1%
Iroquois System					
Bank Loan (1997 — US\$114.3; 1996 — US\$122.9)	2006 to 2008	163.3	8.6%	168.3	8.7%
Tuscarora Pipeline					
Senior Secured Notes (1997 — US\$44.9; 1996 — US\$45.3)	2010	64.2	7.1%	62.0	7.1%
Foothills Pipe Lines (Sask.)					
Note	2003	73.0	7.0%	71.0	7.3%
Trans Quebec & Maritimes Pipeline					
First Mortgage Bonds	1998 to 2005	95.0	9.9%	97.0	9.9%
Foothills Pipe Lines (South B.C.)					
Bank Loans	2005	48.2	8.3%	48.2	8.3%
Ocean State Power Plant					
Senior Secured Notes (1997 — US\$61.2; 1996 — US\$66.9)	2002 to 2011	87.5	7.7%	91.6	7.7%
Energia Mayakan					
Bank Loans (1997 — US\$12.0; 1996 — nil)	2011 to 2014	17.2	7.7%	—	—
		1,033.8		1,015.7	
Less: Non-Recourse Debt of Joint Ventures Due Within One Year					
		51.0		51.1	
		982.8		964.6	

(1) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in U.S. dollars are stated in millions.

(2) Weighted average interest rates are stated as at the respective outstanding dates. The effective weighted average interest rates on the bank loans of Northern Border Pipeline and the Iroquois System, resulting from swap agreements, are 7.0 per cent and 7.6 per cent, respectively, at December 31, 1997 (1996 — 7.6 per cent for both).

The debt of joint ventures is non-recourse to TransCanada. The security provided by each joint venture is limited to the rights and assets of that joint venture and does not extend to the rights and assets of TransCanada, except to the extent of TransCanada's investment.

The Company's proportionate share of mandatory retirements resulting from maturities and sinking fund obligations of the non-recourse joint venture debt approximates: 1998 — \$51.0 million; 1999 — \$46.2 million; 2000 — \$120.1 million; 2001 — \$56.7 million; and 2002 — \$141.6 million.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Non-Recourse Debt of Joint Ventures (Continued)

Financial Charges of Joint Ventures

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Interest on long-term non-recourse debt	96.1	89.1	87.2
Other	1.4	2.1	2.1
	97.5	91.2	89.3

The Company's proportionate share of the interest payments of joint ventures is \$84.0 million, \$84.5 million and \$76.3 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Note 8 Junior Subordinated Debentures and Preferred Securities

	Maturity Dates	Interest Rate	December 31	
			1997	1996
			(millions of dollars)	
Junior Debentures (US\$160.0 million)	2045	8.75%	218.1	218.1
Canadian Originated Preferred Securities (COPrS) (1997 — US\$4.1 million; 1996 — US\$3.8 million)	2045	8.50%	5.8	5.1
			223.9	223.2

Junior Debentures

In 1996, the Company issued US\$160.0 million of Junior Subordinated Debentures (Junior Debentures) to TransCanada Capital, an unaffiliated business trust. TransCanada Capital issued US\$160.0 million of Trust Originated Preferred Securities (TOPrS) through a public issue in the United States. The Junior Debentures, which comprise substantially all of the assets of TransCanada Capital, have terms which parallel the terms of the TOPrS. The Junior Debentures are redeemable at par by the Company at any time on or after July 23, 2001 and in certain circumstances prior to that date. The Company may elect to defer interest payments on the Junior Debentures. Interest and deferred interest, if any, are payable in cash.

The foreign exchange differential on the principal amount of the Junior Debentures, which is Canadian Mainline financing, will be recovered through the tollmaking process.

Preferred Securities

In 1996, the Company issued US\$200.0 million of COPrS. The COPrS are redeemable by the Company at par at any time on or after November 7, 2001 and in certain circumstances prior to that date. The Company may elect to defer interest payments on the COPrS and settle deferred interest in either cash or common shares.

Since deferred interest may be settled through the issuance of common shares at the option of the Company, the COPrS have a debt and an equity component. The debt component of \$5.8 million (US\$4.1 million) and \$5.1 million (US\$3.8 million) at December 31, 1997 and 1996, respectively, represents the discounted amount of the principal repayable at final maturity. The remaining \$280.0 million (US\$195.9 million) and \$261.1 million (US\$196.2 million) at December 31, 1997 and 1996, respectively, is classified as Preferred Securities in Shareholders' Equity. Carrying charges on the debt component are recorded as interest expense and carrying charges on the equity component are recorded, after tax, as Preferred Securities Charges.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Preferred Shares

	December 31, 1997 and 1996			Amount (millions of dollars)
	Number of Shares	Dividend Rate Per Share	Redemption Price Per Share	
First Preferred Shares				
Cumulative redeemable				
\$2.80 Series	552,968	\$ 2.80	\$50.50	27.6
Series O	3,000,000	\$ 3.95	\$52.00-\$50.00	150.0
Series P	2,600,000	\$3.875	\$52.00-\$50.00	130.0
Cumulative redeemable retractable				
Series Q	2,100,000	\$3.275	\$50.00	105.0
Series R	2,000,000	\$2.975	\$50.00	100.0
				<u>512.6</u>

The authorized number of preferred shares issuable in series is unlimited. All of the first preferred shares are without par value.

The \$2.80 Series shares may be redeemed at any time at the option of the Company. The Company may elect to convert the Series O and Series P shares into common shares after October 31, 1998 and after April 30, 1999, respectively, at 95 per cent of the then market price of the common shares or, with the agreement of the shareholders, into new issues of preferred shares. In addition, after October 31, 2001 for Series O shares, and after April 30, 2002 for Series P shares, the holders have the option to convert their respective shares into common shares at 95 per cent of the then market price of the common shares, but the Company has the option to satisfy the obligations in cash, new issues of preferred shares, common shares or a combination thereof.

On or after December 15, 1999 for the Series Q shares, and on or after December 15, 2000 for the Series R shares, the Company may elect to convert the shares deposited for redemption or outstanding shares into common shares at 95 per cent of the then market price of the common shares.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Common Shares

	Number of Shares (thousands)	Amount (millions of dollars)
Outstanding at January 1, 1995	184,811	946.7
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	5,148	86.9
Exercise of options	24	0.4
Conversion of Equity Preferred Shares	<u>12,500</u>	<u>197.0</u>
Outstanding at December 31, 1995	202,483	1,231.0
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	5,007	97.1
Exercise of options	252	4.3
Issued for acquisition of subsidiaries	3,533	68.9
Issued in settlement of convertible debentures	6,263	143.2
Cancellation of common shares	<u>(2)</u>	<u>—</u>
Outstanding at December 31, 1996	217,536	1,544.5
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	4,298	105.6
Exercise of options	<u>586</u>	<u>10.4</u>
Outstanding at December 31, 1997	<u>222,420</u>	<u>1,660.5</u>

Common Shares Issued and Outstanding

The Company is authorized to issue an unlimited number of common shares of no par value. In 1995, 12.5 million Cumulative Equity Second Preferred Shares, Series B (Equity Preferred Shares), which provided a cumulative annual dividend of \$1.25 per share, were converted into 12.5 million common shares of the Company.

Net Income Per Share

Net income per share is calculated by dividing net income applicable to common shares by the weighted average number of common shares outstanding. The weighted average number of shares, in millions, for the years ended December 31, 1997, 1996 and 1995, is 220.2, 208.5, and 200.1, respectively.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Common Shares (Continued)

Employee Stock Incentive Plan

	<u>Number of Shares (thousands)</u>	<u>Exercise Prices</u>	<u>Options Exercisable (thousands)</u>
Outstanding at January 1, 1995	2,312	\$ 14.70 — \$ 20.85	1,145
Granted	957	\$ 18.40 — \$18.455	
Exercised	(24)	\$ 14.70 — \$ 17.50	
Cancelled or expired	<u>(39)</u>	\$17.125 — \$ 20.10	
Outstanding at December 31, 1995	3,206	\$ 14.70 — \$ 20.85	1,504
Granted	1,001	\$19.179 — \$ 24.10	
Exercised	(252)	\$ 14.70 — \$ 20.10	
Cancelled or expired	<u>(27)</u>	\$17.125 — \$ 20.10	
Outstanding at December 31, 1996	3,928	\$ 14.70 — \$ 24.10	1,793
Granted	2,336	\$ 30.96	
Exercised	(586)	\$ 14.70 — \$ 24.10	
Cancelled or expired	<u>(31)</u>	\$17.375 — \$ 24.10	
Outstanding at December 31, 1997	<u>5,647</u>	\$ 14.70 — \$ 30.96	1,883

The Key Employee Stock Incentive Plan (KESIP) permits the award of options to purchase the Company's common shares to certain key employees, some of whom are officers. Options may be exercised at a price determined at the time the option is awarded. Generally, 20 per cent of the common shares subject to an option may be purchased at the end of each year following the award date of the option. The weighted average exercise price of outstanding options as at December 31, 1997, 1996 and 1995, is \$24.27, \$19.29, and \$17.88, respectively. At December 31, 1997 an additional 6.2 million common shares have been reserved for future issuance under KESIP.

Shareholder Rights Plan

The Company's Shareholder Rights Plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Under certain circumstances, each common share is entitled to one right which entitles certain holders to purchase common shares of the Company at 50 per cent of the then market price.

Restriction on Dividends

Certain terms of the Company's preferred shares, preferred securities, junior subordinated debentures and debt instruments could restrict the Company's ability to declare dividends on preferred and common shares. At December 31, 1997 under the most restrictive provisions, approximately \$1,026.3 million was permitted for the payment of dividends on common shares.

Note 11 Risk Management

The Company invests in foreign operations, issues short and long-term debt including amounts in foreign currencies and purchases and sells energy commodities. These activities result in exposures to foreign currency exchange rates, interest rates and energy prices. The Company uses derivatives to manage the price or cash flow risk that may result from these activities.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Risk Management (Continued)

Carrying Values of Derivatives

The carrying amounts of derivatives which hedge the price risk of the U.S. dollar net assets partially offset the foreign exchange adjustment in Shareholders' Equity. Carrying amounts for interest rate swaps represent the net accrued interest from the last payment date to the reporting date. Foreign currency transactions hedged by foreign exchange contracts are recorded at the contract rate. The carrying amounts shown in the tables that follow are recorded in the Statement of Consolidated Financial Position.

Fair Values of Financial Instruments

Cash and short-term investments and notes payable are valued at their carrying amounts due to the short period to maturity. The fair values of long-term debt, non-recourse long-term debt of joint ventures and junior subordinated debentures are determined using market prices for the same or similar issues.

The fair values of derivatives have been estimated using year end market rates. These fair values approximate the amount that the Company would receive or pay if the instruments were closed out at these dates.

Credit Risk

Credit risk results from the possibility that a counterparty to a derivative in which the Company has an unrealized gain fails to perform according to the terms of the contract. Credit exposure is minimized by dealing only with creditworthy counterparties in accordance with established credit approval practices. At December 31, 1997, credit risk is \$34.3 million for foreign currency and interest rate derivatives and \$66.0 million for energy price risk derivatives. The largest credit exposure to a single counterparty is \$10.3 million.

Notional Amounts

Notional principal amounts are not recorded in the financial statements because these amounts are not exchanged by the Company and its counterparties and are not a measure of the Company's exposure. Notional amounts are used only as the basis for calculating payments for certain derivatives.

The tables that follow provide information on derivatives held but not on the corresponding positions that have been hedged.

Foreign Investments — U.S. Dollar Net Asset Hedges

At December 31, 1997, the Company had foreign currency denominated net assets of approximately US\$544.2 million (1996 — US\$442.2 million), which creates an exposure to changes in the U.S./Canadian dollar exchange rate. The Company uses cross-currency swaps, forward foreign exchange contracts and options to hedge this exposure on an after-tax basis. The cross-currency swaps have a floating interest rate which the Company partially hedges by entering into interest rate swaps and forward rate agreements. The fair values

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Risk Management (Continued)

shown in the table below for foreign exchange risk are offset by translation gains or losses on the net assets and are recorded in the foreign exchange adjustment in Shareholders' Equity.

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions of dollars) Asset/(Liability)			
Foreign exchange risk				
Cross-currency swaps	(13.8)	(13.8)	(22.0)	(13.4)
Forward foreign exchange contracts	2.2	2.3	7.8	11.9
Foreign exchange options	(1.4)	(2.3)	—	—
Interest rate risk				
Interest rate swaps				
Canadian dollars	0.7	7.0	1.0	15.2
U.S. dollars	(1.0)	3.9	(0.1)	(0.5)
Forward rate agreements	—	—	—	(0.2)

The principal amounts of the cross-currency swaps and forward foreign exchange contracts are US\$400.0 million (1996 — US\$450.0 million) and US\$258.9 million (1996 — US\$205.0 million), respectively. Notional principal amounts of the foreign exchange options are US\$240.0 million (1996 — nil). Notional principal amounts for interest rate swaps are \$308.4 million (1996 — \$352.1 million) and US\$25.0 million (1996 — US\$75.0 million) and the notional principal amounts of the forward rate agreements are US\$25.0 million (1996 — US\$250.0 million).

U.S. Dollar Transaction Hedges

The Company purchases and sells energy commodities in U.S. dollars. To reduce risk and protect margins when purchase and sales contracts are denominated in different currencies, the Company enters into forward foreign exchange contracts, which establish the foreign exchange rate for the cash flows from these purchase and sales transactions.

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions of dollars) Asset/(Liability)			
Forward foreign exchange contracts	6.8	(0.8)	8.9	29.0

The principal amounts of forward foreign exchange contracts are US\$378.3 million (1996 — US\$348.7 million) and have terms ranging from one month to four years.

Energy Price Risk Management

The Company purchases and sells derivatives to manage the price risk associated with sales, purchases and inventories of energy commodities in its business activities. Futures contracts, which require the Company to buy or sell energy commodities at fixed prices, are used to manage the risk associated with unmatched fixed price commitments. Price and basis swaps are used to manage the risk associated with a fixed or index price so that the price basis of purchase and sales contracts is matched. The derivatives have terms ranging from less than one

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Risk Management (Continued)

month to four years. The fair values shown in the table below are offset by related fair values on physical positions.

	<u>December 31, 1997</u>		<u>December 31, 1996</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(millions of dollars) Asset/(Liability)			
Natural gas				
Futures contracts	(1.1)	(1.1)	0.7	0.7
Swaps	—	(36.1)	—	(47.6)
Crude oil and petroleum products				
Futures contracts	(2.7)	(2.7)	0.7	0.7
Swaps	—	—	—	(1.6)

Notional volumes for natural gas futures contracts are 27.9 Bcf (1996 — 3.8 Bcf) and 558.1 Bcf (1996 — 537.4 Bcf) for swaps. Notional volumes for crude oil and petroleum products futures contracts are 4.1 MMBbls (1996 — 6.5 MMBbls) and nil (1996 — 0.7 MMBbls) for swaps.

Canadian Mainline Foreign Exchange and Interest Rate Management

The Company manages the foreign exchange risk of U.S. dollar expenses using forward foreign exchange contracts. The Company also manages the interest rate exposure of the Canadian Mainline through the use of interest rate swaps and forward rate agreements. The realized gains and losses on these derivatives are shared with shippers on predetermined terms.

	<u>December 31, 1997</u>		<u>December 31, 1996</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(millions of dollars) Asset/(Liability)			
Foreign exchange risk				
Forward foreign exchange purchase contracts	1.1	1.1	1.0	1.3
Forward foreign exchange sales contracts	(0.3)	(0.2)	(0.2)	(0.2)
Interest rate risk				
Interest rate swaps	1.9	19.4	1.2	14.9
Forward rate agreement	—	(0.1)	—	(0.3)

The principal amounts of the forward foreign exchange purchase and sales contracts are US\$68.5 million (1996 — US\$125.0 million) and US\$31.0 million (1996 — US\$80.0 million), respectively. Notional principal amounts for interest rate swaps and the forward rate agreement are \$400.0 million (1996 — \$200.0 million) and \$100.0 million (1996 — \$100.0 million), respectively.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Risk Management (Continued)

Hedging Activities of Joint Ventures

Certain of the Company's joint ventures use interest rate derivatives to manage interest rate exposures. The Company's proportionate share of the credit exposure related to derivatives of the joint ventures is \$11.9 million at December 31, 1997.

	TransCanada's Proportionate Share			
	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(millions of dollars)		
		Asset/(Liability)		
Interest rate swaps	(0.7)	(9.0)	2.5	11.9

TransCanada's proportionate share of the notional principal amount of the interest rate swaps is US\$548.1 million (1996 — US\$187.5 million).

Other Fair Values

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
			(millions of dollars)	
Long-term debt				
Canadian Mainline	4,968.3	5,458.7	4,479.3	5,176.7
Other	1,530.2	1,538.3	1,089.9	1,175.8
Non-recourse debt of joint ventures	1,033.8	970.6	1,015.7	1,122.5
Junior subordinated debentures	223.9	247.1	223.2	233.1

These fair values are provided solely for information purposes and are not recorded in the Statement of Consolidated Financial Position.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Income Taxes

Reconciliation of Income Tax Expenses

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Income before income taxes	618.3	679.5	540.4
Income not subject to tax currently	(234.5)	(177.1)	(144.4)
	<u>383.8</u>	<u>502.4</u>	<u>396.0</u>
Federal and provincial statutory tax rate	43.8%	43.7%	43.7%
Expected income tax expense	168.1	219.5	173.1
Non-deductible expenses	10.7	12.9	6.4
Amortization of Canadian Mainline deferred income taxes	—	—	(25.3)
Non-deductible capital losses	1.5	11.4	4.4
Net difference between the federal and provincial statutory tax rate and rates of foreign authorities	(20.1)	(11.1)	(14.2)
Utilization of prior years' operating losses	—	—	(11.6)
Large corporations tax	20.3	18.0	14.3
Income from equity investments	(11.3)	(4.7)	(10.4)
Other	(7.9)	8.5	6.2
Actual income tax expense	<u>161.3</u>	<u>254.5</u>	<u>142.9</u>

Deferred Income Taxes

At the direction of the NEB, the Company follows the taxes payable method of accounting for income taxes related to the operations of the Canadian Mainline. Had the deferral method of accounting been prescribed by the NEB for the Canadian Mainline from the date of commencement of operations, additional deferred income taxes in the amount of \$901.5 million to December 31, 1997 (1996 — \$816.5 million) would have been recorded and recovered in tolls.

Provision for Income Taxes

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Current			
Canada	98.7	162.4	142.5
Foreign	28.1	81.0	38.1
	<u>126.8</u>	<u>243.4</u>	<u>180.6</u>
Deferred			
Canada	27.5	7.2	(37.0)
Foreign	7.0	3.9	(0.7)
	<u>34.5</u>	<u>11.1</u>	<u>(37.7)</u>
	<u>161.3</u>	<u>254.5</u>	<u>142.9</u>

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Income Taxes (Continued)

Geographic Components of Income before Income Taxes

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(millions of dollars)		
Canada	439.1	458.0	407.3
Foreign	179.2	221.5	133.1
	<u>618.3</u>	<u>679.5</u>	<u>540.4</u>

Unremitted Earnings of Foreign Investments

Income taxes have not been provided on the unremitted earnings of foreign investments which the Company intends to indefinitely reinvest in foreign operations. If provision for these taxes had been made, deferred income taxes would increase by approximately \$37.8 million at December 31, 1997 (1996 — \$23.0 million, 1995 — \$14.0 million).

Income Tax Payments

Income tax payments of \$120.7 million, \$263.5 million and \$136.4 million were made during the years ended December 31, 1997, 1996 and 1995, respectively.

Note 13 Notes Payable

	<u>1997</u>		<u>1996</u>	
	<u>Balance at End of Year (millions of dollars)</u>	<u>Weighted Average Interest Rate Per Annum at End of Year</u>	<u>Balance at End of Year (millions of dollars)</u>	<u>Weighted Average Interest Rate Per Annum at End of Year</u>
Bank indebtedness				
U.S. dollars	15.7	6.3%	—	—
Commercial paper				
Canadian dollars	502.7	3.9%	169.8	3.2%
U.S. dollars	74.8	5.7%	36.8	5.5%
Notes payable of joint ventures				
Canadian dollars	19.9	3.9%	15.8	5.3%
U.S. dollars	54.9	6.8%	4.1	5.9%
	<u>668.0</u>		<u>226.5</u>	

The Company has unused lines of credit of \$2.0 billion at December 31, 1997, which support the Company's commercial paper program and are available to secure energy commodity purchases and for general corporate purposes. If used, interest on the lines of credit would be charged at prime rates of Canadian chartered and U.S. banks and at other negotiated financial bases. The cost to maintain the unused portion of the lines of credit is approximately \$1.0 million for the year ended December 31, 1997 (1996 — \$0.8 million).

Note 14 Pension Plans

The Company's non-contributory defined benefit and defined contribution pension plans cover substantially all employees. The Company's net pension expense was \$13.6 million, \$14.9 million, and \$12.0 million for the years ended December 31, 1997, 1996 and 1995, respectively.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Pension Plans (Continued)

The defined benefit pensions are based on length of service and the employee's final average earnings. The actuarial present value of current accumulated pension benefits, substantially all of which are vested, amounted to \$348.4 million at December 31, 1997 (1996 — \$335.5 million). At December 31, 1997, the pension plan assets amounted to \$328.3 million (1996 — \$335.8 million). Pension plan assets are valued at average market value and include marketable equity securities and corporate and government debt securities. The rate of return on pension plan assets was estimated to be 7.5 per cent per annum. In determining the actuarial present value of the projected pension benefit obligation, the discount rate used was 7.5 per cent and the rate of projected increase in future compensation levels used ranged from 3.0 to 4.0 per cent.

Under the defined contribution pension, which was introduced in 1997, Company contributions are based on the participating employee's pensionable earnings.

Note 15 Operating Working Capital

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Increase in accounts receivable	(206.8)	(488.4)	(36.6)
(Increase)/decrease in inventories	(108.9)	(69.3)	8.1
(Increase)/decrease in other current assets	(21.3)	3.0	0.1
Increase in accounts payable	75.2	482.2	46.1
Increase in accrued interest	10.4	10.1	0.6
	(251.4)	(62.4)	18.3

Note 16 Contingencies

The Company and its subsidiaries are subject to various legal proceedings and actions arising in the normal course of business. Management considers the aggregate liability, if any, of these actions and proceedings to be immaterial.

Among these actions and proceedings is one in which a U.S. subsidiary of the Company is one of the subjects of an action in Montana alleging anti-trust conspiracy and violations and claiming treble damages. In addition, the Company is the subject of an action in Texas alleging breach of agreement and defamation and claiming damages and punitive damages. The Company is unable to determine at this time how these two matters will be resolved but does not believe that they will have a material effect on its financial position. No provision has been made with respect to these two actions.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 Significant Differences Between Canadian and U.S. GAAP

Net Income Reconciliation

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars except per share amounts)		
Net income as reported in accordance with Canadian GAAP	457.0	425.0	397.5
U.S. GAAP adjustments			
Preferred securities charges, net of tax ⁽¹⁾	(13.1)	(1.9)	—
Income taxes ⁽²⁾	(7.1)	(3.0)	(3.2)
Foreign currency translation ⁽³⁾	—	(3.5)	1.1
Net income in accordance with U.S. GAAP	<u>436.8</u>	<u>416.6</u>	<u>395.4</u>
Basic and diluted net income per share in accordance with U.S. GAAP	<u>\$1.82</u>	<u>\$1.82</u>	<u>\$1.74</u>

- (1) Under U.S. GAAP, the financial charges related to COPrS are recognized as an expense.
- (2) Under U.S. GAAP, the liability method is used to calculate deferred income taxes and deferred income tax expense is calculated as the net change in the deferred tax liability during the year. Refer to "Income Taxes".
- (3) Under U.S. GAAP, the unrealized foreign exchange gains and losses with respect to borrowings in foreign currencies are recognized in income immediately.

Condensed Statement of Consolidated Income⁽⁴⁾

	Year Ended December 31		
	1997	1996	1995
	(millions of dollars)		
Revenues	13,597.6	10,431.2	6,667.3
Cost of sales	11,135.3	8,018.4	4,796.3
Other costs and expenses	1,178.4	1,099.9	774.5
Depreciation	318.6	284.7	233.4
	<u>12,632.3</u>	<u>9,403.0</u>	<u>5,804.2</u>
Operating income	<u>965.3</u>	<u>1,028.2</u>	<u>863.1</u>
Other (income)/expense			
Income from equity investments	(165.0)	(177.8)	(166.0)
Other expenses	535.7	533.4	487.6
Income taxes	157.8	256.0	146.1
	<u>528.5</u>	<u>611.6</u>	<u>467.7</u>
Net income in accordance with U.S. GAAP	<u>436.8</u>	<u>416.6</u>	<u>395.4</u>

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 Significant Differences Between Canadian and U.S. GAAP (Continued)

Condensed Statement of Consolidated Financial Position⁽⁴⁾

	December 31	
	1997	1996
	(millions of dollars)	
Current assets	1,919.5	1,540.5
Long-term investments	1,593.0	1,300.1
Plant, property and equipment	9,521.5	8,447.1
Regulatory asset	1,452.0	1,346.7
Other assets	195.0	76.1
	14,681.0	12,710.5
Current liabilities	2,337.9	1,869.4
Deferred amounts	113.1	26.4
Long-term debt	6,020.6	5,148.2
Deferred income taxes	1,655.7	1,476.7
Preferred securities ⁽⁵⁾	285.8	273.9
Trust originated preferred securities	218.1	218.1
Non-controlling interests	96.1	—
Shareholders' equity	3,953.7	3,697.8
	14,681.0	12,710.5

(4) In accordance with U.S. GAAP, the condensed Statements of Consolidated Income and Financial Position are prepared using the equity method of accounting for joint ventures. Excluding the impact of other U.S. GAAP adjustments, the use of the proportionate consolidation method of accounting for joint ventures, as required under Canadian GAAP, results in the same net income and shareholders' equity.

(5) Under U.S. GAAP, COPrS are classified as a liability. The fair value of COPrS at December 31, 1997 is \$296.6 million (1996 — \$280.8 million).

Income Taxes

U.S. GAAP requires that the Company record a deferred income tax liability for its cost-of-service regulated businesses. As these deferred income taxes are recoverable through future revenues, a corresponding regulatory asset is recorded for U.S. GAAP purposes. Deferred tax assets and liabilities are adjusted for changes in enacted tax rates.

TRANSCANADA PIPELINES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 Significant Differences Between Canadian and U.S. GAAP (Continued)

The tax effects of differences between the accounting value and the tax value of assets and liabilities are as follows.

	December 31	
	1997	1996
	(millions of dollars)	
Deferred tax liabilities		
Accelerated tax depreciation on plant and equipment	1,054.2	958.1
Taxes on future revenue requirement	504.7	459.7
Undistributed earnings of subsidiaries and joint ventures	93.3	92.9
Other	51.3	25.4
	<u>1,703.5</u>	<u>1,536.1</u>
Deferred tax assets		
Net operating and capital loss carryforwards	62.0	70.3
Other	54.9	73.2
	<u>116.9</u>	<u>143.5</u>
Valuation allowance	(69.1)	(84.1)
	<u>47.8</u>	<u>59.4</u>
	<u>1,655.7</u>	<u>1,476.7</u>

The valuation allowance was decreased by \$15.0 million in 1997 (1996 — \$37.2 million), primarily resulting from lower capital loss carryforwards.

Other

The Company has retained the measurement rules of APB Opinion No. 25 to account for the stock option plan. The use of the fair value method of FAS No. 123, "Accounting for Stock-Based Compensation" would not impact earnings per share in 1997, 1996 and 1995.

Note 18 Subsequent Event

On January 24, 1998, TransCanada and NOVA Corporation (NOVA) signed an agreement to combine the two companies under a plan of arrangement. Under the terms of the agreement, each NOVA common share will be exchanged for 0.52 TransCanada common shares. Pursuant to the plan of arrangement, the businesses will be split into separate energy and chemicals businesses, each held in a separate public company owned by the combined TransCanada and NOVA shareholder groups. The proposed transaction is expected to be completed in 1998 and is subject to the receipt of necessary shareholder and regulatory approvals.



TransCanada

TRANSCANADA PIPELINES LIMITED

QUARTERLY REPORT

MARCH 31, 1998
(unaudited)

TRANSCANADA PIPELINES LIMITED
1998 FIRST QUARTER REPORT

Highlights

	For the Three Months Ended March 31	
	1998	1997
	(unaudited)	
	(millions of dollars except per share amounts)	
Net income to common	102.7	105.2
Capital expenditures and investments	437.2	492.0
Earnings per share	\$0.46	\$0.48
Dividends declared per common share	\$0.31	\$0.29

Common Share Price Range

	Toronto Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
	(Canadian dollars)		(US dollars)	
1998				
First quarter	34.30	29.35	24.25	20.31
1997				
First quarter	26.85	22.90	19.63	16.75
Second quarter	28.40	24.10	20.38	17.38
Third quarter	28.35	25.75	20.63	18.63
Fourth quarter	32.25	25.60	22.56	18.13

Consolidated Financial Review

TransCanada's net income to common (net earnings) for the three months ended March 31, 1998 was \$102.7 million, or 46 cents per share, compared to \$105.2 million, or 48 cents per share, for the same quarter last year.

Solid performance from the Energy Transmission segment was offset by reduced contributions from the energy marketing and gas gathering and processing businesses.

Earnings-at-a-glance

	For the Three Months Ended March 31	
	1998	1997
	(unaudited)	
	(millions of dollars except per share amounts)	
Energy Transmission	85.9	78.0
Energy Marketing	2.4	9.5
Energy Processing	10.5	20.9
International	1.0	0.4
	<u>99.8</u>	<u>108.8</u>
Unallocated amounts	2.9	(3.6)
Net income applicable to common shares	<u>102.7</u>	<u>105.2</u>
Net income per share	<u>\$0.46</u>	<u>\$0.48</u>

Energy Transmission

Net earnings from the Energy Transmission segment increased \$7.9 million to \$85.9 million for the quarter ended March 31, 1998 compared to the same quarter in 1997.

The majority of the increase results from the strong financial performance of the Canadian Mainline during the first quarter of 1998. Net earnings of \$67.3 million for the three months ended March 31, 1998 represent an increase of 10.3 per cent, or \$6.3 million, over the same period last year. The decline in the approved rate of return on common equity, from 10.67 per cent in 1997 to 10.21 per cent in 1998, was more than offset by increased earnings due to the growth in rate base from the 1997 capital expansion program.

TransCanada's proportionate share of net earnings from its North American pipeline investments for the three months ended March 31, 1998 and 1997 was \$18.6 million and \$17 million, respectively.

Canadian Mainline

Construction is scheduled to commence in May for the 1998 capital expansion program. This expansion will add 417 million cubic feet (MMcf) per day of new capacity at a cost of approximately \$825 million and has been approved by the National Energy Board (NEB).

In March, TransCanada filed an application with the NEB to construct a \$14.7 million, 6.5-kilometre pipeline loop in southern Ontario in response to customer requests for more flexibility at the Parkway delivery point. The project is slated for completion in July 1998.

	Canadian Mainline Gas Transmission Volumes Delivered	
	1998	1997
	(billions of cubic feet)	
Domestic	358.0	342.3
Export	319.4	320.3
	<u>677.4</u>	<u>662.6</u>

Also in March, the NEB approved, on an interim basis, TransCanada's request for new tolls on the Canadian Mainline, effective April 1. The Eastern Zone toll is 90.4 cents per gigajoule (GJ), a 3.3 cent increase per GJ on an annualized basis when compared to the annual 1997 Eastern Zone toll. The tolling changes are

primarily related to the 1997 facilities expansion, which provide an additional 304 MMcf per day of firm capacity for TransCanada's customers, plus expected increases in costs.

Great Lakes

In March, Great Lakes Gas Transmission System filed an application with the U.S. Federal Energy Regulation Commission (FERC) for an expansion, through the addition of pipeline loop, amounting to US\$620.3 million. If built, the expansion will add about 300 MMcf per day of capacity from St. Vincent, Minnesota to St. Clair, Michigan and tie into the Union Gas system in Ontario.

Northern Border

Work is underway on Northern Border Pipeline Company's Chicago expansion, designed to bring an additional 700 MMcf per day of Canadian natural gas into U.S. markets. The expansion is expected to be complete by November 1, 1998.

Portland

Construction on the northern portion of the Portland Natural Gas Transmission System (Portland) 292-mile pipeline is scheduled to begin later this spring. Directional drilling of the Piscataqua River crossing commenced in February. The certificate from FERC requires the successful completion of this crossing before proceeding with construction of the southern portion of the pipeline, which is scheduled to begin in May 1998.

In March, Portland concluded its open season held to gauge shipper interest in additional transportation services beginning in 1999. Prospective shippers expressed interest in more than 500 MMcf per day of additional transportation capacity for natural gas, primarily to supply electric generation facilities and startup gas utility operations in northern New England.

TQM

In April, the NEB approved the Trans Québec & Maritimes Pipeline Inc. application to build a 213-kilometre pipeline extension from Lachenaie, Québec to East Hereford, Québec. The extension will serve markets in Québec and connect with Portland, to serve U.S. northeast markets. Construction is scheduled to commence in the spring of 1998.

Iroquois

Construction of the Athens compressor station began in April and is expected to be in service November 1, 1998. The project will add 30 MMcf per day of additional capacity at a capital cost projected to be US\$24 million.

Viking Voyageur

The Viking Voyageur pipeline project has been unable to secure sufficient shipper and natural gas supply support. The partners in the proposed Viking Voyageur gas pipeline are currently discussing their options for the project. The pipeline was to run from Emerson, Manitoba, to Joliet, Illinois, to deliver 1.4 billion cubic feet per day of western Canadian natural gas to markets in Minnesota, Wisconsin and northern Illinois.

TransCanada Turbines Ltd.

Construction of the TransCanada Turbines Ltd. (TCT) \$25 million gas turbine repair and overhaul facility in Calgary is underway and expected to be complete in June 1998. TCT, a joint venture between TransCanada PipeLines Services Ltd. and Wood Group Gas Turbines Ltd. of Scotland, is the only North American facility fully authorized to service the industrial gas turbines manufactured by both Rolls-Royce and General Electric.

Energy Marketing

The Energy Marketing segment contributed net earnings of \$2.4 million during the first three months of 1998, compared to \$9.5 million during the same period in 1997.

The \$7.1 million reduction in net earnings is mainly due to low volatility in natural gas prices, caused by the unusually warm winter weather. This significantly reduced opportunities to earn above average margins. In addition, refined products marketing was negatively affected by narrower margins resulting from extreme price volatility and oversupply in certain markets.

	Natural Gas Marketing Volumes Sold	
	1998	1997
	(billions of cubic feet)	
Netback	209.5	234.7
Non-netback	330.3	210.5
	<u>539.8</u>	<u>445.2</u>

	Petroleum and Products Marketing Volumes Sold	
	1998	1997
	(millions of barrels)	
Crude oil	27.3	3.3
Refined products	16.4	19.0
Natural gas liquids	6.4	24.3
	<u>50.1</u>	<u>46.6</u>

Natural Gas Marketing

Gas Marketing introduced an innovative Strategic Pricing Management Program. The program now has almost 130 customers, with daily sales of approximately 44 MMcf and it continues to attract new customers. By pooling the requirements of many buyers, the volume of gas purchased is large enough to capitalize on purchasing opportunities.

In March, an application was filed with the NEB seeking approval to export 30 MMcf per day of natural gas to New England markets for a 10-year period beginning in November 1998. Under the terms of the application, TransCanada would export the gas from East Hereford, Québec to supply markets in New England. Buyers in the United States include local distribution companies, industrial customers and power generation facilities.

Energy Processing

Net earnings from the Energy Processing segment were \$10.5 million and \$20.9 million, respectively, for the three months ended March 31, 1998 and 1997.

These results reflect the further narrowing of the spread in the U.S. gas gathering and processing business during the first three months of 1998 due to increasing natural gas prices combined with declining product prices. This trend, which began late in the first quarter of 1997, continues to negatively affect the net earnings of this business. The Canadian gathering and processing business has also been impacted by lower natural gas liquids prices.

Power

In April, the Power business increased its share of electrical output from Ocean State Power (OSP) by an additional 28 per cent through the acquisition of power purchase agreements currently in place between an affiliate of Eastern Utilities Associates (EUA) and OSP. TransCanada will receive approximately US\$130 million

over nine years from EUA as compensation for acquiring the obligations contained in the power purchase agreements. TransCanada also plans to acquire an additional 30 per cent equity interest in OSP and 48.5 per cent of the OSP power purchase agreements from another partner in 1998. At the conclusion of these transactions, and subject to regulatory approvals, TransCanada will own a 70 per cent interest in OSP and will control 76.5 per cent of the plant's electrical output.

TransCanada Power, L.P.

In March, TransCanada Power, L.P. (Power L.P.) acquired a 42.6-megawatt facility from Potter Station Power Limited Partnership. The facility, located in Tunis, Ontario, employs enhanced combined-cycle generating technology to produce electricity that is sold to Ontario Hydro under long-term contracts. Natural gas, used to fuel the facility, is purchased under long-term contracts. To finance the transaction and planned improvements to the facility, Power L.P. issued approximately 4.9 million limited partnership units to the public for \$28.50 per unit — a total of \$140 million. As a result of the issuance of these additional units, TransCanada's interest in the partnership has been reduced from 50 per cent to 39.8 per cent.

International

Net earnings from the International segment increased \$0.6 million to \$1 million in the three months ended March 31, 1998 compared to the same period in 1997.

This quarter-over-quarter increase is primarily attributable to higher equity income from TransCanada's investment in the OCENSA crude oil pipeline in Colombia.

Mayakan

In February, Energia Mayakan S. de R.L. de C.V. (Mayakan), a company owned by TransCanada, InterGen and Gutsa Construcciones, hosted a sod turning ceremony signalling the launch of construction on the US\$266 million pipeline that will transport natural gas from Ciudad Pemex to the Yucatan Peninsula in Mexico.

TransCanada has a 62.5 per cent interest in the 700-kilometre pipeline, Mexico's first significant pipeline development to be owned by the private sector. Construction of the pipeline is expected to be completed in 1999.

Corporate

Dividends Declared

In February, TransCanada's board of directors declared a quarterly dividend of 31 cents per share for the quarter ended March 31, 1998 on the outstanding common shares. It is the 137th consecutive dividend paid by TransCanada on its common shares, and is payable on April 30, 1998 to shareholders of record at the close of business on March 31, 1998. The board also declared regular dividends on TransCanada's preferred shares.

Merger with NOVA

Industry Groups Reach Agreement

In April, TransCanada, NOVA Corporation (NOVA), NOVA Gas Transmission Ltd., the Canadian Association of Petroleum Producers, and the Small Explorers and Producers Association of Canada reached an agreement to promote a competitive environment, greater customer choice and alignment of interests in the Western Canadian Sedimentary Basin (WCSB).

The agreement, signed April 7, endorses three guiding principles: (1) support for competition and greater customer choice; (2) the need to construct competitive incremental pipeline capacity from the WCSB by both new competitors and existing pipelines alike in a timely, safe and cost-effective manner; and (3) the need for regulatory changes that will provide existing and new pipelines equal opportunity to compete, recognizing that such competition is desirable and in the best interests of all industry stakeholders.

The parties to the agreement will immediately pursue the three guiding principles through several action items in 1998, including: (1) implementation of a pipeline interconnection policy to provide shippers with the option of reasonable access to competing transmission systems and to minimize duplication of facilities; (2) development of several regulatory changes and a proposed new regulatory framework through discussions with key stakeholders and for consideration by the NEB and the Alberta Energy and Utilities Board; and (3) development of a process acknowledging the industry's desire to maintain adequate separation between TransCanada's and NOVA's regulated and non-regulated businesses.

Regulatory and Shareholder Approvals

TransCanada and NOVA have passed two regulatory hurdles necessary for completion of the proposed merger. FERC issued an order on April 6, 1998 granting approval of the companies' application. The companies also filed an application with the U.S. Federal Trade Commission and the Department of Justice. The 30-day waiting period expired on April 5, allowing TransCanada and NOVA to proceed with the merger without further review by those agencies.

TransCanada and NOVA plan to hold shareholder meetings on June 29, 1998 to seek approval for the merger which, if obtained, may lead to completion of the merger in the first week of July 1998.

"George W. Watson"
George W. Watson
President and Chief Executive Officer

April 24, 1998
Calgary, Alberta

**REPORT OF THE CHIEF FINANCIAL OFFICER
OF TRANSCANADA PIPELINES LIMITED**

The unaudited interim consolidated financial statements of TransCanada PipeLines Limited for the three months ended March 31, 1998, have been prepared in accordance with Canada generally accepted accounting principles.

"Stephen J.J. Letwin"
Stephen J.J. Letwin
Senior Vice President,
Chief Financial Officer
TransCanada PipeLines Limited

May 19, 1998
Calgary, Alberta

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED INCOME

	For the Three Months Ended March 31	
	1998	1997
	(unaudited)	
	(millions of dollars except per share amounts)	
Revenues	3,388.4	3,645.4
Cost of Sales	2,571.2	2,876.4
Other Costs and Expenses	395.2	336.2
Depreciation	111.8	102.5
	<u>3,078.2</u>	<u>3,315.1</u>
Operating Income	310.2	330.3
Other Expense/(Income)		
Financial charges	153.5	132.0
Financial charges of joint ventures	26.3	21.8
Allowance for funds used during construction	(7.6)	(4.4)
Interest and other income	(1.8)	(4.3)
	<u>170.4</u>	<u>145.1</u>
Income before Income Taxes	139.8	185.2
Income Taxes — Current and Deferred	24.7	67.8
Net Income	115.1	117.4
Preferred Securities Charges	3.3	3.1
Preferred Share Dividends	9.1	9.1
Net Income Applicable to Common Shares	<u>102.7</u>	<u>105.2</u>
Net Income Per Share	<u>\$ 0.46</u>	<u>\$ 0.48</u>
Average Shares Outstanding (millions)	<u>223.2</u>	<u>218.4</u>

See accompanying Notes to Summarized Consolidated Financial Statements.

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED CHANGES IN FINANCIAL POSITION

	For the Three Months Ended March 31	
	1998	1997
	(unaudited)	
	(millions of dollars except per share amounts)	
Cash Generated From Operations		
Funds generated from operations	226.5	232.5
Decrease/(increase) in operating working capital	<u>102.6</u>	<u>(90.3)</u>
	<u>329.1</u>	<u>142.2</u>
Investing Activities		
Capital expenditures		
Energy transmission	(243.7)	(231.3)
Energy processing	(181.2)	(7.2)
International	(8.2)	(17.5)
Energy marketing and corporate	(4.1)	(5.7)
Acquisitions, net of cash acquired	—	(230.3)
Deferred amounts and other	<u>(32.1)</u>	<u>63.4</u>
	<u>(469.3)</u>	<u>(428.6)</u>
Financing Activities		
Dividends and preferred securities charges	(84.1)	(75.3)
Notes payable (repaid)/issued, net	(204.6)	277.1
Long-term debt issued	418.7	103.0
Reduction of long-term debt	(159.4)	(46.6)
Non-recourse debt of joint ventures issued	299.3	—
Reduction of non-recourse debt of joint ventures	(4.5)	(3.0)
Partnership units issued by a subsidiary	132.0	—
Common shares issued	<u>33.9</u>	<u>28.4</u>
	<u>431.3</u>	<u>283.6</u>
Increase/(Decrease) in Cash and Short-Term Investments	291.1	(2.8)
Cash and Short-Term Investments		
— at beginning of period	<u>115.2</u>	<u>163.2</u>
Cash and Short-Term Investments		
— at end of period	<u>406.3</u>	<u>160.4</u>

See accompanying Notes to Summarized Consolidated Financial Statements.

TRANSCANADA PIPELINES LIMITED
CONSOLIDATED FINANCIAL POSITION

	<u>March 31,</u> <u>1998</u>	<u>December 31,</u> <u>1997</u>
	(unaudited)	
	(millions of dollars)	
Current Assets		
Cash and short-term investments	406.3	115.2
Accounts receivable	1,282.0	1,513.4
Inventories	289.1	352.5
Other	32.7	34.2
	<u>2,010.1</u>	<u>2,015.3</u>
Long-Term Investments	<u>300.4</u>	<u>274.8</u>
Plant, Property and Equipment		
Energy transmission	10,799.9	10,671.4
Energy processing	1,470.7	1,282.1
Energy marketing, international and corporate	116.8	119.4
	<u>12,387.4</u>	<u>12,072.9</u>
Other Assets	<u>228.7</u>	<u>208.6</u>
	<u>14,926.6</u>	<u>14,571.6</u>
Current Liabilities		
Notes payable	463.4	668.0
Accounts payable	1,447.3	1,626.4
Long-term debt due within one year	165.3	282.3
Non-recourse debt of joint ventures due within one year	55.5	51.0
	<u>2,131.5</u>	<u>2,627.7</u>
Deferred Amounts	<u>149.6</u>	<u>113.1</u>
Long-Term Debt	<u>6,392.2</u>	<u>6,020.6</u>
Non-Recourse Debt of Joint Ventures	<u>1,263.0</u>	<u>982.8</u>
Deferred Income Taxes	<u>239.9</u>	<u>232.5</u>
Junior Subordinated Debentures	<u>224.0</u>	<u>223.9</u>
Non-Controlling Interests	<u>194.8</u>	<u>96.1</u>
Shareholders' Equity		
Preferred securities	277.4	280.0
Preferred shares	512.6	512.6
Common	3,541.6	3,482.3
	<u>4,331.6</u>	<u>4,274.9</u>
	<u>14,926.6</u>	<u>14,571.6</u>

See accompanying Notes to Summarized Consolidated Financial Statements.

TRANSCANADA PIPELINES LIMITED
NOTES TO SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. **Basis of Presentation**

The results of operations for the three months ended March 31, 1998 and 1997 are not necessarily indicative of the results that may be expected for a full fiscal year. These summarized consolidated financial statements should be read in conjunction with the Company's 1997 annual consolidated financial statements.

2. **Segmented Information**

	For the Three Months Ended March 31	
	1998	1997
	(millions of dollars)	
Energy Transmission		
Revenues	660.1	579.9
Costs and expenses	(292.1)	(232.3)
Depreciation	(95.9)	(84.3)
Operating income	272.1	263.3
Financial charges and other	(145.2)	(133.4)
Income taxes	(31.9)	(42.8)
Preferred share dividends	(9.1)	(9.1)
Net income applicable to common shares	85.9	78.0
Energy Marketing		
Revenues	2,488.2	2,878.7
Cost of sales	(2,451.8)	(2,834.5)
Other costs and expenses	(22.0)	(22.3)
Operating income	14.4	21.9
Financial charges and other	(7.5)	(3.1)
Income taxes	(4.5)	(9.3)
Net income applicable to common shares	2.4	9.5
Energy Processing		
Revenues	176.8	183.2
Cost of sales	(63.7)	(41.9)
Other costs and expenses	(72.0)	(77.2)
Depreciation	(14.5)	(17.2)
Operating income	26.6	46.9
Financial charges and other	(12.3)	(9.3)
Income taxes	(3.8)	(16.7)
Net income applicable to common shares	10.5	20.9
International		
Revenues	63.3	3.6
Cost of sales	(55.7)	—
Other costs and expenses	(10.5)	(5.4)
Operating loss	(2.9)	(1.8)
Other income and expenses	0.4	0.5
Income taxes	3.5	1.7
Net income applicable to common shares	1.0	0.4
Unallocated Amounts		
Financial charges and other	2.9	(3.6)
Net Income Applicable to Common Shares	102.7	105.2

3. Plan of Arrangement with NOVA

On January 24, 1998, TransCanada and NOVA Corporation (NOVA) signed an agreement to combine the two companies under a plan of arrangement. Under the terms of the agreement, each NOVA common share will be exchanged for 0.52 TransCanada common shares. Pursuant to the plan of arrangement, the businesses will be split into two separate energy and chemicals businesses, each held in a separate public company owned by the combined TransCanada and NOVA shareholder groups. The proposed transaction is expected to be completed in 1998 and is subject to the receipt of necessary shareholder and regulatory approvals.

CORPORATE PROFILE

TransCanada PipeLines Limited is one of North America's leading energy services companies. TransCanada manages its \$15 billion in assets to provide integrated energy transmission, energy marketing and energy processing solutions to customers in North America and, to an increasing degree, internationally.

Common shares trade under the symbol TRP, primarily on the Toronto, Montréal and New York Stock Exchanges.

STOCK EXCHANGES

The common and preferred shares of TransCanada are listed on the Toronto, Montréal, Vancouver, Alberta and Winnipeg stock exchanges in Canada. The common shares are also listed on the New York Stock Exchange.

Common Share Price Range

<u>Toronto Stock Exchange</u>	<u>High</u>	<u>Low</u>	<u>New York Stock Exchange</u>	<u>High</u>	<u>Low</u>
				(US dollars)	
Fiscal 1997	\$32.25	\$22.90	Fiscal 1997	\$22.56	\$16.75
First Quarter 1998	\$34.30	\$29.35	First Quarter 1998	\$24.25	\$20.31

INVESTOR INFORMATION

Additional statistical information can be obtained by contacting David Moneta, Investor Relations, at 1-800-361-6522.

To change your address, eliminate multiple mailings, request information regarding cheques, share certificates, stock transfers or dividend reinvestment plan account updates, please contact the transfer agent:

Montreal Trust Company of Canada
Stock Transfer Services
600, 530 - 8th Avenue S.W.
Calgary, Alberta, Canada T2P 3S8
Telephone: (403) 267-6555

TransCanada welcomes questions from shareholders and potential investors.

Please telephone
David Moneta, Investor Relations at 1-800-361-6522
(Canada and U.S. Mainland)
or direct dial (403) 267-8521.
The investor fax line is (403) 267-8538.

Visit TransCanada's Internet site at: <http://www.transcanada.com>

Mailing Address:

TransCanada PipeLines Limited
P.O. Box 1000, Station M
Calgary, Alberta T2P 4K5

APPENDIX I — INFORMATION RELATING TO NOVA CHEMICALS LTD.

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April 16, 1998



NOVA Chemicals

NOVA Chemicals Ltd.

ANNUAL INFORMATION FORM



NOVA Chemicals®

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REFERENCE INFORMATION

Regulatory Authorities EPA U.S. Environmental Protection Agency

Imperial Unit

lb	=	pound
Mbbls	=	thousand barrels
Mcf	=	thousand cubic feet
MMcf	=	million cubic feet
Bcf	=	billion cubic feet
Tcf	=	trillion cubic feet
MMlbs	=	million pounds

Metric Conversion Table

1 mile	=	1.609 kilometres
1 lb	=	0.453592 kilograms
1 Mbbls	=	158.9825 cubic metres
*1 Mcf	=	28.17399 cubic metres
*1 MMcf	=	28.17399 × 10 ³ cubic metres
*1 Bcf	=	28.17399 × 10 ⁶ cubic metres
*1 Tcf	=	28.17399 × 10 ⁹ cubic metres
1 MMlbs	=	453,592 kilograms
* Conversion based on natural gas at 60°F. and 14.7 psi(a) converted at 15°C and 101.325 kilopascals		

FORWARD LOOKING INFORMATION

The information in this material contains forward-looking statements with respect to NOVA Chemicals Ltd. or of its subsidiaries or associated companies. By their nature, these forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. NOVA Chemicals Ltd. operates a commodity chemicals business, concentrating on ethylene, polyethylene, styrenics and methanol. Risks and uncertainties for NOVA Chemicals Ltd. include petrochemical price levels (which depend on global supply and demand, capacity utilization, feedstock and other costs), Canadian/U.S. exchange rates, technological factors, completion of the previously announced merger with TransCanada PipeLines Limited and split-off of NOVA Chemicals Ltd. as an independent publicly traded company, performance by NGC Corporation and Methanex Corporation and other risks detailed from time to time in the publicly filed disclosure documents and securities commission reports of NOVA Chemicals Ltd., NOVA Corporation, Methanex Corporation, NGC Corporation and their subsidiaries or affiliated companies.

NOVA Chemicals® is a registered trademark of NOVA Brands Ltd.; authorized user/utilisation autorisée

THE CORPORATION

NOVA Chemicals Ltd. (“NOVA Chemicals”) is a major petrochemical and polymer producer with headquarters in Calgary, Alberta, Canada. NOVA Chemicals was amalgamated and organized under the Business Corporations Act (Alberta).

NOVA Chemicals operates two principal businesses: olefins/polyolefins, and styrenics. The olefins/polyolefins business produces ethylene, polyethylene and a variety of chemical and energy products, while the styrenics business produces styrene and styrenic polymers. NOVA Chemicals operates major production facilities in Joffre, Alberta and in the Sarnia, Ontario area, as well as manufacturing facilities in Montreal, Quebec and at various locations in the United States. NOVA Chemicals also owns approximately 27% of Methanex Corporation (“Methanex”) and approximately 26% of NGC Corporation (“NGC”).

NOVA Chemicals’ Articles of Amalgamation dated January 1, 1993 have been amended three times, once to designate an additional form of its name, being Chimie Novacor Ltée, later to change its name to NOVA Chemicals Ltd. and again to designate the French form of that name, being NOVA Chimie Ltée.

Where used in this Annual Information Form, “NOVA Chemicals” or “the Corporation” mean NOVA Chemicals Ltd. or NOVA Chemicals Ltd. together with its subsidiaries, depending on the context in which such terms are used.

Historical Development

NOVA Chemicals commenced operation of the “EI” ethylene facility in Joffre, Alberta in 1979. A second ethylene facility (“EII”) commenced operations in Joffre in 1984 in tandem with a linear low-density polyethylene facility. In 1988, NOVA Chemicals acquired Polysar Energy & Chemical Corporation, a company with significant petrochemical operations. Through this purchase, NOVA Chemicals acquired its Corunna olefins facility and its styrenics business. Recent significant developments include:

- In January 1994, NOVA Chemicals completed a series of transactions whereby it exchanged its methanol assets for common shares of Methanex and purchased additional Methanex common shares and common share installment receipts. As a result, NOVA Chemicals became the largest shareholder of Methanex with a 24% ownership interest. Because NOVA Chemicals has not participated in Methanex’s share buy back program NOVA Chemicals’ interest in Methanex has increased to approximately 27%.
- In January 1994, NOVA Chemicals acquired its initial 39.1% interest in Natural Gas Clearinghouse (the predecessor to NGC) for \$219 million. In March 1995, Natural Gas Clearinghouse combined with Trident NGL Holding, Inc. (“Trident”) to form NGC. NOVA Chemicals contributed \$95 million to retain 33.3% ownership in NGC which subsequently increased to 35% in February 1996 pursuant to contingent stock rights issued in connection with the Trident transaction. On August 31, 1996, most of the United States (except Alaska) natural gas gathering, processing and marketing assets of Chevron Corporation (“Chevron”) were merged into NGC. NOVA Chemicals retained approximately 26% of the common shares of the expanded NGC.
- In January 1994, NOVA Chemicals sold Novalta Resources Inc. (“Novalta”), an oil and gas exploration and production company, for approximately \$265 million.
- In June 1994, NOVA Chemicals acquired the St. Clair River linear low-density and high-density polyethylene facility from DuPont Canada Inc. (“DuPont”) for approximately \$45 million plus working capital.
- In June 1995, NOVA Chemicals sold its polypropylene plant at Marysville, Michigan for \$60 million.
- On February 29, 1996, NOVA Corporation (“NOVA”) and Union Carbide Corporation (“Union Carbide”) announced plans to build a 2 billion pounds-per-year ethylene plant (“EIII”) in Joffre, Alberta to be jointly owned, on an approximately equal-ownership basis, by NOVA Chemicals and Union Carbide Canada Inc. (“Union Carbide Canada”). NOVA announced on April 16, 1997 that the planned initial production capacity of the plant had been increased to 2.8 billion pounds-per-year. The cost of the

facility, including all owners', commissioning and start-up costs, is currently estimated to be \$1.1 billion, as-spent. The facility is scheduled for completion in the year 2000.

- On September 30, 1996, NOVA Chemicals acquired the plastics business of ARCO Chemical Company ("ARCO Chemicals") for approximately US\$160 million including working capital.
- On April 16, 1997, NOVA Chemicals and Amoco Canada Petroleum Company Ltd ("Amoco") announced Amoco's plans to construct a linear alpha olefins ("LAO") plant on NOVA Chemicals' Joffre site. NOVA Chemicals will be the ethylene feedstock supplier to and a major customer of products produced by the LAO plant which is planned to start up in the year 2000. Construction of the LAO plant is subject to receipt of final regulatory approvals.
- On April 16, 1997 NOVA Chemicals announced plans to construct a polyethylene plant at the Joffre site that will utilize Advanced SCLAIRTECH™ technology. This proprietary technology, first announced on December 5, 1996, yields high performance polyethylene resins with key advantages over traditional polyethylene resins. The plant is expected to come on stream in the year 2000, corresponding with the completion of EIII. The plant has a planned capacity of 850 MMlbs-per-year and is currently estimated to cost \$385 million, as-spent, including all construction, commissioning and start-up costs.
- On July 8, 1997 NOVA Chemicals announced that it would begin the regulatory application process for a possible cogeneration power plant at its Joffre site. NOVA Chemicals is proceeding with plans to develop and share ownership in a cogeneration plant having an electrical capacity of approximately 400 megawatts per hour. All of the steam and electrical requirements of the Joffre site (approximately 110 megawatts per hour of electricity) would be supplied from the cogeneration facility. Excess electrical power would be sold to the Alberta power pool.

Recent Developments

On January 26, 1998, NOVA and TransCanada PipeLines Limited ("TransCanada") announced their intention to complete a merger of equals by way of a plan of arrangement (the "Arrangement"). Under the terms of the Arrangement shareholders of NOVA will exchange each NOVA common share for 0.52 TransCanada common shares. As part of the Arrangement, the merged entity will distribute, to its common shareholders which will include all of the former common shareholders of NOVA, all of the common shares of NOVA. At the time of such split-off of NOVA the only material asset of NOVA will be all of the common shares of NOVA Chemicals. The Arrangement requires the approval of the shareholders of NOVA and TransCanada as well as tax, judicial and a variety of regulatory approvals.

Subsidiaries of NOVA Chemicals

The following list includes all material subsidiaries of NOVA Chemicals as at April 16, 1998 and indicates their respective jurisdictions of incorporation and the percentage of voting securities of each beneficially owned or over which control or direction is exercised by NOVA Chemicals:

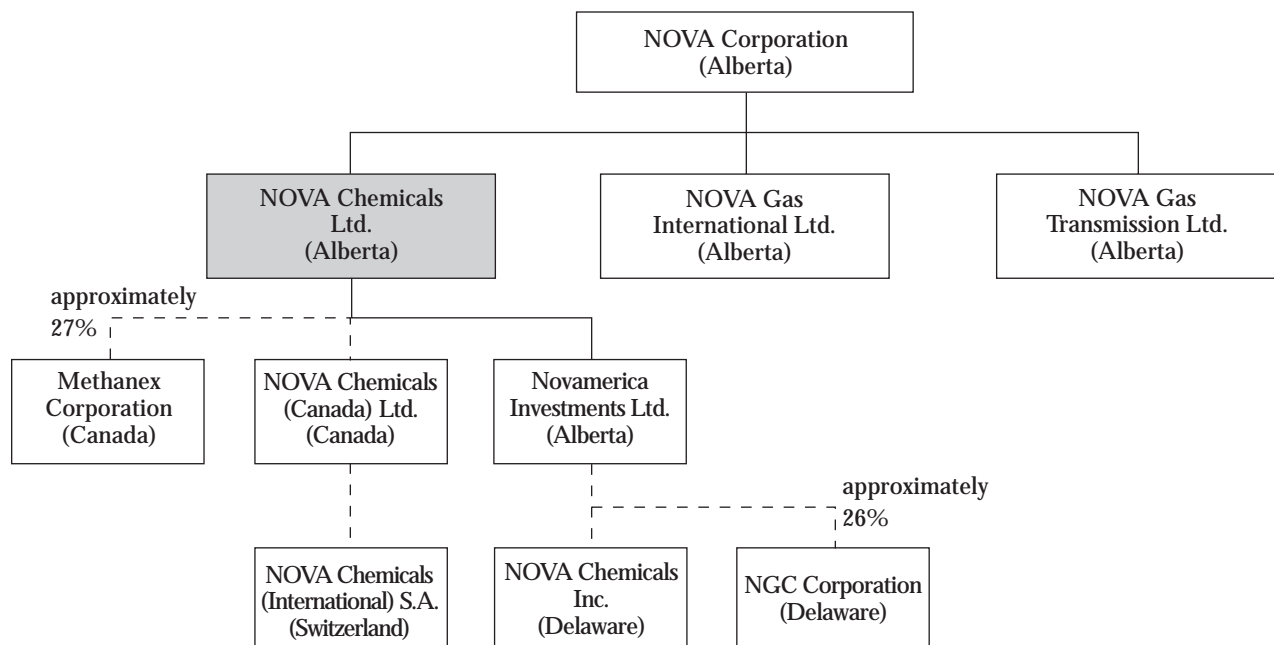
<u>Name</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities held Directly or Indirectly</u>
NOVA Chemicals (Canada) Ltd./NOVA Chimie (Canada) Ltée	Canada	100%
NOVA Chemicals Holdings Inc.	Delaware, U.S.A.	100%
NOVA Chemicals Inc.	Delaware, U.S.A.	100%
NOVA Chemicals (International) S.A.	Switzerland	100%
NOVA Gas Services (U.S.) Inc.	Delaware, U.S.A.	100%
NOVA Investments (U.S.) Inc.	Delaware, U.S.A.	100%
NOVA Petrochemicals Ltd.	Alberta	100%
Novacor Chemicals Holdings B.V.	Holland	100%
Novacor Chemicals Investments B.V.	Holland	100%
Novamerica Investments Ltd.	Alberta	100%

SCLAIRTECH™ is a trademark of NOVA Chemicals.

Affiliates of NOVA Chemicals

NOVA Chemicals is a wholly-owned subsidiary of NOVA, a Canadian-based energy services and petrochemical corporation. NOVA Chemicals is the primary entity through which NOVA's petrochemical operations and business are conducted.

In addition to the petrochemicals business pursued through NOVA Chemicals, NOVA pursues a gas transmission business and an energy services business. A regulated Alberta natural gas transmission business is operated by NOVA Gas Transmission Ltd. ("NOVA Gas Transmission"), a wholly-owned subsidiary of NOVA. Unregulated Canadian and international energy services operations are conducted by NOVA Gas International Ltd. ("NOVA Gas International"), also a wholly-owned subsidiary of NOVA. The following chart summarizes NOVA's and NOVA Chemicals' corporate structure showing principal operating entities and jurisdictions of incorporation:



Dotted lines signify an indirect holding.

Business

General

NOVA Chemicals operates two principal businesses: olefins/polyolefins, and styrenics. The olefins/polyolefins business produces ethylene and a variety of chemical and energy products, while the styrenics business produces styrene and styrenic polymers. NOVA Chemicals operates major production facilities at Joffre, Alberta and in the Sarnia area of Ontario, as well as polystyrene manufacturing facilities in Montreal, Quebec; Beaver Valley, Pennsylvania; Painesville, Ohio; Decatur, Alabama; and Springfield, Massachusetts.

Ethylene and styrene are basic petrochemicals used to manufacture a wide variety of polymers and other chemical products. NOVA Chemicals produces polyethylene and polystyrene resins, primarily from its internal ethylene and styrene production, respectively, and sells the surplus ethylene and styrene to third parties. Polyethylene and polystyrene are used in a wide range of applications including rigid and flexible packaging, containers, multipurpose plastic bags, pipe, video and audio components, housewares and other industrial and consumer goods.

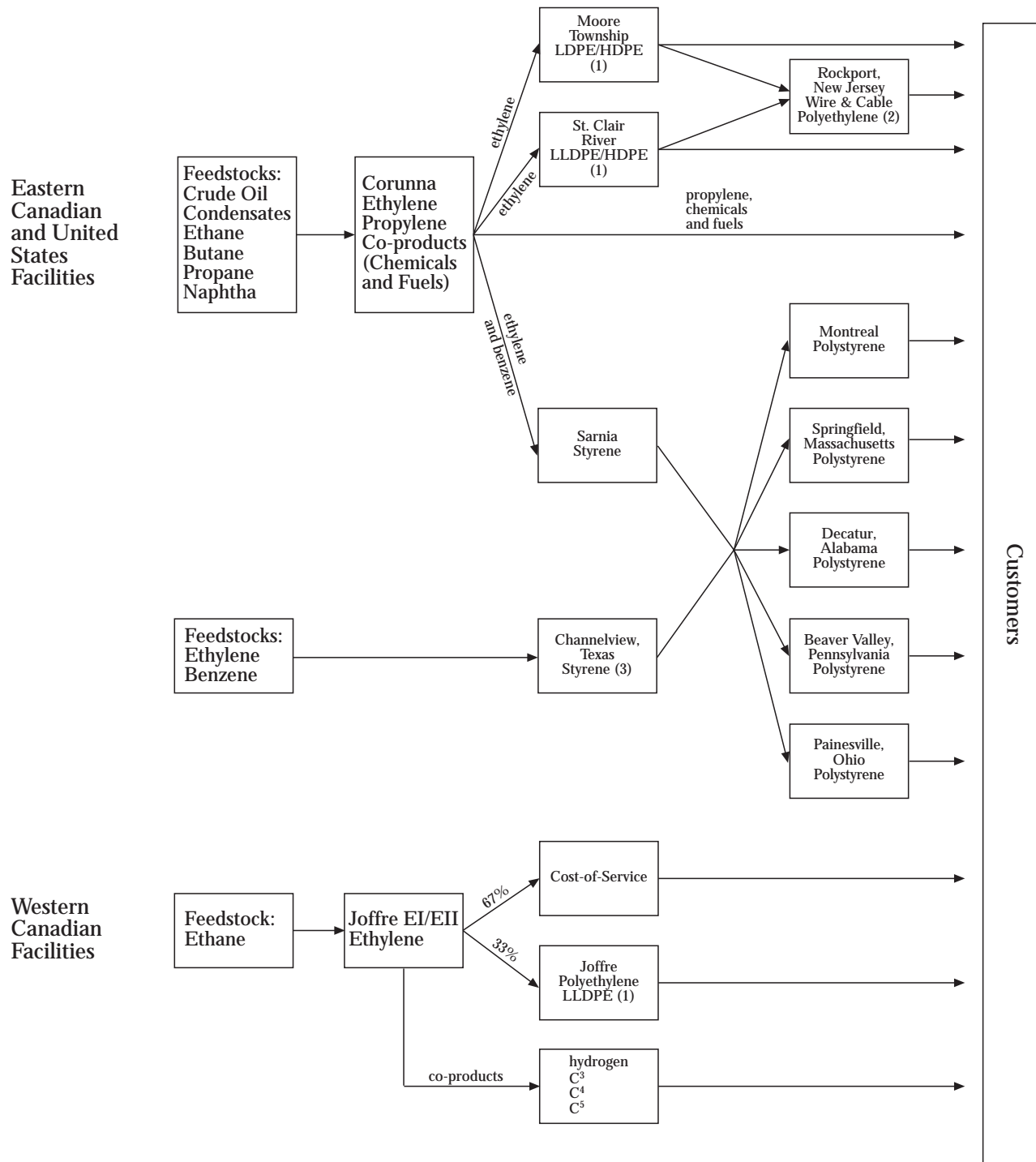
NOVA Chemicals' 1997 capital expenditures were approximately \$328 million, which included \$106 million on the olefins business, \$129 million on the polyolefins business and \$87 million on the styrenics business. NOVA Chemicals' capital expenditures are currently expected to be in the order of \$500 million for 1998.

NOVA Chemicals also owns approximately 27% of Methanex, the world's largest producer and marketer of methanol, and approximately 26% of the common shares of NGC, a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom.

Production Facilities

The following two pages show NOVA Chemicals' production facilities as of December 31, 1997, the interrelationship between them and their principal products.

Product Flow Chart



Notes:

- (1) "LLDPE" is linear low-density polyethylene, "HDPE" is high-density polyethylene and "LDPE" is low-density polyethylene.
- (2) NOVA Chemicals owns 50% of NOVA-Borealis Compounds LLC which owns this facility.
- (3) NOVA Chemicals owns a minority interest in the facility and receives styrene monomer as a result of this interest. NOVA Chemicals also entered into a tolling arrangement for additional styrene monomer from this facility as part of the acquisition of ARCO Chemicals' polymers business.

Facility Profile

Site	Feedstocks	Principal Products	1997 Rated Capacity ⁽¹⁾ (MMlbs/year)	Markets	Principal End-Use Products
Joffre, Alberta	Ethane Ethane Ethane	Ethylene (EI) Ethylene (EII) Co-products ⁽⁴⁾	1,600 1,800 — ⁽³⁾	Canada	Polyethylene resin, ethylene glycol, ethylene dichloride, styrene, vinyl acetate
Corunna, Ontario	Crude oil, condensates, ethane, butane, propane, naphtha	Ethylene	1,600 ⁽²⁾	Canada, United States	Polyethylene, styrene
Sarnia, Ontario Channelview, Texas ⁽⁵⁾	Ethylene, benzene	Propylene Co-products ⁽⁴⁾ Styrene	650 to 835 ⁽²⁾ — ⁽³⁾ 1,400	Canada, United States Canada, United States, Europe, Pacific Rim	Polypropylene, isopropyl alcohol, propylene oxides Gasoline, fuel additives and other energy related products Polystyrene resin, synthetic rubber, acrylonitrile butadiene styrene resin
Joffre, Alberta	Ethylene	Linear low-density polyethylene	1,200	Canada, United States, Pacific Rim, Europe, Latin America	Polyethylene bags, polyethylene films, pipe, toys, plastic containers and compounding resins
Moore Township, Ontario	Ethylene	High-density polyethylene, low-density polyethylene	720	Canada, United States, Pacific Rim, Europe, Latin America	Polyethylene bags, polyethylene films, pipe, large blow moulded drums, plastic containers
St. Clair River, Ontario	Ethylene	Linear low-density polyethylene, high-density polyethylene	600	Canada, United States, Pacific Rim, Europe, Latin America	Polyethylene bags, polyethylene films, pipe, large blow moulded drums, plastic containers
Rockport, New Jersey ⁽⁶⁾	Polyethylene	Wire and cable polyethylene products	25	North and South America	Wire, cable and fibre optic cables insulated and/or jacketed with polyethylene
Montreal, Quebec Springfield, Massachussets, Decatur, Alabama	Styrene	Polystyrene resins	740	Canada, United States, Europe, Pacific Rim	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys
Beaver Valley, Pennsylvania	Styrene Maleic anhydride	Polystyrene resins and styrene maleic anhydride copolymer (SMA)	440	Canada, United States, Europe, Pacific Rim	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys, automotive parts and foamed packing
Painesville, Ohio	Styrene	Polystyrene resins	75	Canada, United States, Europe, Pacific Rim	Food packaging, food service, video and audio components, electrical components, medical wares, housewares, toys and foamed packing

Notes:

(1) Capacity at December 31, 1997.

(2) Variable depending on feedstock used.

(3) Joffre and Corunna co-product capacity is not rated.

(4) Co-products include butadiene, butylenes, C₅ dienes, dicyclopentadiene ("DCPD"), aromatics, C₉ resin oils, hydrogen and fuels.

(5) NOVA Chemicals owns a minority interest in the facility and receives styrene monomer as a result of this interest. NOVA Chemicals also entered into a tolling arrangement for additional styrene monomer from this facility as part of the acquisition of ARCO Chemicals' plastics business.

(6) NOVA Chemicals owns 50% of NOVA-Borealis Compounds LLC which owns this facility.

Olefins/Polyolefins

The olefins/polyolefins business manufactures ethylene and polyethylene. As part of NOVA Chemicals' ethylene production process, a number of chemical and energy products are also manufactured, including propylene, butadiene, butylenes, C₅ dienes, aromatics, C₉ resin oils, DCPD and hydrogen. Olefins/polyolefins revenue was \$2.66 billion in 1997, which represented 70% of NOVA Chemicals' total revenue (before intersegment eliminations).

Ethylene

NOVA Chemicals has an annual production capacity of approximately 5.0 billion pounds of ethylene, a commodity chemical produced from natural gas and crude oil derived feedstocks. Ethylene is used in the manufacture of polymers such as polyethylene, polystyrene and polyvinyl chloride, as well as chemical intermediates such as styrene, ethylene oxide, ethylene glycol, ethylene dichloride and vinyl acetate. NOVA Chemicals produced approximately 4.8 billion pounds of ethylene in 1997 at its facilities in Joffre, Alberta and Corunna, Ontario.

Joffre Facility

NOVA Chemicals' EI and EII ethylene plants at Joffre have a combined annual production capacity of approximately 3.4 billion pounds. The respective production capacity of EI and EII is approximately 1.6 billion pounds-per-year and approximately 1.8 billion pounds-per-year. Since the commissioning of EI in 1979 and EII in 1984, ethylene produced in these plants has been sold under 20-year, cost-of-service sales contracts with unaffiliated third parties covering approximately 67% of EI and EII production, with the balance of the production consumed by NOVA Chemicals. These cost-of-service contracts are based on pricing formulae which allow NOVA Chemicals to recover, from third parties, approximately 67% of the EI and EII operating costs (including ethane feedstock and fuel together with depreciation) and financing costs (including debt amortization) plus a contractually-based 20% after-tax return on a 46% weighted average deemed equity component. The rate base as at December 31, 1997 was \$281 million. The cost-of-service contracts for EI expire at the end of December, 1998 and the cost-of-service contracts for EII expire on June 30, 2004. The third party contracts insulate the underlying ethylene production from the price and margin fluctuations inherent in the market for ethylene.

At the time the cost-of-service arrangements for EI expire the original cost of the plant will be substantially depreciated. NOVA Chemicals has successfully negotiated new ethylene sales agreements for 100% of the ethylene production capacity of EI which will not be utilized internally by NOVA Chemicals. These new agreements are based on a variety of pricing mechanisms, some of which include market related elements, which ensure NOVA Chemicals recovers the cost of ethylene production plus a variable margin.

As a requirement of the original construction financing for the EI and EII facilities NOVA Chemicals and the predecessor to NOVA Gas Transmission entered into certain ethylene purchase and sale agreements. NOVA is obligated contractually to indemnify NOVA Gas Transmission for any losses which NOVA Gas Transmission may incur under these contracts. NOVA Chemicals and NOVA Gas Transmission anticipate that these arrangements will be modified to remove NOVA Gas Transmission in the first half of 1998.

As part of the ethylene production process, a number of co-products are also manufactured, including hydrogen and C₃, C₄, and C₅ diene streams. Under an agreement which expires June 30, 2004, NOVA Chemicals sells up to 176 MMLbs of hydrogen annually to Agrium Inc. ("Agrium"). NOVA Chemicals is paid a demand and commodity charge in respect of hydrogen sold to Agrium.

In April 1997 NOVA announced that the planned ethylene plant, EIII, in Joffre, to be jointly owned, on an approximately equal ownership basis, by NOVA Chemicals and Union Carbide Canada will have an initial design capacity of 2.8 billion pounds-per-year. The cost of the facility, including all owners', commissioning and start-up costs, is currently estimated to be \$1.1 billion, as spent. Detailed design and the early phases of construction are currently underway with completion scheduled in mid-year 2000 followed closely by commissioning and operation in the third quarter of 2000. Ethylene produced by EIII will be shared by NOVA Chemicals and Union Carbide Canada. NOVA Chemicals will utilize its share of ethylene produced by EIII to

support polyethylene production in the new Advanced SCLAIRTECH plant planned at Joffre as well as to support new ethylene sales agreements negotiated in 1997.

EI and EII use ethane as a raw material feedstock which is supplied under long-term ethane supply agreements with owners of natural gas liquids extraction plants located in Alberta. NOVA Chemicals has re-negotiated a certain number of these agreements which expire at the end of 1998 and now has agreements in place to satisfy the ethane requirements of EI, EII and a significant portion of the requirements of EIII, through to the year 2004. It is possible that new pipelines will be constructed which will transport natural gas liquids, including ethane, out of the province, potentially affecting the supply of ethane in Alberta.

NOVA Chemicals owns interests in ethane and ethylene pipelines in Alberta, and ethane and ethylene storage facilities in Alberta and Ontario. NOVA Chemicals also owns a 20% interest in the Cochin Pipeline, which principally transports ethane, ethylene and propane from Alberta to markets in Ontario and the United States.

Corunna Facility

The Corunna facility, located near Sarnia, Ontario, has an annual production capacity of approximately 1.6 billion pounds of ethylene. The Corunna facility has the ability to process a wide range of hydrocarbon feedstocks including crude oil, condensates, ethane, propane, butane, naphtha and other gas oils, and thereby produce a broad range of primary petrochemicals which are consumed by the downstream operations of NOVA Chemicals as well as by other petrochemical producers. NOVA Chemicals benefits from co-products production from the plant's crude oil processing operations which help to offset increases that may occur in crude oil prices. Virtually all ethylene production from the Corunna facility is used internally by NOVA Chemicals.

The feedstock selection determines the range of co-products obtained, with heavier feedstocks such as naphtha producing more co-products. Co-products include benzene (used by NOVA Chemicals in the production of styrene), propylene, a mixed isobutylene/normal butylene/butadiene stream and other energy products.

Raw materials for the Corunna facility are obtained from a wide variety of sources. Crude oil, the main feedstock, is supplied predominantly under contract with western Canadian producers and delivered via the Interprovincial Pipe Line Inc. pipeline system. Ethane, propane, butane and naphtha are sourced from western Canadian and local producers.

The Corunna facility experienced difficulty restarting after a planned major maintenance shutdown in the second half of 1997. This resulted in lower production volumes which negatively impacted earnings by \$13 million after-tax.

Polyethylene

NOVA Chemicals has an annual production capacity of approximately 2.5 billion pounds of polyethylene. Polyethylene is a polymer produced from ethylene and is used in a wide number of applications such as packaging, pipe, blow-molded drums and plastic containers. NOVA Chemicals produced approximately 2.3 billion pounds of polyethylene in 1997. NOVA Chemicals produces polyethylene at three facilities in Canada, and all of its ethylene requirements are supplied from its Joffre and Corunna ethylene facilities.

NOVA Chemicals' polyethylene plant located at Joffre has an annual production capacity of approximately 1.2 billion pounds and produces linear low-density polyethylene ("LLDPE") from ethylene supplied from EI and EII. The plant utilizes UNIPOL® technology licensed from Union Carbide. NOVA Chemicals has assumed the responsibility for sustaining and developing this technology as used in the NOVA Chemicals facilities. Production from the Joffre facility is marketed in North American and international markets.

NOVA Chemicals' polyethylene plant located at Moore Township, Ontario has an annual production capacity of approximately 720 MMlbs and produces both low-density polyethylene ("LDPE") and high-density polyethylene ("HDPE"). Ethylene feedstock is supplied from the Corunna facility. This plant also uses the UNIPOL technology under license from Union Carbide.

UNIPOL® is a registered trademark of Union Carbide Corporation.

In June 1994, NOVA Chemicals purchased DuPont's polyethylene business. Assets of the business included a polyethylene plant located on the St. Clair River site, Ontario, the proprietary SCLAIRTECH technology and a global SCLAIRTECH technology licensing business. This facility has an annual production capacity of approximately 600 MMlbs and NOVA Chemicals' Corunna facility supplies 100% of its ethylene requirements. NOVA Chemicals is committed to further developing the SCLAIRTECH technology and announced on December 5, 1996 that it has developed an Advanced SCLAIRTECH technology. Advanced SCLAIRTECH technology yields high performance polyethylene resins with several advantages over traditional polyethylene resins. NOVA Chemicals intends to construct a new polyethylene plant using Advanced SCLAIRTECH technology in Joffre, Alberta. The plant is expected to come on stream in the year 2000 with a planned capacity of 850 MMlbs-per-year and an anticipated cost of \$385 million, as spent.

NOVA-Borealis Compounds LLC ("NOVA-Borealis") commenced operations on January 1, 1997. NOVA-Borealis is a limited liability company owned equally by NOVA Chemicals Inc. ("NCI") and Borealis Compounds, Inc., a subsidiary of Borealis A/S of Denmark. NOVA-Borealis operates a facility in Rockport, New Jersey which manufactures polyethylene wire and cable products, using Borealis A/S technology and NOVA Chemicals polyethylene resins, for sale in North and South America. Wire and cable polyethylene products are principally used as insulation or jacketing for wire, cable and fibre optic cables.

Styrenics

NOVA Chemicals' styrenics business produces both styrene and styrenic polymers which are used in a number of applications including injection molding, synthetic rubber, food packaging, housewares and toys. The business generated revenue of \$829 million in 1997, which represented 30% of NOVA Chemicals' revenues (before intersegment eliminations). NOVA Chemicals has annual polystyrene production capacity of 1.3 billion pounds.

NOVA Chemicals' Sarnia, Ontario facility has an annual styrene production capacity of approximately 600 MMlbs. Styrene is produced from ethylene and benzene. All of the ethylene and the majority of the benzene requirements for the Sarnia styrene facility are supplied from NOVA Chemicals' Corunna ethylene facility. The balance of the benzene feedstocks are obtained from nearby refinery and industrial operations.

NOVA Chemicals has commenced an upgrade project at the Sarnia styrene facility which is expected to be completed by the third quarter of 1998. Upon completion, this upgrade is expected to add approximately 350 MMlbs of annual styrene capacity at the Sarnia facility. In addition, 100 MMlbs of annual ethylene capacity has been added at the Corunna facility to support the new capacity at the Sarnia facility.

NOVA Chemicals has access to approximately 800 MMlbs-per-year of styrene monomer in addition to that produced at the Sarnia facility. Approximately 400 MMlbs-per-year of styrene monomer is provided under a long-term supply agreement from an ARCO Chemicals operated styrene plant in Channelview, Texas, in which NOVA Chemicals has a minority interest position. As part of the acquisition of ARCO Chemicals' polymers business in 1996, NOVA Chemicals entered into a tolling agreement for an additional 400 MMlbs-per-year of styrene monomer from the Channelview plant.

Styrene supply from NOVA Chemicals' Sarnia facility and ARCO Chemicals' Channelview facilities provide a long-term supply of styrene monomer for NOVA Chemicals' downstream polystyrene facilities. Of the total styrene monomer produced at Channelview and Sarnia, approximately 80% is used in NOVA Chemicals' polystyrene business with the balance being sold into the merchant market.

NOVA Chemicals' Montreal facility produces high- and medium-impact polystyrene and has an annual production capacity of approximately 130 MMlbs. The styrene operation in Sarnia supplies the styrene feedstock to this facility.

NOVA Chemicals' Beaver Valley, Pennsylvania facility produces expandable polystyrene and DYLARK® which is a styrene maleic anhydride copolymer (SMA). This site has an annual production capacity of approximately 440 MMlbs.

DYLARK® is a registered trademark of NOVA Chemicals Inc.

NOVA Chemicals had polystyrene production capacity at plants located in the United States as at December 31, 1997 of approximately 1.2 billion pounds-per-year. NOVA Chemicals has plants in Springfield, Massachusetts; Decatur, Alabama; Beaver Valley, Pennsylvania; and Painesville, Ohio. NOVA Chemicals' plant in Springfield, Massachusetts has completed phase I and phase II of a planned three-phase debottlenecking. Springfield had a crystal polystyrene capacity of 280 MMLbs-per-year at the end of 1997. Phase III of the debottlenecking project, which would have added additional capacity of 50 MMLbs-per-year, is not going ahead at this time. In 1997 NOVA Chemicals allowed a tolling arrangement to expire under which it purchased 80 MMLbs-per-year of polystyrene from Bayer Corporation.

Methanol

Prior to January 1994, NOVA Chemicals operated a methanol facility at Medicine Hat, Alberta with an annual production capacity of approximately 370 million U.S. gallons. On January 14, 1994, NOVA Chemicals completed a series of transactions whereby it exchanged this facility for common shares of Methanex and purchased additional Methanex common shares and common share installment receipts. As a result of these transactions, NOVA Chemicals became the largest shareholder in Methanex owning approximately 24% of its common equity. Methanex has purchased for cancellation a portion of its shares under a series of normal course issuer bids. NOVA Chemicals has not participated in these share buybacks, and its ownership of Methanex has increased to approximately 27%.

Methanex is the world's largest producer and marketer of methanol, which is used in the manufacture of formaldehyde, methyl tertiary butyl ether (which is a gasoline additive) and acetic acid. Methanex produces methanol at facilities located in North America, New Zealand and Chile and has an equity interest in a plant in Trinidad.

NGC Corporation

NOVA Chemicals, through a subsidiary, owns approximately 26% of the common shares of NGC, a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom. NGC conducts its operations in three business segments: Natural Gas and Electric Power Marketing; Natural Gas Liquids, Crude Oil and Gas Transmission; and Power Generation.

NOVA Chemicals through its subsidiary, NOVA Gas Services (U.S.) Inc., together with BG Holdings, Inc. (a subsidiary of BG plc) and Chevron U.S.A. Inc. each of which also owns approximately 26% of the common shares of NGC have entered into a shareholders agreement which relates to certain voting arrangements, transfer restrictions, corporate governance and other matters. NOVA Chemicals, through such subsidiary, has the right to nominate three representatives to the 13-member NGC board of directors.

Distribution of Products

NOVA Chemicals' products are marketed primarily through its sales force, although in some off-shore markets more emphasis is placed upon sales through established distributors and traders. When products produced in Canada are sold into the United States market, NOVA Chemicals sells such products to its wholly-owned subsidiary, NCI, for resale into that market through distribution arrangements which generally provide that NOVA Chemicals will receive a market price less a commission for its products. NCI's commission rates are comparable to third-party agreements in the industry. Approximately 12% of NOVA Chemicals' sales are made through distributors other than NCI. European and Asian sales are made by NOVA Chemicals' Swiss subsidiary, NOVA Chemicals (International) S.A. NOVA Chemicals also sells polyethylene wire and cable products produced at its production facilities in Canada to NOVA-Borealis for resale to customers in Canada and to NCI for resale to NOVA-Borealis elsewhere in North and South America through distribution arrangements which generally provide that NOVA Chemicals will receive a market price less a commission for its products.

Aside from the cost-of-service ethylene contracts relating to EI and EII previously described, no significant portion of NOVA Chemicals' business is dependent upon a single customer. Sales to Canadian and United States federal, state, provincial and local governmental bodies account for less than 1% of annual sales. For a breakdown of sales into geographic segments, see "Geographic Distribution of Revenue by Segment".

NOVA Chemicals leases approximately 4,260 railcars from various companies for use in transportation and delivery of its petrochemicals and polymers to customers.

Competition

NOVA Chemicals competes with other commodity chemical producers and marketers primarily on the basis of price, service, product quality and performance. Markets for most petrochemical products are global. While most of NOVA Chemicals' production capacities are among the largest in size compared to the relevant business units of its competitors, several of NOVA Chemicals' competitors are larger and have greater financial resources than NOVA Chemicals. Among NOVA Chemicals' competitors are some of the world's largest chemical companies and major integrated petroleum companies that have their own raw material resources.

Prices for NOVA Chemicals' petrochemicals and polymer products are determined by market factors that are beyond NOVA Chemicals' control and as such NOVA Chemicals generally sells these products at prevailing market prices. However, one exception to product sales being made at prevailing market related pricing is the ethylene business conducted at EI and EII which operates on a cost-of-service basis such that NOVA Chemicals recovers approximately 67% of EI and EII operating costs (including ethane feedstock, fuel and depreciation) and financing costs (including debt amortization) from third parties. NOVA Chemicals' cost-of-service arrangements for EI expire at the end of December 1998.

Government Regulation

The construction, operation and maintenance of NOVA Chemicals' petrochemical facilities are subject to federal, provincial and local laws and regulations, including environmental laws and regulations which are discussed in more detail under "Environmental Protection".

Patents, Licenses and Trademarks

NOVA Chemicals owns directly or licenses from affiliates a large number of patents in Canada, the United States and other countries. NOVA Chemicals also owns or licenses a number of trademarks from a wholly-owned subsidiary of NOVA, which are used to identify various petrochemical products. While these patents and trademarks constitute valuable assets, NOVA Chemicals does not regard any single patent or trademark as being material to its operations as a whole.

Technology

While a number of NOVA Chemicals' technologies are licensed from third parties, and are therefore subject to certain restraints concerning fields of use, NOVA Chemicals actively maintains and supports all its technology bases to maintain its competitiveness. NOVA Chemicals believes it has a good emerging base of technologies based both on those it currently licenses and on the SCLAIRTECH technology acquired from DuPont. The SCLAIRTECH technology acquisition in June 1994 represents a change in technology strategy for NOVA Chemicals. Prior to the acquisition, NOVA Chemicals obtained its technology principally through licenses from other companies and then worked to develop improvements on the technology. NOVA Chemicals began operating a polyethylene demonstration plant at the St. Clair River site in November 1995 to support the development of a new generation of SCLAIRTECH technology and on December 5, 1996, announced that it had developed Advanced SCLAIRTECH technology. Advanced SCLAIRTECH technology yields a high performance polyethylene resin with several advantages over traditional polyethylene resins. NOVA Chemicals is developing a polyethylene plant at the Joffre site that will utilize Advanced SCLAIRTECH technology. In addition, NOVA Chemicals intends to incorporate certain aspects of the Advanced SCLAIRTECH technology at the St. Clair River site. As a result, by the third quarter of 1998 the St. Clair River site will be able to produce approximately 200 MMlbs-per-year of polyethylene resins which have some of the product characteristics of the resins that will be produced at the new Joffre polyethylene facility. NOVA Chemicals' other polyethylene manufacturing technologies include those licensed from Union Carbide and the wire and cable technology licensed from Borealis A/S. NOVA Chemicals also owns or licenses a significant portfolio of styrenics technology, both in the fields of production and styrenics applications.

Research and Development

NOVA Chemicals maintains a technical center in Calgary, Alberta to support polyethylene product development and sales. NOVA Chemicals also operates a research center in Calgary with activities focused on the engineering and chemistry of the production of ethylene and other hydrocarbons from various feedstocks, the polymerization of ethylene and the development of new types and blends of polyolefins. NOVA Chemicals' polystyrene business is presently supported by research laboratories and pilot lines at Beaver Valley, Pennsylvania. The Pennsylvania research facilities include a number of pilot lines for mass polymerization, suspension polymerization and the production of foamed polystyrene.

NOVA Chemicals currently has a technical staff of approximately 400 people for research and development, including process and product development and technical service.

NOVA Chemicals spent \$43 million, \$53 million and \$53 million in the years 1997, 1996 and 1995, respectively, on research and development activities. NOVA Chemicals also spent \$10.5 million, \$11 million and \$13 million in the years 1997, 1996 and 1995, respectively, on technical support and activities relating to improvements of existing products.

Year 2000

Certain computerized hardware, process control systems, and software systems and applications used by NOVA Chemicals are date sensitive, and their ability to perform properly may be adversely affected by the year 2000. In a process that began in 1996, NOVA Chemicals continues to address the issue by preparing an inventory of all systems and equipment, analyzing risks, determining compliance levels, selecting practical remediation options, and testing most implemented solutions. This program approach seeks to minimize the potential risk of Year 2000 business disruption. NOVA Chemicals also continues to assess the Year 2000 capabilities of customers, critical suppliers and key service providers to determine, to the extent possible, that NOVA Chemicals' businesses will not be adversely impacted by external companies. In addition, contingency plans are being developed for all critical business and production processes. NOVA Chemicals does not believe that the cost of its remediation efforts will be material.

NOVA Chemicals (including its wholly-owned subsidiaries) is not entirely Year 2000 ready at this time, but has targeted the end of the first quarter of 1999 to have critical business and production processes ready. This will allow for continued testing through the remainder of 1999. Although NOVA Chemicals is striving to be completely prepared, there cannot be any assurance that there will not be any negative impact as a result of the Year 2000 issue. Based on its progress to date, however, NOVA Chemicals believes that such impact, if any, will not have a material adverse impact on the Corporation's business, operations, or financial condition.

NOVA Chemicals is currently assessing Year 2000 readiness (and the costs of becoming Year 2000 ready) of the companies in which it has an equity interest. If any of the costs associated with these partially owned entities is, is likely to become, or becomes material, NOVA Chemicals will disclose that materiality in due course.

Environmental Protection

Like other companies in its industry, NOVA Chemicals is subject to extensive federal, provincial, state and local environmental laws and regulations concerning the manufacture, processing and importation of certain petrochemical substances, air emissions, water discharges and the generation, handling, storage, transportation, treatment, disposal and clean-up of waste materials.

Although NOVA Chemicals believes that its business, operations and facilities are being operated in material compliance with applicable environmental laws and regulations, the operation of any petrochemical facility and the distribution of petrochemical products involve the risk of accidental discharges of hazardous materials, personal injury and property and environmental damage. Furthermore, applicable environmental laws and regulations provide for substantial fines and criminal sanctions in the event of non-compliance. There can be no assurance that NOVA Chemicals will not incur material costs or liabilities as a result of such occurrences or the enforcement of environmental laws.

Risk of substantial environmental costs and liabilities is inherent in particular operations and products of NOVA Chemicals, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities, including uninsured liabilities, will not be incurred with respect to future operations. NOVA Chemicals has liabilities and obligations arising under applicable environmental laws and regulations in connection with discontinued operations, and in addition has specific contractual obligations with respect to pre-closing environmental conditions at certain facilities divested by predecessor companies. Environmental investigations have been or are being conducted in accordance with governmental standards and guidelines at such discontinued operations and facilities. Remedial work based on these investigations has commenced at most locations. Provision has been made in NOVA Chemicals' financial statements to cover the estimated costs of remediation of discontinued sites. At some locations NOVA Chemicals has negotiated agreements to recover a portion of these expenses from third parties on the basis of their previous activities.

NOVA Chemicals is currently involved in investigations under the U.S. Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") in connection with hazardous substances which in the past had been transported to third party disposal sites. At one such site NOVA Chemicals and another potentially responsible party have entered into an Administrative Order by Consent (the "Order") with the EPA pursuant to which NOVA Chemicals and the other party named in the Order have conducted an engineering evaluation/cost analysis of alternative response actions to address environmental conditions at the site. Discussions are continuing with the EPA regarding such analysis, but the EPA has covenanted not to sue NOVA Chemicals or the other party named in the Order for judicial imposition of damages or civil penalties or to take administrative action in connection with activities satisfactorily completed pursuant to the terms of the Order. Other potentially responsible parties have been identified and their participation may be sought in connection with further response activities required at this site. At another inactive site, a state environmental agency has issued a Remediation Order requiring NOVA Chemicals to prepare and submit a remediation plan for approval and to subsequently implement such plan. NOVA Chemicals has submitted a remediation plan, has received the required approval and is proceeding with implementation. NOVA Chemicals does not believe that its share of response costs at this or any of such sites will, individually or in the aggregate, result in a material liability for NOVA Chemicals. It is possible that, based upon the nature of the hazardous substances generated at existing and discontinued operations, NOVA Chemicals may be involved in CERCLA and comparable state law investigations and clean-ups in the future.

From time to time NOVA Chemicals has entered into various consent agreements or been subject to administrative orders for pollution abatement or remedial action in connection with its business.

NOVA Chemicals disposes of all its waste at facilities approved by regulatory agencies. All hazardous waste management contractors are subject to management systems assessments prior to entering into business arrangements with NOVA Chemicals. In 1997, approximately 72% of offsite waste disposal was non-hazardous.

NOVA Chemicals has operated an environmental audit program to determine regulatory compliance by its operating facilities since 1990. In September 1995, NOVA Chemicals elected to discontinue this program in favour of participation in a more comprehensive safety, health, environment and risk ("SHER") audit program established by NOVA to provide NOVA-wide SHER audit services. NOVA's SHER audit program is subject to periodic review by an independent consultant in order to ensure a continuing high level of program quality and effectiveness. Where actions are determined necessary to ensure continued compliance with applicable environmental laws and regulations, specific action plans are developed and implemented.

NOVA Chemicals has adopted the Responsible Care® program as the basis for its overall SHER program. Responsible Care is a comprehensive SHER quality improvement program which was initiated by the Canadian Chemical Producers Association ("CCPA") and has since been adopted by the Chemical Manufacturers Association ("CMA") in the United States as well as by chemical industry associations in over 40 countries world-wide. The Responsible Care program is built around a set of guiding principles and codes of practice which require program participants to commit to the responsible management of the total life cycle of their products. NOVA Chemicals has implemented the Responsible Care codes of practice in all of its operations and such implementation has been attested by CCPA verification. NOVA Chemicals' implementation of the Responsible Care program has been recognized by a leading international environment, health and safety

Responsible Care® is a trademark of the CCPA in Canada and the CMA in the United States.

consulting firm as placing NOVA Chemicals among industry leaders, worldwide, with respect to its SHER management system.

NOVA Chemicals is active in a number of voluntary environmental initiatives to reduce emissions and wastes from its facilities. For example, in addition to reductions previously achieved, NOVA Chemicals is projecting a 70% decrease in benzene emissions during the five year period ending in 1999. In addition to participation in the CCPA's National Emissions Reduction Masterplan, NOVA Chemicals is also participating in Environment Canada's Accelerated Reduction and Elimination of Toxics and Greenhouse Gas ("GHG") emissions management programs. GHG include a wide range of gases that trap infrared radiation and result in the warming of the earth's surface which has been linked to climate change. Through an aggressive GHG emissions management program and its participation in Environment Canada's Voluntary Climate Change Challenge and Registry Program, NOVA Chemicals is committed to economically viable solutions to climate change concerns. NOVA Chemicals is also directly involved in the Canadian chemical industry's environmental performance memorandums of understanding with the federal, Ontario and Alberta governments.

Environmental capital expenditures for NOVA Chemicals, including pollution abatement and remedial programs, were approximately \$29.7 million in 1997, \$11.9 million in 1996 and \$13 million in 1995 and are estimated to be \$36.1 million in 1998. Operating expenses relating to environmental protection were approximately \$12.9 million in 1997, \$11.3 million in 1996 and \$12 million in 1995 and are estimated to be \$14.5 million in 1998. Total remedial expenditures on discontinued sites for 1997 totaled \$3.2 million. This figure is expected to be \$6.0 million in 1998.

As part of NOVA Chemicals' 1997 environmental capital expenditures \$13 million was spent to complete the installation of a stripper to significantly reduce cyclohexane emissions from its St. Clair River facility by more than 1000 tonnes-per-year. This project was a voluntary initiative in support of NOVA Chemicals' commitment to emissions reduction.

NOVA Chemicals believes it has sufficient capital resources to meet all of its present and anticipated future obligations under environmental protection legislation.

Plastics Recycling

NOVA Chemicals is actively involved in promoting public awareness of the benefits of plastics products and is actively pursuing the development of technology for chemical and mechanical recycling of plastics in Canada and the United States. In addition, NOVA Chemicals, together with other major petrochemicals companies, is a member of a recycling association which has constructed several recycling facilities. NOVA Chemicals is a member of the Canadian Polystyrene Recycling Association which has constructed a recycling facility at Mississauga, Ontario. NOVA Chemicals and its affiliates are also active in various industry associations, including the American Plastics Council in the United States and the Environment and Canadian Plastics Industry Association, which are working to improve the environmental image of all plastics products.

Employee and Labour Relations

NOVA Chemicals currently employs approximately 3,400 employees. The majority of these employees are not under collective bargaining agreements.

Collective bargaining agreements with various unions, covering approximately 365 employees, are in place at certain plants located in Ontario and the United States. A collective bargaining agreement involving approximately 70 employees at NOVA Chemicals' styrene plant in Sarnia, Ontario expired on February 1, 1998. Negotiations are currently underway to extend this collective bargaining agreement. A collective bargaining agreement involving approximately 35 employees at the polystyrene plant at Springfield, Massachusetts expires at the end of September, 1999. A collective bargaining agreement involving approximately 260 employees at the polystyrene plant in Beaver Valley, Pennsylvania expires on May 12, 1998. This contract is expected to be re-negotiated without work interruption.

NOVA Chemicals provides medical, health, life insurance and pension plans and other benefits to its employees, which are comparable with other companies in its industry and which are administered by NOVA on behalf of NOVA Chemicals.

Foreign Operations

Foreign operations are necessarily subject to various risks differing from those in Canada including exchange rate fluctuations and exchange controls, political pressures, tax changes, labour difficulties, price controls and other governmental actions. See also “Management Discussion and Analysis — Risk Management”.

NOVA Chemicals has no foreign production operations located outside of Canada and the United States. Its activities outside of Canada and the United States are mainly restricted to sales and marketing operations. NOVA Chemicals sells its products in over 60 countries. NOVA Chemicals and its affiliates maintain a sales office in Fribourg, Switzerland, and representative offices in Miami, Florida; Singapore; Beijing, China; Tokyo, Japan; London, England; Paris, France and Frankfurt, Germany. In 1997 NOVA Chemicals received approximately 49% of its revenue from sales in Canada, 41% of its revenue from sales from the United States and the remaining 10% of its revenue from sales outside of Canada and the United States.

Properties

The following information describes the location, use and size of NOVA Chemicals’ principal offices. All such offices are owned or leased by NOVA Chemicals and are unencumbered unless otherwise specified. NOVA Chemicals believes that these properties, including related plant and equipment, are in good condition, well maintained, and suitable for their intended use.

<u>Location</u>	<u>Use</u>	<u>Area</u>
		(Thousands of square feet)
Sarnia, Ontario (leased)	Offices	56
Mississauga, Ontario (leased)	Offices	15
Montreal, Quebec (leased)	Offices	3
Parsippany, New Jersey (leased)	Offices	3
Leominster, Massachusetts (office space only is leased)	Offices	42
Houston, Texas (leased)	Offices	3
Sherwood Park, Alberta (leased)	Offices	6
Calgary, Alberta	Technical Center and Offices	69
Calgary, Alberta (leased from NOVA)	Research Center and Offices	151
Calgary, Alberta (leased)	Offices	97
Red Deer, Alberta (leased)	Offices	14
Pittsburgh, Pennsylvania (leased)	Offices	14

See “Facility Profile” for a description of the production facilities of NOVA Chemicals. All production facilities are owned by NOVA Chemicals and are unencumbered, except Channelview (in which NOVA Chemicals has a minority interest).

NOVA CHEMICALS LTD. SELECTED FINANCIAL INFORMATION

	<u>Year Ended December 31</u>				
	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Millions of dollars)				
Revenue	\$3,360	\$3,043	\$3,054	\$2,698	\$2,351
Operating Income	\$ 337	\$ 399	\$ 750	\$ 317	\$ 107
Net Income	\$ 163	\$ 225	\$ 520	\$ 420	\$ 67
Total Assets	\$3,951	\$3,875	\$3,406	\$3,368	\$2,735
Total Debt ⁽¹⁾	\$1,112	\$1,123	\$ 794	\$1,082	\$1,020

Note:

(1) Excludes current portion of long-term debt and includes long-term debt to parent and affiliates.

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION
(Unaudited)
(Millions of dollars)

	March 31			June 30			September 30			December 30		
	1997	1996	1995	1997	1996	1995	1997	1996	1995	1997	1996	1995
Revenue	\$892	\$712	\$830	\$830	\$713	\$838	\$815	\$782	\$729	\$823	\$836	\$657
Operating Income	\$119	\$ 74	\$258	\$ 92	\$ 93	\$265	\$ 80	\$123	\$170	\$ 46	\$109	\$ 57
Net Income (Loss)	\$ 72	\$ 50	\$207	\$ 63	\$ 52	\$168	\$ 56	\$ 74	\$107	\$(28)	\$ 49	\$ 38

SEGMENTED DATA
(Millions of dollars)

	Year Ended December 31				
	1997	1996	1995	1994	1993
Revenue					
Cost-of-Service ⁽¹⁾	\$ 576	\$ 555	\$ 368	\$ 576	\$ 477
Non-Cost-of-service	2,784	2,488	2,686	2,122	1,874
	<u>\$3,360</u>	<u>\$3,043</u>	<u>\$3,054</u>	<u>\$2,698</u>	<u>\$2,351</u>
Operating Income					
Cost-of-Service ⁽¹⁾	\$ 109	\$ 115	\$ 111	\$ 106	\$ 88
Non-Cost-of-service	228	284	639	211	19
	<u>\$ 337</u>	<u>\$ 399</u>	<u>\$ 750</u>	<u>\$ 317</u>	<u>\$ 107</u>
Net Income					
Cost-of-Service ⁽¹⁾	\$ 36	\$ 39	\$ 40	\$ 42	\$ 35
Non-Cost-of-service	127	186	480	378	32
	<u>\$ 163</u>	<u>\$ 225</u>	<u>\$ 520</u>	<u>\$ 420</u>	<u>\$ 67</u>

Note:

(1) EI and EII are operating under long-term pay-in-all events supply contracts with prices based on cost-of-service plus a fixed after-tax return on a weighted average deemed equity component. As of December 31, 1997, unaffiliated third parties have contracted to purchase 76% of ethylene production from EI until December 31, 1998 and 58% of ethylene production from EII until June 30, 2004.

GEOGRAPHIC DISTRIBUTION OF REVENUE BY SEGMENT

The following table summarizes for the two years ended December 31, 1997 and 1996, the geographic segments in which NOVA Chemicals makes sales and the percentages of sales in such segment:

Geographic Segment	Percentage of Sales, Year Ended December 31	
	1997	1996
Canada	46%	49%
United States	41%	41%
Others	13%	10%

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management discussion and analysis should be read in conjunction with the NOVA Chemicals consolidated financial statements and related notes for the year ended December 31, 1997.

Reorganization of NOVA Corporation

On January 26, 1998 NOVA and TransCanada PipeLines Limited (TransCanada) announced their intention to merge. Immediately following the merger, NOVA Chemicals will be split off as a separate, publicly traded commodity chemicals company. Under the terms of the merger agreement, NOVA Chemicals' operated chemicals business together with its investments in Methanex and NGC, will be split off to both NOVA's and TransCanada's shareholders. NOVA shareholders will exchange each NOVA share for 0.52 shares of TransCanada.

NOVA Chemicals will be a world-class commodities chemical business with \$3.4 billion in revenues and \$3.5 billion in assets. As a stand-alone entity NOVA Chemicals will offer shareholders an opportunity to invest in North America's fifth largest publicly traded commodity chemicals company. NOVA Chemicals' high quality assets and low-cost position will enable NOVA Chemicals to earn substantial returns during cyclical pricing peaks and remain competitive during weaker market conditions.

Results of Operations

	Year Ended December 31,		
	1997	1996	1995
	(Millions of dollars)		
Net Income Contribution			
NOVA Chemicals operated facilities	\$ 134	\$ 199	\$ 447
Equity in earnings of Methanex	57	17	58
Equity in earnings of NGC	29	41	15
Methanex asset write-down	—	(32)	—
NGC asset write-down	(57)	—	—
	<u>\$ 163</u>	<u>\$ 225</u>	<u>\$ 520</u>
Revenue			
Olefins and polyolefins	\$2,656	\$2,578	\$2,489
Styrenics	829	586	690
Intersegment eliminations	(125)	(121)	(125)
	<u>\$3,360</u>	<u>\$3,043</u>	<u>\$3,054</u>
Operating income (loss)			
Olefins and polyolefins	\$ 423	\$ 414	\$ 667
Styrenics	(71)	17	147
Re-engineering, computer system development and other costs	(15)	(32)	(64)
	<u>\$ 337</u>	<u>\$ 399</u>	<u>\$ 750</u>
Capital expenditures	<u>\$ 328</u>	<u>\$ 257</u>	<u>\$ 136</u>
Depreciation	<u>\$ 235</u>	<u>\$ 221</u>	<u>\$ 202</u>
Investment in Methanex	<u>\$ 621</u>	<u>\$ 544</u>	<u>\$ 560</u>
Investment in NGC	<u>\$ 407</u>	<u>\$ 418</u>	<u>\$ 373</u>

Review of NOVA Chemicals 1997 Earnings

NOVA Chemicals' net income of \$163 million in 1997 was down \$62 million from 1996 net income of \$225 million.

NOVA Chemicals' operated facilities contributed \$134 million to net income in 1997, down \$65 million when compared with the \$199 million contributed to net income in 1996. Average polyethylene prices for 1997 were similar to 1996, but higher feedstock costs and a continued decline in styrene and polystyrene prices contributed significantly to the earnings decline.

The operating income contribution from NOVA Chemicals' olefins and polyolefins business was up by \$9 million, to \$423 million in 1997 from 1996 operating income of \$414 million.

Weakening commodity prices significantly impacted NOVA Chemicals' styrenics business in 1997, which recorded a \$71 million operating loss, compared to operating income of \$17 million in 1996.

In addition, NOVA Chemicals' Corunna, Ontario plant experienced difficulty restarting after a planned maintenance shutdown in the fourth quarter of 1997. This resulted in lower production volumes of ethylene and co-products, which, in turn, impacted polyethylene production and sales volumes and reduced earnings by \$13 million after-tax.

NOVA Chemicals' investment in Methanex contributed \$57 million to earnings in 1997 compared with \$17 million in 1996, prior to the \$32 million asset write-down recorded during the fourth quarter of 1996. This solid earnings improvement came from a 26% increase in the average realized selling price of methanol and a 12% increase in methanol sales volumes.

Lower earnings from NOVA Chemicals' investment in NGC were largely attributable to losses in its natural gas liquids trading operations in the first quarter of 1997 and higher levels of general, administrative and interest expenses associated with NGC's expanded scope of operations.

Review of NOVA Chemicals 1996 Earnings

NOVA Chemicals' net income of \$225 million in 1996 was down \$295 million from 1995 net income of \$520 million, NOVA Chemicals' best earnings year ever.

NOVA Chemicals' operated facilities contributed \$199 million to net income in 1996, down \$248 million when compared with the \$447 million contributed to net income in 1995. Operating income for the olefins and polyolefins business segment fell by \$253 million when compared to 1995 as a result of higher feedstock costs and falling prices in the first half of 1996. Styrene and polystyrene prices fell dramatically on a year over year basis. This resulted in a decrease in operating income for the styrenics business of \$130 million when compared to 1995.

Earnings in 1996 from NOVA Chemicals' equity investment in Methanex were \$73 million lower than in 1995. Of this amount \$32 million relates to a write-down in the value of assets idled by Methanex. Methanex's average realized selling price for methanol in 1996 was U.S.\$0.45 per gallon compared with U.S.\$0.67 per gallon in 1995. Methanex's sales volumes in 1996 were up 15% when compared with 1995.

Earnings in 1996 from NOVA Chemicals' equity investment in NGC were \$41 million compared with \$15 million in 1995. NGC achieved higher operating margins as a result of the favourable prices realized for natural gas liquids and crude oil. The stronger 1996 results also reflected earnings benefits from the acquisition of Chevron's midstream natural gas and natural gas liquids business in 1996 and Trident in 1995.

Average Benchmark Prices on the U.S. Gulf Coast⁽¹⁾

	1Q	2Q	3Q	4Q	For the year		
	1997	1997	1997	1997	1997	1996	1995
	(U.S. \$ per pound except methanol)						
Polyethylene — linear low-butene liner ⁽²⁾	0.38	0.40	0.37	0.35	0.37	0.36	0.42
Styrene	0.30	0.28	0.29	0.29	0.29	0.32	0.45
Polystyrene	0.42	0.41	0.40	0.39	0.40	0.45	0.55
Propylene	0.19	0.20	0.19	0.18	0.19	0.17	0.21
Methanol ⁽³⁾	0.55	0.58	0.55	0.56	0.56	0.45	0.67

Notes:

- (1) Average benchmark prices are not necessarily the actual prices realized by NOVA Chemicals or any other petrochemicals company.
- (2) Source: Philip Townsend Associates Inc.
- (3) Methanex's average realized price in U.S.\$ per U.S. gallon.

Changes in Net Income: Better (Worse)

	1997 compared with 1996	1996 compared with 1995
	(Millions of dollars)	
Lower product margins	\$(21)	\$(276)
Higher product volumes	10	55
Manufacturing problems	(7)	—
Corunna extended shutdown	(13)	—
Higher interest expense	(11)	(8)
Other	(23)	(19)
Decrease in net income related to NOVA Chemicals' operated facilities	(65)	(248)
Higher (lower) equity in earnings of Methanex	40	(41)
Higher (lower) equity in earnings of NGC	(12)	26
Methanex asset write-down	32	(32)
NGC asset write-down	(57)	—
Decrease in net income	<u>\$(62)</u>	<u>\$(295)</u>

Factors Affecting NOVA Chemicals' Net Income

Assumptions ⁽¹⁾	Assumed third party sales	Estimated annual increase (decrease) ⁽³⁾
		(Millions of dollars)
Increase in profit margin of U.S.1¢ per pound		
Polyethylene	2.5 billion lbs	22.7
Styrene	0.3 billion lbs	2.8
Polystyrene	1.3 billion lbs	11.9
Propylene	0.7 billion lbs	6.5
U.S.\$10-million increase in Methanex's net income		3.8
U.S.\$10-million increase in NGC's net income		3.7
Increase in interest rates by one per cent		(1.5)

Notes:

- (1) The company has not disclosed a sensitivity to foreign exchange rate changes for 1998 as substantially all of the anticipated U.S. dollar revenue stream has been hedged (see note 20 to the financial statements).
- (2) A decrease in these factors will have the opposite effect on net income.
- (3) Estimated annual change in net income. Assumes Cdn. \$1.00 = U.S.\$0.70.

NOVA Chemicals' 1998 and 1999 earnings outlook

NOVA Chemicals believes the commodity chemicals industry will experience near-trough pricing conditions in 1998. During the last pricing trough in 1991, NOVA Chemicals experienced a loss of \$115 million from its operated business. Since that time, NOVA Chemicals has implemented efficiency improvements, extensive cost reduction programs and enhanced business practices which NOVA Chemicals believes will enable it to continue being profitable during the current market downturn.

NOVA Chemicals is also targeting \$100 million of annualized after-tax earnings to be in effect by mid-year 1999. These are projected to come from:

- substantially complete depreciation of EI, by year-end 1998, resulting in higher net income in 1999 and future years;
- new ethane supply agreements for EI;
- recontracting of sales volumes from EI under more market-related contract terms;
- conclusion of certain technology royalty payments; and
- continued expansion and restructuring of our styrenics operations to achieve efficiency improvements.

NOVA Chemicals' Overview

NOVA Chemicals operates two commodity chemicals businesses. NOVA Chemicals' olefins/polyolefins business produces ethylene, polyethylene, and a variety of chemical and energy products, including fuel products and aromatic chemicals. NOVA Chemicals' styrenics business produces styrene and styrenic polymers, which include solid polystyrene, expandable polystyrene (EPS), and DYLARK engineering resins.

NOVA Chemicals maintained its strong market positions in North America with strategically situated world-class facilities in Canada and the United States. In 1997, by capacity, NOVA Chemicals ranked fifth in ethylene, sixth in polyethylene, seventh in styrene and third in polystyrene.

NOVA Chemicals markets 83% of its polymer products in North America, with the balance directed at the Asia-Pacific region and Europe. In North America, Europe and developed parts of the Asia-Pacific region, demand for the commodity chemicals NOVA Chemicals produces is related primarily to each country's gross domestic product (GDP) growth, and to a lesser extent, to factors such as product substitution. In the developing world, product demand is affected by levels of industrialization and the prevalence of export markets.

Pricing levels are affected by the balance between demand and supply. The addition of new capacity to the market place, world operating rates and the existence of trade barriers such as import tariffs all affect the supply of commodity chemicals.

To compete successfully in the global commodity chemicals business, NOVA Chemicals has adopted four primary objectives:

- maintain access to low-cost feedstock;
- achieve low-cost, world scale operations;
- implement low-cost capacity increases through debottlenecks and acquisitions; and
- develop focused and fully competitive technology.

Sales

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(Millions of pounds)		
Ethylene			
Internal consumption	2,539	2,587	2,419
Third party sales	<u>2,357</u>	<u>2,175</u>	<u>2,130</u>
Total ethylene sales	<u>4,896</u>	<u>4,762</u>	<u>4,549</u>
Ethylene co-products ⁽¹⁾			
Propylene	765	813	769
Other	<u>3,631</u>	<u>3,608</u>	<u>3,598</u>
Total ethylene co-products sales	<u>4,396</u>	<u>4,421</u>	<u>4,367</u>
Polyethylene			
LLDPE	1,369	1,320	1,119
LDPE	430	437	401
HDPE	<u>621</u>	<u>589</u>	<u>532</u>
Total polyethylene sales	<u>2,420</u>	<u>2,346</u>	<u>2,052</u>
Styrene			
Internal consumption	1,217	659	564
Third party sales	<u>215</u>	<u>272</u>	<u>344</u>
Total styrene sales	<u>1,432</u>	<u>931</u>	<u>908</u>
Polystyrene ⁽²⁾	<u>1,216</u>	<u>820</u>	<u>692</u>

Notes:

- (1) Co-products includes hydrogen.
- (2) Includes solid polystyrene, EPS, Dylark and Dylite.

Strategic Initiatives for Global Competition

Growing the business: EIII on schedule for 2000

One of NOVA Chemicals' primary objectives is to further increase the scale of our low-cost manufacturing facilities. In 1997 excellent headway was made in this area with the initiation of construction of EIII, a third ethylene plant at Joffre, Alberta. NOVA Chemicals shares the ownership of this approximately \$1.1 billion ethylene plant equally with Union Carbide Canada. The 2.8 billion pound-per-year facility is scheduled to begin ethylene production in the year 2000.

EIII's planned capacity has been increased by 800 MMlbs-per-year over previously announced estimates, reflecting strong, long-term customer demand for ethylene from the Joffre facility. The significant increase in planned capacity for the plant has resulted in competitive per unit capital costs of U.S.\$0.28 per pound. Capital costs have also increased as projected expenditures have been adjusted for the effects of inflation.

Co-generation plant to improve Joffre cost structure

In 1997, NOVA Chemicals began the regulatory application process for the construction and operation of a co-generation power plant at the Joffre site. This proposed co-generation plant will use natural gas to produce electrical energy and, through recovery of exhaust heat, steam energy. NOVA Chemicals is proceeding with plans to develop and share ownership of this plant, which is expected to generate approximately 400 megawatts of power. The plant would supply all of the steam and electrical requirements of the Joffre site, and excess electrical power would be sold to the Alberta power pool.

Advanced SCLAIRTECH technology forms foundation of polyethylene expansion plans

The development of focused, competitive technology is critical to NOVA Chemicals' continued industry leadership. In 1996 NOVA Chemicals announced a breakthrough process technology called Advanced SCLAIRTECH. This technology offers many competitive advantages:

- competitive capital and plant operating costs;
- product features which are more easily controlled; and
- shorter reactor time, which reduces the cost of customized, value-added products.

NOVA Chemicals has applied for patents on this proprietary technology, and to date in 1998, some portions of the Advanced SCLAIRTECH technology are patent-protected. In 1997, NOVA Chemicals began construction of a second polyethylene plant on the Joffre site. This plant will use Advanced SCLAIRTECH technology. The plant's expected capacity has increased by about 80 MMlbs to 850 MMlbs-per-year as a result of a more efficient equipment configuration and product slate optimization. Total capital costs are expected to be \$385 million including all plant infrastructure and commissioning costs.

Pre-marketing of products made using Advanced SCLAIRTECH technology will soon be underway. NOVA Chemicals is incorporating certain aspects of this technology at the St. Clair River site. As a result, by the third quarter of 1998, the site will be able to produce approximately 200 MMlbs-per-year of polyethylene resins, which have some of the product characteristics of the resins that will be produced at the Joffre site.

Maintaining low-cost leadership

NOVA Chemicals successfully completed an upgrade at the Corunna site during 1997, increasing the facility's ethylene capacity by approximately 100 MMlbs.

The \$130 million expansion and upgrade project at NOVA Chemicals' Sarnia styrene plant proceeded as scheduled in 1997. When completed during the third quarter of 1998, this project is expected to increase the site's capacity by 350 MMlbs to 950 MMlbs. Both the enhanced scale of this facility and the introduction of advanced technology are expected to move the Sarnia styrene facility into a first-quartile cost position.

In 1997, NOVA Chemicals also announced plans to enhance the efficiency of its styrenics manufacturing activities in North America. These efforts led to greater supply chain efficiency in styrene supply and higher polystyrene capacity. As a result NOVA Chemicals was able to increase polystyrene production at existing facilities and terminate a higher-cost arrangement previously in place for the conversion of 80 MMlbs of polystyrene.

NOVA Chemicals' Planned Growth

Project	Planned expansions (millions of lbs)	Forecasted in-service (Date)	Expected cost (\$millions)
Ethylene III expansion ⁽¹⁾	2,800 ⁽²⁾	2000	1,100 ⁽³⁾
Advanced SCLAIRTECH polyethylene plant	850	2000	385
Styrene upgrade and expansion	350	1998	130

Notes:

- (1) Joint venture with Union Carbide Canada Inc.
- (2) NOVA Chemicals and Union Carbide Canada Inc. will share these volumes.
- (3) Total expected capital cost. NOVA Chemicals' share is \$550 million.

Sustainable low-cost position one of NOVA Chemicals' competitive advantages

Joffre's feedstock cost advantage derives from three elements: low-cost natural gas, highly efficient ethane gathering and extraction facilities and very cost-effective ethylene conversion costs.

The Joffre complex uses ethane as a feedstock to produce ethylene. This ethane is extracted from natural gas produced in the WCSB. NOVA Chemicals has ethane supply agreements with several natural gas liquids extraction plants located in Alberta. Under these agreements, NOVA Chemicals pays for both the energy value of the ethane removed from the natural gas stream and the costs associated with the extraction process.

Lower natural gas prices account for approximately one third of the cost advantage our Joffre ethylene facility enjoys over U.S. Gulf Coast ethylene producers. Over the last seven years, the price of natural gas in Alberta (AECO) and on the U.S. Gulf Coast (NYMEX) has differed by an average of U.S.\$0.85 per Mcf. That amount is greater than the transportation cost differential between Alberta and major markets in Chicago. U.S. Gulf Coast (USGC) natural gas prices are typically similar to those in the Chicago area.

The price differential between Alberta and USGC natural gas production fluctuates as supply and demand conditions change. Currently, this differential is being sustained at higher levels due to a lack of export pipeline capacity out of Alberta. The proposed addition of new export pipeline capacity will remove this constraint. As a result, for the 1998/1999 gas year, the futures market indicates this differential will shrink to U.S.\$0.70 per Mcf. NOVA Chemicals expects the price differential between Alberta and USGC natural gas to shrink even further to reflect only the transportation differential. The minimum price difference between Alberta and USGC natural gas prices is expected to be approximately U.S.\$0.50 per Mcf.

Ethane supply secured in near to medium term

During 1997, NOVA Chemicals finalized new, more favourable ethane supply agreements for a portion of its ethane supply portfolio. Some of these agreements take effect in January 1999. NOVA Chemicals now has binding arrangements in place to satisfy the ethane requirements of EI, EII and a significant portion of the requirements of EIII. Most of these volumes are contracted beyond 2004.

It is possible that new pipelines will be constructed which will transport natural gas liquids, including ethane, out of the province, potentially affecting the supply of ethane in Alberta. However, these new pipelines must be in compliance with the Government of Alberta's ethane policy, which ensures access to feedstock for Alberta-based petrochemical facilities.

New ethylene sales agreements

Cost-of-service sales contracts are currently in place for ethylene produced at EI and EII. Approximately 67% of the ethylene produced from these plants is sold to third parties. The remaining 33% is used internally by NOVA Chemicals in the production of polyethylene. These contracts allow for the full recovery of the operating and financing costs of the ethylene plants, as well as a contractually based guaranteed return on equity.

The cost-of-service agreements for EI expire in December 1998, by which time the plant will be substantially depreciated. In 1997, NOVA Chemicals negotiated new ethylene sales agreements for these volumes as well as for future production from our EIII facility. NOVA Chemicals finalized more than \$400 million-per-year worth of ethylene sales agreements with both new and existing customers. These more flexible, market-related contracts are in place for sales of approximately 2.2 billion pounds of ethylene per year, and are expected to increase earnings beginning in 1999. NOVA Chemicals will be developing plans to further increase the ethylene production from its existing and planned facilities to meet the requirements of these sales agreements.

NOVA Chemicals' Olefins/Polyolefins Business

Global demand for polyethylene rose 4% in 1997, while global capacity increased 5% leading to an excess of supply of polyethylene. World operating rates fell to an average of 87%. Despite this slight drop in operating rates, benchmark prices for polyethylene strengthened 3% over the year to an average of U.S. 37 cents per pound.

NOVA Chemicals was fifth largest producer of ethylene in North America

In 1997 NOVA Chemicals was North America's fifth-largest producer of ethylene, with a total annual production capacity of 5.0 billion pounds. Total sales of 4.9 billion pounds included internal consumption of

2.5 billion pounds. Based on announced expansions, NOVA Chemicals expects to be North America's third largest ethylene producer by 2001.

Joffre facility is second largest in North America

NOVA Chemicals' Joffre facility is currently the second largest ethylene production site in North America, with a production capacity of 3.4 billion pounds. Two ethylene plants, EI and EII, operate on the Joffre site, producing ethylene from natural-gas-derived ethane. In 1997, the Joffre facility ran at full capacity, producing 6% more ethylene than the 3.3 billion pounds produced in 1996. With the start-up of EIII and the new polyethylene plant in 2000, NOVA Chemicals expects Joffre to be the largest ethylene and polyethylene complex in North America.

Corunna ethylene facility provides manufacturing flexibility

NOVA Chemicals' Corunna plant, located near Sarnia, has an annual capacity of approximately 1.6 billion pounds of ethylene and 3.9 billion pounds of chemicals and energy products (also known as co-products). This facility features one of the world's most flexible feedstock operating platforms — technology that enables the facility to process a wide range of hydrocarbon feedstocks. A broad range of primary petrochemicals are produced and consumed internally by NOVA Chemicals' manufacturing operations, as well as sold to third party petrochemical producers.

In 1997, the Corunna facility had sales equal to 1996 sales at 1.5 billion pounds of ethylene, despite the significant delay in re-starting the facility after a scheduled maintenance shutdown. The Corunna facility sold a total of 3.6 billion pounds of co-products, including 765 MMLbs of propylene.

Polyethylene drives NOVA Chemicals' profitability

Polyethylene is the most significant profit driver in NOVA Chemicals' product portfolio. NOVA Chemicals is North America's sixth largest polyethylene producer with a total annual capacity of 2.5 billion pounds and 1997 sales of 2.4 billion pounds. By the year 2001 we expect to be North America's fifth largest producer, with a total capacity of 3.5 billion pounds.

NOVA Chemicals produces LLDPE, HDPE and LDPE. These types of polyethylene are widely used in hundreds of everyday applications — from film for food wrap to injection moulded containers, pipe, coatings for wire and cable and children's toys. NOVA Chemicals' polyethylene production facilities are located at three sites in Canada: the Joffre facility in Alberta, and the Moore Township and St. Clair River sites near Sarnia, Ontario.

NOVA Chemical's Joffre plant has an annual capacity of 1.2 billion pounds of LLDPE, while the Moore Township site has an annual capacity of 720 MMLbs of LDPE and HDPE. NOVA Chemicals' St. Clair River site can produce up to 600 MMLbs of LLDPE and HDPE annually.

1997 polyethylene sales increased 3.2% over 1996

NOVA Chemicals' total polyethylene sales volumes increased 3.2% over 1996 levels. The Joffre site in Alberta produces LLDPE using licensed gas phase process technology. In 1997, the plant ran at full capacity, and NOVA Chemicals sold 1.2 billion pounds of LLDPE from Joffre, up 9.1% over 1996 sales of 1.1 billion pounds. The Moore Township site sold 697 MMLbs of HDPE and LDPE in 1997, an increase of 4.2% over 1996 sales of 669 MMLbs. The St. Clair River site produces LLDPE and HDPE using NOVA Chemicals' SCLAIRTECH solution technology. This site sold 531 MMLbs of polyethylene, a significant accomplishment given that production was curtailed by a major planned maintenance shutdown.

Olefins/polyolefins price outlook for 1998

Weakening demand from Asian markets is anticipated in the near term as a result of the economic difficulties there. This is expected to apply downward pressure on polyethylene pricing. Longer term, several Asian expansion projects have been deferred, which could lead to a reduction in excess global polyethylene capacity sooner than previously anticipated.

Steady North American demand for polyethylene is expected to partially offset anticipated weakness in Asian demand levels in the near term. A 6% increase in North American polyethylene production capacity is expected in 1998, adding an estimated 2.2 billion pounds of incremental capacity. As a result, operating rates are expected to remain below 90% in 1998 and 1999. Combined with an expected surplus of ethylene, these polyethylene capacity additions and the potential side effects of the Asian crisis are expected to contribute to low North American polyethylene prices through most of 1998 and 1999.

Over the longer term, economic forecasts indicate that global demand for polyethylene will grow at rates well above GDP, leading to a stronger outlook for polyethylene prices as increases in demand overtake capacity growth.

NOVA Chemicals' Styrenics Business

NOVA Chemicals manages its styrene and polystyrene operations as an integrated business unit. In terms of capacity, we ranked seventh in styrene and third in polystyrene in North America in 1997. Our styrenics products are used in food packaging, food-service ware, housewares, and automotive and consumer products.

NOVA Chemicals consumes almost 80% of styrene production in the manufacturing of polystyrene, and the balance is sold to third parties at prevailing market prices. As a result, the styrenics business is leveraged primarily to changes in polystyrene prices.

Styrenics business significantly impacted by lower polystyrene prices

World styrene demand growth of approximately 4% was overtaken by capacity growth of 10% in 1997. With supply significantly exceeding demand, the world operating rates for styrene fell to 89% from 95% in 1996. Industry participants announced the shutdown of several high-cost plants in an attempt to alleviate the supply/demand imbalance. U.S. Gulf Coast styrene market pricing edged up early in 1997 on stronger feedstock prices, but reversed course mid-year. Prices ended the year at U.S.\$0.285 per pound, similar to year-end 1996 levels.

North American polystyrene demand grew by 5.5%, while production grew by almost 7%, leading to an excess supply of polystyrene. With this oversupply, average benchmark prices dropped approximately 17%, resulting in a significant decline in the profitability of NOVA Chemicals' styrenics business.

Styrene

Styrene is the key feedstock for a broad range of styrenic polymers including solid polystyrene, EPS and many other engineering and specialty materials. Styrene is produced from ethylene and benzene. All of the ethylene and about two thirds of the benzene requirements of the Sarnia styrene facility are supplied internally from NOVA Chemicals' Corunna facility.

NOVA Chemicals produces or has access to approximately 1.4 billion pounds of styrene annually: 600 MMlbs from our plant in Sarnia and 800 MMlbs from supply arrangements with ARCO Chemical Company's Channelview facility in Texas.

Polystyrene

NOVA Chemicals produces four different product families of polystyrene. These include solid polystyrene, EPS, DYLLARK engineering resins and specialty styrenic polymers. NOVA Chemicals produces these products at facilities located at: Decatur, Alabama; Springfield, Massachusetts; Montreal, Quebec; Painesville, Ohio; and Beaver Valley, Pennsylvania. These facilities have a combined production capacity of 1.3 billion pounds per year.

Solid polystyrene is used to manufacture food packaging, appliances, electronics, consumer goods, office products, medical and other industrial items. In 1997, NOVA Chemicals sold 721 MMlbs of solid polystyrene, compared with 692 MMlbs in 1996.

NOVA Chemicals produces DYLITE® EPS and DYLARK engineering resins, higher-margin specialty products which are used in a wide variety of applications. DYLITE EPS is used in many food-service, packaging and specialized construction applications. Virtually all of the DYLARK resin NOVA Chemicals produces is used in the manufacture of automobile instrument panels, consoles and other interior trim parts. NOVA Chemicals also produces specialty styrenic polymers that are used in high performance applications such as microwavable containers.

In 1997, NOVA Chemicals sold a total of 495 MMlbs of DYLITE EPS, DYLARK resins and specialty styrenic polymers.

Styrenics outlook for 1998

The current pricing trough caused by a supply/demand imbalance is expected to continue in the near term, with prices remaining at low levels throughout 1998. With continued demand growth and further capacity rationalizations planned for 1998, NOVA Chemicals expects modest improvements in industry margins over the next two to three years.

As a result of the rigorous efficiency advances under way throughout our styrenics business and the anticipated strengthening of market conditions, NOVA Chemicals sees longer-term value and significant growth potential in this business.

NOVA Chemicals' Equity Investments Add Value

Methanex

NOVA Chemicals' approximately 27% ownership in Methanex enables us to participate in the dynamic methanol market. The market value of NOVA Chemicals' investment in Methanex was \$533 million at the end of 1997, an increase of approximately 50% since we acquired our portion of the company in 1993 and 1994.

Methanex has become the largest supplier of methanol to each of the major international methanol markets — North America, Asia-Pacific, Europe and Latin America.

Methanol, typically produced from natural gas, is a basic chemical building block used in the production of MTBE for gasoline, and for formaldehyde, acetic acid and a variety of other chemical intermediates. These derivatives are ultimately used in the manufacture of countless products that we find in our everyday lives, including: adhesives, paints, inks, foams, gasoline additives, silicones, plastic pop bottles, polyester, solvents, spandex, and windshield washer fluid. Methanol is also used directly as a fuel.

Given the number of end uses, a large number of factors influence growth in methanol consumption, but overall GDP increases are the primary driver behind demand growth.

Methanex's Chile II methanol plant, the largest capital project in Methanex's history, was completed at year-end 1996 and began operating at capacity in early January 1997. Construction also began on a third methanol plant at the same site. This plant is expected to be completed by mid-1999.

Also, in 1997, Methanex ordered the world's largest chemical tanker, which will reduce shipping costs from the "production hub" in Chile to customers in Europe by approximately U.S.\$1 million per voyage. In 1998 and beyond, Methanex will continue to pursue low-cost capacity additions and other innovative ways of reducing its overall delivered cost to market.

In 1997, world methanol demand and supply were tightly balanced. Demand for MTBE is expected to grow, especially outside the U.S., leading to an increase in the demand for methanol in the near term. However, uncertainty surrounding currency and economic problems in some Asian countries has reduced Asian demand. This, combined with new capacity additions, has led to sharply lower prices in early 1998.

Methanex 1997 earnings

NOVA Chemicals' approximately 27% interest in Methanex contributed \$57 million to net income in 1997, an increase of \$40 million from the \$17 million contributed in 1996 prior to a \$32 million asset write-down.

The significant improvement in earnings was largely due to higher sales volumes and a higher average realized price of U.S.\$0.56 per gallon, compared with U.S.\$0.45 per gallon in 1996.

NGC Corporation

NGC Corporation (NGC) is a leading gatherer, processor, transporter and marketer of energy products and services in North America and the United Kingdom. Through THE ENERGY STORESM, NGC offers a multi-commodity energy products and services resource that provides natural gas, natural gas liquids, electricity and crude oil. NOVA Chemicals has an approximately 26% interest in NGC. At \$972 million, the market value of NOVA Chemicals' investment at the end of 1997 was more than double the original purchase price in 1994.

In 1997, NGC integrated the operations of Chevron's midstream natural gas and natural gas liquids operations. NGC also purchased Destec Energy, Inc., an independent power producer, resulting in a significant overall increase in the scope of NGC's business.

Despite strong growth in marketed volumes, NGC's profitability was negatively affected by both lower trading margins and higher levels of general, administrative and interest expenses associated with the company's expanded scope.

NGC also undertook a restructuring process in its natural gas liquids and crude oil business which resulted in a significant write-down in 1997, NOVA Chemicals' share of which was \$57 million.

NGC Corporation 1997 earnings

NOVA Chemicals' approximately 26% equity investment in NGC contributed \$29 million in earnings, down from \$41 million in 1996. A tightening of the natural gas and natural gas liquids trading margins realized in the first quarter of 1997 and higher levels of general, administrative and interest expenses associated with NGC's expanded scope of operations were the primary reasons for this drop in earnings.

NGC also reported a write-down during the fourth quarter, NOVA Chemicals' share of which was \$57 million. This charge to earnings relates primarily to NGC's planned restructuring in its natural gas processing, natural gas liquids and crude oil business.

Liquidity and Capital Resources

Cash Flow Highlights sources (uses) of cash

	Year Ended December 31,		
	1997	1996	1995
	(Millions of dollars)		
Funds from operations	\$ 373	\$ 414	\$ 704
Proceeds on sale of investments	16	—	68
Plant, property and equipment additions	(328)	(257)	(136)
Long-term investment and other assets	(10)	(30)	(196)
Debt additions (reductions)	34	314	(4)
Repayment of long-term debt to parent	—	—	(659)
Advances (to) from parent and affiliates	(149)	(60)	116
Dividends	(160)	(60)	—
Common shares issued	—	—	93
Other	(5)	3	(25)
Changes in non-cash working capital	(12)	(233)	167
Increase (decrease) in cash	<u>\$ (241)</u>	<u>\$ 91</u>	<u>\$ 128</u>

Funds from Operations

Funds generated from operations decreased \$41 million or 10% to \$373 million in 1997 from \$414 million in 1996. The decrease is attributable to declining prices for polyethylene, negative cash flow from the styrenics business and additional costs associated with the Corunna shut-down and plant start-up problems in the second half of 1997.

Corporate Income Taxes

Approximately \$169 million of income taxes were paid in 1997 (1996 — \$232 million, 1995 — \$74 million). Income taxes paid by NOVA Chemicals in 1997 are down from 1996 due to lower income earned in 1997.

Investing Activities:

In 1997, NOVA Chemicals' capital expenditures totaled \$328 million, up \$71 million compared with 1996 capital expenditures of \$257 million. The capital expenditures were incurred to maintain and debottleneck existing plant facilities (\$252 million) and for expansion of facilities (\$76 million).

For 1998, NOVA Chemicals' capital expenditures are expected to be about \$500 million. NOVA Chemicals has sufficient funds flow from operations and access to capital markets to finance these additions. If it chooses, NOVA Chemicals has the ability to draw down on its credit facilities.

For the 1998 planned capital expenditures approximately \$150 million will be directed to construction of the EIII facility at Joffre, Alberta, approximately \$120 million at the Advanced SCLAIRTECH polyethylene facility being built at Joffre and approximately \$80 million will be spent on the Sarnia styrene upgrade, while the remaining \$150 million will be directed at ongoing facility maintenance and other initiatives.

Financing Activities:

Funds generated from operations for the year ended December 31, 1997 of \$373 million and the cash available at December 31, 1996 of \$241 million were applied to the mandatory debt repayments of \$50 million, capital additions of \$328 million and dividends and advances to NOVA of \$309 million.

NOVA Chemicals increased borrowings under its lines of credit by the amount of \$84 million in 1997. During the third quarter of 1997 NOVA Chemicals discontinued its accounts receivable factoring program which resulted in an increase in accounts receivable of approximately \$100 million.

During 1997 the secured financing of the ethylene plants (EI and EII) was replaced by an unsecured facility. The replacement facility is repayable under an amortization schedule concurrent with the expiry of the original 20 year term cost-of-service ethylene sales contracts.

NOVA Chemicals has a committed credit facility from a syndicate of Canadian banks of \$500 million which has not been drawn down as at December 31, 1997. The credit facility allows unsecured borrowings at floating rates under a revolving credit line with 364 day renewable revolving periods. At the end of each 364 day period either the banks or NOVA Chemicals may elect to convert the amounts outstanding under the credit facility into a four year term loan. The credit facility contains covenants, representations and events of default which are customary for financing agreements of this type.

NOVA Chemicals' Credit Ratings

Unsecured Debt Securities⁽¹⁾⁽²⁾ December 31, 1997

Canadian Bond Rating Service Inc	B + + (High)
Dominion Bond Rating Service Limited	BBB
Standard & Poor's Corporation	BBB+
Moody's Investors Service, Inc	Baa2

Notes:

- (1) Following the announcement of the proposed merger with TransCanada and the split off of NOVA Chemicals, the rating agencies reviewed and confirmed their ratings for NOVA Chemicals, with the exception of CBRS which has put the rating of NOVA Chemicals under review. Ratings may change and if this information is material to an investor, they should be confirmed at the time of the investment decision.
- (2) Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future.

Foreign Currency Contracts and Options

NOVA Chemicals' major markets are in the United States, Canada, Europe and the Asia-Pacific region. The selling price for most petrochemicals products is established in U.S. dollars or is tied to a U.S. Gulf Coast benchmark price. NOVA Chemicals has a significant investment in its Canadian production facilities, with costs established in Canadian dollars. The relationship between sales revenues, which fluctuate with changes in the U.S. dollar, and a portion of production costs, which are established in Canadian dollars, means that NOVA Chemicals' earnings are expected to increase with a lower-valued Canadian dollar and decrease with a higher-valued Canadian dollar.

NOVA Chemicals uses forward currency contracts and options to reduce its exposure to fluctuations in the U.S. dollar. At December 31, 1997, NOVA Chemicals had forward contracts and options in place to hedge a total of U.S.\$2.8 billion of net U.S. dollar exposure. These contracts mature from 1998 through 2002 and have an average exchange rate of \$0.743 per Canadian dollar (\$1.34 per U.S. dollar). At year-end 1996, NOVA Chemicals' had U.S.\$2.3 billion in forward contracts and options outstanding at an average exchange rate of \$0.746 per Canadian dollar (\$1.34 per U.S. dollar). The Audit and Finance committee of NOVA's Board of Directors regularly reviews foreign exchange hedging activity, ensuring it complies with NOVA's hedging policy. Foreign currency instruments are not used for speculative purposes. At year end 1997, the net credit exposure to counterparties was nil.

Commodity Hedges and Trading Program

NOVA Chemicals purchased approximately 57.5 Bcf of natural gas and 18 million barrels of crude oil, natural gas liquids and condensates in 1997 as feedstock for its chemical operations. NOVA Chemicals manages the risk of fluctuating commodity prices on its feedstock requirements by varying the mix of fixed and floating

price contracts and by entering into commodity futures contracts. The extent to which these hedging instruments are used depends on market conditions. NOVA Chemicals ties its position in the futures markets to its physical feedstock requirements and does not use hedging instruments for speculative purposes.

MARKET FOR SECURITIES

None of NOVA Chemicals securities are listed, posted for trading or quoted on any exchange or quotation system. All of NOVA Chemicals' outstanding common shares are owned by NOVA.

DIVIDENDS

In 1997 NOVA Chemicals paid dividends to NOVA of \$160 million. Any future dividends will be paid to NOVA while it remains NOVA Chemicals' parent. There are no material restrictions on NOVA Chemicals' ability to declare and pay dividends on its common shares.

MANAGEMENT OF NOVA CHEMICALS

The following table and associated notes set forth, in alphabetical order, the names of each director and officer of NOVA Chemicals at April 16, 1998, their municipalities of residence, their respective principal occupations within the last five years and, where applicable, the period during which each director has served as director of NOVA Chemicals and when each director's term of office expires.

<u>Name and Municipality of Residence</u>	<u>A director of NOVA Chemicals since⁽¹⁾</u>	<u>Present principal occupation (including senior position currently held with NOVA and NOVA Chemicals)⁽²⁾</u>
Daniel Wilfrid Boivin Calgary, Alberta	September 1, 1994	Senior Vice President, NOVA and Senior Vice President, Olefins/Polyolefins and President, Olefins/Polyolefins Division, NOVA Chemicals
Paul Douglas Clark Calgary, Alberta	December 1, 1994	Vice President, Technology, NOVA Chemicals
Douglas John Ferris Calgary, Alberta		Vice President, Strategic Initiatives, NOVA Chemicals
Rhondda Elaine Stout Grant Calgary, Alberta		Corporate Secretary and Associate General Counsel, NOVA and Corporate Secretary, NOVA Chemicals
William Gordon Greene Sewickley, Pennsylvania	May 29, 1996	Vice President, Value Process Styrenics, NOVA Chemicals
Ronald David Kennedy Sarnia, Ontario	December 1, 1994	Vice President, Value Process East, NOVA Chemicals
Michael Frank Lee Red Deer, Alberta	December 1, 1994	Vice President, Human Resources, NOVA Chemicals
Malcolm David Leonard Sarnia, Ontario		Assistant Secretary, NOVA Chemicals
Jeffrey Marc Lipton Calgary, Alberta	April 1, 1996	President, NOVA and President and Chief Executive Officer, NOVA Chemicals
Wes William Lucas Mountain Lake, New Jersey		Senior Vice President, Styrenics and Senior Vice President and General Manager, Styrenics Division, NOVA Chemicals

Name and Municipality of Residence	A director of NOVA Chemicals since⁽¹⁾	Present principal occupation (including senior position currently held with NOVA and NOVA Chemicals)⁽²⁾
Jack Stephen Mustoe Calgary, Alberta	January 1, 1993	Senior Vice President, General Counsel and Corporate Environmental Officer, NOVA and Senior Vice President and General Counsel, NOVA Chemicals
James Malcolm Edward Newall, O.C. Calgary, Alberta	January 1, 1993	Vice Chairman and Chief Executive Officer, NOVA and Chairman, NOVA Chemicals
Albert Terence Poole Calgary, Alberta	January 1, 1993	Senior Vice President and Chief Financial Officer, NOVA and Senior Vice President, NOVA Chemicals
Christopher Alan Read Calgary, Alberta	May 29, 1996	Vice President, Finance, NOVA Chemicals
David Gerald Fredrick Sansom Calgary, Alberta	December 1, 1994	Vice President, Public Affairs, NOVA Chemicals
Dale Howard Spiess Cincinnati, Ohio		Senior Vice President, Polyethylene Sales and Marketing and Senior Vice President, Sales and Marketing, Olefins/Polyolefins Division, NOVA Chemicals
Brian Maurice Turner Calgary, Alberta		Vice President, Business Development, Polymers, NOVA Chemicals
Ronald John Turner Calgary, Alberta		Vice President, Value Process West, NOVA Chemicals
Susan Jean Wright Calgary, Alberta		Associate General Counsel and Assistant Secretary, NOVA Chemicals

Notes:

(1) The directors of NOVA Chemicals are elected annually for a term of one year. Officers are appointed by the Board of Directors of NOVA Chemicals from time to time and serve at the discretion of the Board of Directors.

(2) Information provided with respect to the principal occupation of each director is based on information furnished to NOVA Chemicals by such director. All of the above directors and officers have held their present principal occupations or held executive positions with the same or associated firms for the past five years, except as indicated below:

D.W. Boivin	Prior to January 1998, President and Chief Operating Officer, NOVA Chemicals; prior to September 1994, Senior Vice President Olefins/Polyolefins, NOVA Chemicals; prior to December 1993, Vice President and General Manager, Plastics, DuPont;
P.D. Clark	Prior to February 1994, Research and Development Director, Dow Chemical Canada Inc.;
D.J. Ferris	Prior to November 1994, Vice President and General Manager, Methanol, NOVA Chemicals;
R.E.S. Grant	Prior to October 1994, Associate General Counsel, Corporate, NOVA; prior to August 1994, Senior Corporate Counsel, NOVA; prior to May 1994, Senior Corporate Counsel, NOVA Corporation of Alberta ("Old NOVA");
W.G. Greene	Prior to May 1996, Vice President, Facilities Maintenance, NOVA Gas Transmission; prior to November 1994, Site Manager, NOVA Chemicals;
R.D. Kennedy	Prior to December 1994, Vice President and General Manager, Corunna Business, NOVA Chemicals (Canada) Ltd.;
J.M. Lipton	Prior to January 1998, President, NOVA and Chief Executive Officer, NOVA Chemicals; prior to December 1994, President and Chief Operating Officer, NOVA; prior to September 1994, Senior Vice President and Chief Financial Officer, NOVA; prior to May 1994, Senior Vice President and Chief Financial Officer, Old NOVA; prior to February 1994, Senior Vice President, NCI; prior to December 1993, Vice President, Corporate Plans, E.I. du Pont de Nemours & Co.;

W.W. Lucas	Prior to January 1998, Vice President, Allied Signal Inc.; prior to April 1995, Manager, McKinsey & Company;
J.S. Mustoe	Prior to October 1994, Senior Vice President, General Counsel and Corporate Secretary, NOVA; prior to May 1994, Senior Vice President, General Counsel and Corporate Secretary, Old NOVA; prior to September 1993, Vice President, General Counsel and Corporate Secretary, Old NOVA;
J.E. Newall, O.C.	Prior to September 1994, President and Chief Executive Officer, NOVA; prior to May 1994, President and Chief Executive Officer, Old NOVA;
A.T. Poole	Prior to September 1994, Senior Vice President, Corporate Development and Controller, NOVA; prior to March 1994, Senior Vice President and Controller, Old NOVA; prior to September 1993, Vice President and Controller, Old NOVA;
C.A. Read	Prior to May 1996, Vice President, Treasury and Commercial Banking, NOVA; prior to December 1994, Vice President, NOVA Chemicals;
D.G.F. Sansom	Prior to June 1994, General Manager, Polyethylene Business and Technology Licensing, DuPont; prior to December 1993, General Manager, Technology Licensing, DuPont;
D.H. Spiess	Prior to January 1998, Group Vice President, Polyolefins, Millenium Petrochemicals, Inc.;
B.M. Turner	Prior to January 1996, Vice President and General Manager, Polypropylene, NCI;
R.J. Turner	Prior to April 1998, Vice President, Facilities Provision, NOVA Gas Transmission; prior to July 1994, Vice President, Engineering, NOVA Gas Transmission; prior to May 1994, Vice President, Engineering, Alberta Gas Transmission Division, Old NOVA; prior to December 1993, Vice President, Malaysian Operations, Novacorp International Consulting Inc.;
S.J. Wright	Prior to May 1996, Associate General Counsel, NOVA Gas Transmission; prior to October 1994, Senior Corporate Counsel, NOVA Gas Transmission; prior to May 1994, Senior Corporate Counsel, Old NOVA.

Board of Directors

The business of NOVA Chemicals is managed by a Board of Directors, the members of which are elected by sole shareholder, NOVA. Currently there are 12 directors.

Committees of the Board of Directors

The Board of Directors of NOVA Chemicals does not have an executive committee or an audit committee. The Board of Directors of NOVA Chemicals has an ad hoc committee which approves the interim financial statements, related Management's discussion and analysis of financial results and any schedules contained therein.

The members of the ad hoc committee are Daniel W. Boivin, William G. Greene, Ronald D. Kennedy, A. Terence Poole and Christopher A. Read.

LEGAL PROCEEDINGS

NOVA Chemicals is involved in litigation from time to time in the ordinary course of its business. In management's opinion none of such litigation is material to NOVA Chemicals' financial condition or results of operations.

In June 1992, a train derailment near Superior, Wisconsin resulted in the puncture of a tank car and the release to the environment of a NOVA Chemicals product containing benzene which had been in transit to a customer. The release prompted an evacuation of parts of Superior, Wisconsin and Duluth, Minnesota and has resulted in "toxic tort" litigation being commenced against NOVA Chemicals and others in Wisconsin and Texas state courts, as well as in the United States District Courts. Such litigation generally advances claims, in unspecified amounts, for, among other things, personal injury, business loss and property damage based upon allegations which include negligence and strict liability. NOVA Chemicals believes that it has meritorious defences to such claims and intends to vigorously defend against such litigation.

Two First Nations have commenced an action in the Ontario courts against affiliates of NOVA Chemicals and the Ontario government. The plaintiffs' claim that the river bed of the St. Clair River, upon which a NOVA Chemicals pipeline has been constructed, is subject to aboriginal rights. A declaration, injunctive relief and damages of \$55 million are sought.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of NOVA Chemicals' securities, options to purchase securities and interests of insiders in material transactions, in each case where applicable, is contained in the Annual Filing of Reporting Issuer of NOVA Chemicals dated April 16, 1998.

Additional financial information is provided in the 1997 audited comparative Consolidated Financial Statements, together with the auditors' report thereon included on the following pages.

A copy of NOVA Chemicals' Annual Filing of Reporting Issuer referred to above, as well as a copy of this Annual Information Form and of any interim financial statements of NOVA Chemicals subsequent to the 1997 audited comparative Consolidated Financial Statements, may be obtained by any person without charge by writing to:

NOVA Chemicals Ltd.
645 Seventh Avenue S.W.
Calgary, Alberta, Canada
T2P 4G8
Phone: (403) 750-3600
Attention: Corporate Secretary

This Annual Information Form does not incorporate any document by reference. A copy of any other documents not referred to above that are incorporated by reference into a preliminary short form prospectus or a short form prospectus of NOVA Chemicals when the securities of NOVA Chemicals are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus filed in respect of such distribution may also be obtained by any person without charge by writing to the Corporate Secretary at the above-noted address.

AUDITORS' REPORT

To the Shareholder of
NOVA Chemicals Ltd.

We have audited the consolidated balance sheet of NOVA Chemicals Ltd. as at December 31, 1997, 1996 and 1995 and the consolidated statements of income and reinvested earnings and cash flows for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the management of NOVA Chemicals Ltd. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements present fairly, in all material respects, the financial position of NOVA Chemicals Ltd. as at December 31, 1997, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1997 in accordance with accounting principles generally accepted in Canada.

Calgary, Canada
February 19, 1998

“Ernst & Young”
Ernst & Young
Chartered Accountants

See accompanying notes to consolidated financial statements.

NOVA CHEMICALS LTD.
CONSOLIDATED BALANCE SHEET

	December 31		
	1997	1996	1995
	(Millions of dollars)		
ASSETS			
Current Assets			
Cash and cash equivalents	\$ —	\$ 241	\$ 150
Receivables (Note 3)	442	335	283
Inventories (Note 4)	304	396	235
Advances to parent and affiliates (Note 17)	257	108	48
	<u>1,003</u>	<u>1,080</u>	<u>716</u>
Investments and other assets (Note 6)	1,148	1,096	1,047
Plant, property and equipment, net (Notes 7, 9 and 13)	1,800	1,699	1,643
	<u>\$3,951</u>	<u>\$3,875</u>	<u>\$3,406</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current Liabilities			
Bank loans (Note 13)	\$ 84	\$ —	\$ 12
Accounts payable and accrued liabilities (Note 8)	372	396	437
Long-term debt instalments due within one year (Note 9)	53	54	52
	<u>509</u>	<u>450</u>	<u>501</u>
Long-term debt (Note 9)	1,015	1,026	697
Long-term debt to affiliate (Note 17)	97	97	97
Deferred credits (Note 10)	348	345	306
Shareholder's equity			
Common shares (Note 11)	722	722	722
Contributed surplus	20	20	20
Cumulative translation adjustment (Note 12)	57	35	48
Reinvested earnings	1,183	1,180	1,015
	<u>1,982</u>	<u>1,957</u>	<u>1,805</u>
Contingencies and commitments (Notes 18 and 20)	\$3,951	\$3,875	\$3,406
	<u>\$3,951</u>	<u>\$3,875</u>	<u>\$3,406</u>

On behalf of the Board:

“A.T. POOLE”
A.T. POOLE
Director

“C.A. READ”
C.A. READ
Director

See accompanying notes to consolidated financial statements.

NOVA CHEMICALS LTD.
CONSOLIDATED STATEMENT OF INCOME AND REINVESTED EARNINGS

	Year Ended December 31		
	1997	1996	1995
	(Millions of dollars)		
Revenue	\$3,360	\$3,043	\$3,054
Operating costs and expenses			
Feedstock and operating costs	2,788	2,423	2,102
Depreciation	235	221	202
	<u>3,023</u>	<u>2,644</u>	<u>2,304</u>
Operating income	<u>337</u>	<u>399</u>	<u>750</u>
Other income (deductions)			
Interest expense (Note 9)	(83)	(66)	(54)
Equity in earnings of affiliates (Note 6)	84	58	73
Other losses (Note 5)	(57)	(32)	(9)
General and corporate	(8)	(8)	(3)
	<u>(64)</u>	<u>(48)</u>	<u>7</u>
Income before income taxes	<u>273</u>	<u>351</u>	<u>757</u>
Income taxes (Note 14)	(110)	(126)	(237)
Net income	<u>163</u>	<u>225</u>	<u>520</u>
Dividends	(160)	(60)	—
Reinvested earnings, beginning of year	1,180	1,015	495
Reinvested earnings, end of year	<u>\$1,183</u>	<u>\$1,180</u>	<u>\$1,015</u>

In 1992, pursuant to a resolution of the Board of Directors, NOVA Chemicals reduced the stated common share capital by \$579 million in order to eliminate the deficit as at December 31, 1991.

See accompanying notes to consolidated financial statements.

NOVA CHEMICALS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Year Ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(Millions of dollars)		
Operating activities			
Net income	\$ 163	\$ 225	\$ 520
Depreciation	235	221	202
Deferred income taxes (Note 14)	2	(6)	46
Equity in earnings of affiliates (Note 6)	(84)	(58)	(73)
Other losses (Note 5)	57	32	9
	<u>373</u>	<u>414</u>	<u>704</u>
Funds from operations			
Changes in non-cash working capital (Note 15)	(39)	(233)	167
Cash from operations	<u>334</u>	<u>181</u>	<u>871</u>
Investing Activities			
Proceeds on sale of investments (Note 5)	16	—	68
Plant, property and equipment additions	(328)	(257)	(136)
Investment in Methanex Corporation	—	—	(8)
Long-term investments and other assets	(10)	(30)	(196)
Changes in non-cash working capital (Note 15)	27	—	—
	<u>(295)</u>	<u>(287)</u>	<u>(272)</u>
Financing Activities			
Increase (decrease) in current bank loans	84	(12)	(307)
Common shares issued	—	—	93
Dividends	(160)	(60)	—
Long-term debt additions	—	378	478
Long-term debt repaid	(50)	(52)	(175)
Long-term debt repaid to parent	—	—	(659)
Advances from (repayments to) parent and affiliates	(149)	(60)	116
Changes in deferred credits	(5)	3	(17)
	<u>(280)</u>	<u>197</u>	<u>(471)</u>
Increase (decrease) in cash and cash equivalents	(241)	91	128
Cash and cash equivalents at beginning of year	241	150	22
Cash and cash equivalents at end of year	<u>\$ —</u>	<u>\$ 241</u>	<u>\$ 150</u>

See accompanying notes to consolidated financial statements.

NOVA CHEMICALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

1. Basis of Presentation and Summary of Significant Accounting Policies

NOVA Chemicals Ltd. ("NOVA Chemicals" or the "Corporation") is incorporated under the *Business Corporations Act* (Alberta) and is a wholly-owned subsidiary of NOVA Corporation ("NOVA"). The Corporation is the primary entity through which NOVA's petrochemicals operations and business is conducted.

The consolidated financial statements include the accounts of the Corporation, its subsidiaries, and the proportionate share of the accounts of its joint ventures. They have been prepared by management on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. These accounting principles are different in some respects from those generally accepted in the United States and the significant differences are described in Note 21, "United States Accounting Principles". Preparation of these consolidated financial statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates. All amounts are reported in Canadian dollars unless otherwise indicated.

Cost-of-Service

Under the terms of the sales agreements for the Alberta ethylene business, the Corporation sells ethylene on a take or pay basis, for a price determined by a cost-of-service formula that includes cost of feedstock and fuel, operating expenses, depreciation, income taxes, return on capital and realized foreign exchange gains or losses in respect of debt service. The return on capital includes a 20% after tax return on equity based on a deemed debt to equity ratio.

Cash and Cash Equivalents

NOVA Chemicals' short-term investments are considered to be cash equivalents and are recorded at cost, which approximates current market value.

Foreign Currency Translation

The Corporation's foreign operations are considered self-sustaining and are translated into Canadian dollars using the current rate method. Resulting translation gains or losses are deferred in a separate component of common shareholder's equity entitled "Cumulative Translation Adjustment" until there is a realized reduction of the investment in the foreign operations.

Foreign denominated long-term monetary items, principally long-term debt, are translated at the current rate of exchange. For ethylene cost-of-service operations, the exchange differential is recoverable from customers and is reported as a reduction or addition in the associated long-term monetary item. For non-cost-of-service operations, the unrealized translation gains or losses are deferred and amortized over the remaining lives of the related items.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis with no allocation of fixed production overhead.

NOVA CHEMICALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

Investments

Investments in affiliates in which the Corporation exercises significant influence, but not control, are accounted for by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings. Other investments are carried at cost.

Joint Ventures

NOVA Chemicals applies the proportionate consolidation method of accounting for its investments in joint venture operations. A joint venture is an economic activity in which NOVA Chemicals and its co-venturers have agreed to jointly share, on a continuing basis, the power to determine the venture's strategic operating, investing and financing policies. Under the proportionate consolidation method, NOVA Chemicals records, on a line-by-line basis within its financial statements and notes, its pro-rata share of the joint venture's assets, liabilities, revenues, expenses and cash flows.

Plant, Property and Equipment (PP&E)

NOVA Chemicals' PP&E consists primarily of manufacturing equipment, land and buildings for producing petrochemicals.

PP&E is carried at cost and financing costs incurred during major construction are capitalized as part of the cost of the asset.

In accordance with the terms of the ethylene sales agreements, the Alberta ethylene plants are carried at cost including an allowance for funds used during construction.

Future removal and site restoration costs are provided for on a straight-line basis over the expected remaining economic lives of the assets when such costs can be reasonably determined.

Depreciation

Plant and equipment are depreciated on the straight-line basis at annual rates averaging 7%. These rates are designed to write these assets off over their estimated useful lives. The Alberta ethylene plants and the hydrogen plant are depreciated over the lives of the related sales agreements.

Income Taxes

Cost-of-service activities operate under billing structures that allow NOVA Chemicals to recover related income tax costs from customers based on the taxes payable method. NOVA Chemicals records income tax expenses on these operations equal to recoverable amounts. For non-cost-of-service operations the deferral method of tax allocation accounting is followed.

Pension Plans

The cost of pension benefits earned by employees is determined using the projected benefit method prorated on services and is expensed as the employees provide services. It reflects management's best estimates of the expected investment yields, salary escalations, mortality rates, terminations and members' retirement ages. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups. The adjusted market value of pension plan assets is determined based on a four year moving average of pension plan asset market values.

NOVA CHEMICALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

Post-retirement Benefits Other than Pensions

NOVA Chemicals provides medical care and life insurance benefits to eligible retirees and their dependants. Post-retirement benefit costs are expensed as the employees provide services.

Hedging Activity

The Corporation enters into forward contracts and options to reduce its exposure to changes in feedstock prices or foreign exchange rates. Gains or losses on the hedging instruments are recognized when the hedge transactions mature. They offset the effects of changes in commodity purchase prices or foreign exchange gains or losses on foreign cash flow.

2. Subsequent Event

On January 24, 1998, NOVA and TransCanada PipeLines Limited (TransCanada) signed an agreement to merge the two companies under a plan of arrangement. Under the terms of the agreement, each NOVA common share will be exchanged for 0.52 TransCanada common shares. Immediately after the merger, which will be accounted for on a book value basis under the pooling of interest method, the business will be split into separate energy and chemicals businesses, each held in a separate public company owned by the combined TransCanada and NOVA shareholder groups. The proposed transaction is expected to be completed in 1998 and is subject to the receipt of necessary shareholder, tax, regulatory and court approvals.

3. Receivables

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Trade	\$412	\$320	\$228
Other	34	26	64
	446	346	292
Less allowance for doubtful accounts	(4)	(11)	(9)
	<u>\$442</u>	<u>\$335</u>	<u>\$283</u>

In 1996 and 1995, NOVA Chemicals sold a portion of its trade receivables to certain financial institutions on a revolving basis subject to certain limits. Trade receivables sold at December 31, 1996 were \$103 million and \$93 million at December 31, 1995. In 1997 this program was discontinued.

4. Inventories

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Material and supplies	\$ 38	\$ 40	\$ 17
Raw materials	104	126	91
Finished goods	162	230	127
	<u>\$304</u>	<u>\$396</u>	<u>\$235</u>

NOVA CHEMICALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

5. Other Losses

	Gain (loss) on sale		
	Before tax	After tax	Proceeds
	(Millions of dollars)		
Year ended December 31, 1997			
NGC asset write-down ⁽¹⁾	\$(57)	\$(57)	\$—
Sale of 50% interest in a Catalytic Distillation Technologies Partnership	—	—	16
	<u>\$(57)</u>	<u>\$(57)</u>	<u>\$16</u>
Year ended December 31, 1996			
Methanex asset write-down ⁽²⁾	\$(32)	\$(32)	\$—
Year ended December 31, 1995			
Sale of polypropylene business	\$(48)	\$(31)	\$60
Foreign exchange gain on dividends received from subsidiary	40	42	—
Other	(1)	(1)	8
	<u>\$ (9)</u>	<u>\$ 10</u>	<u>\$68</u>

Notes:

- (1) NOVA Chemicals' share of NGC's restructuring charge relating primarily to NGC's natural gas liquids and crude oil business.
(2) NOVA Chemicals' share of Methanex's asset write-down to reduce book value of idled plants.

6. Investments and Other Assets

	December 31 and for the Year Ended December 31					
	1997		1996		1995	
	Investment	Equity Earnings	Investment	Equity Earnings	Investment	Equity Earnings
	(Millions of dollars)					
Equity investments						
Methanex ⁽¹⁾	\$ 621	\$57	\$ 544	\$17	\$ 560	\$58
NGC ⁽¹⁾	407	29	418	41	373	15
Other	12	(2)	15	—	11	—
NOVA Gas International	97	—	97	—	97	—
Other assets	11	—	22	—	6	—
	<u>\$1,148</u>	<u>\$84</u>	<u>\$1,096</u>	<u>\$58</u>	<u>\$1,047</u>	<u>\$73</u>

Note:

- (1) Equity earnings exclude NOVA Chemicals' share of NGC asset write-down of \$57 million in 1997 and Methanex asset write-down of \$32 million in 1996 (see Note 5).

Methanex Corporation

NOVA Chemicals owns 26.7% of Methanex as at December 31, 1997 (December 31, 1996 — 24.8% and 1995 — 24.8%). Methanex produces and markets methanol. The market value of NOVA Chemicals' investment in Methanex shares at December 31, 1997 was approximately \$533 million (1996 — \$585 million and 1995 — \$469 million).

NOVA CHEMICALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

The following is summarized financial information for Methanex.⁽¹⁾

	Year ended December 31		
	1997	1996	1995
	(Millions of dollars)		
Revenue	\$1,799	\$1,290	\$1,715
Operating expenses and depreciation	\$1,451	\$1,157	\$1,299
Net income (loss) ⁽²⁾	\$ 280	\$ (11)	\$ 275

	Year ended December 31		
	1997	1996	1995
	(Millions of dollars)		
Current assets	\$1,198	\$ 916	\$ 850
Property, plant and equipment and other assets	1,624	1,509	1,573
Current liabilities	(291)	(177)	(191)
Long-term liabilities	(824)	(726)	(676)
Shareholders' equity	<u>\$1,707</u>	<u>\$1,522</u>	<u>\$1,556</u>

Notes:

- (1) Methanex accounts for its operations in U.S. dollars. As Methanex's operations are self-sustaining they are translated into Canadian dollars using the current rate method.
- (2) The 1996 net loss includes a \$127 million after-tax write-down of plant carrying values.

NGC

NOVA Chemicals owns 25.7% of NGC as at December 31, 1997 (December 31, 1996 — 25.8% and 1995 — 33.3%). NGC Corporation is a leading gatherer, processor, transporter and marketer of energy products in the United States.

The market value of NOVA Chemicals' investment in NGC's shares at December 31, 1997 was approximately \$972 million (1996 — \$1,235 million, 1995 — \$445 million). The following is summarized financial information for NGC.⁽¹⁾

	Year Ended December 31		
	1997	1996	1995
	(Millions of dollars)		
Revenue	\$18,521	\$9,904	\$5,059
Operating expenses and depreciation	\$18,131	\$9,498	\$4,947
Net income (loss) ⁽²⁾⁽³⁾	\$ (101)	\$ 155	\$ 64

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Current assets	\$ 3,167	\$2,653	\$1,041
Property, plant and equipment and other assets ⁽³⁾	3,659	3,023	1,491
Current liabilities	(2,800)	(2,112)	(963)
Long-term liabilities	(2,295)	(2,093)	(879)
Redeemable preferred shares	(286)	—	—
Shareholders' equity ⁽³⁾	<u>\$ 1,445</u>	<u>\$1,471</u>	<u>\$ 690</u>

Notes:

- (1) NGC accounts for its operations in U.S. dollars. As NGC's operations are self-sustaining they are translated into Canadian dollars using the current rate method.

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- (2) The net loss for 1997 includes a restructuring charge of U.S.\$194 million (after-tax) relating primarily to NGC's natural gas liquids and crude oil business.
- (3) These amounts have been adjusted to conform with Canadian accounting principles.

Purchase Price Excess

The cost of certain investments exceeded NOVA Chemicals' share of their underlying net book values at their acquisition dates. At December 31, the unamortized purchase price excesses were as follows:

	December 31		
	1997	1996	1995
	(Millions of dollars)		
NGC ⁽¹⁾	\$ 50	\$ 52	\$109
Methanex ⁽²⁾	\$164	\$167	\$179

Notes:

- (1) The purchase price excess is allocated to goodwill and amortized over 20 years.
- (2) The purchase price excess is allocated to plant, property and equipment and is amortized over 20 years.

NOVA Gas International

In 1995, the Corporation invested \$97 million in preferred shares of an affiliate, NOVA Gas International, an affiliate through common ownership.

Other assets

Other assets are mainly composed of deferred debt issue costs which are being amortized over the terms of the related debt instruments.

Petrochemicals joint ventures

As at December 31, 1997, 1996 and 1995 NOVA Chemicals owned a 20% interest in the Cochin pipeline, which transports ethane, ethylene and other products from Alberta to markets in Ontario and the United States; a 50% interest in Fort Saskatchewan Ethylene Storage Limited Partnership; and a 33.3% interest in an ethane gathering system in Alberta. As at December 31, 1997 NOVA Chemicals owned a 50% interest in NOVA-Borealis Compounds LLC which manufactures wire and cable polyethylene products for sale in North and South America. During 1997 NOVA Chemicals sold its 100% interest in Chemical Research and Licensing Company, the principal asset of which was a 50% interest in a Catalytic Distillation Technologies Partnership (see Note 5).

7. Plant, Property and Equipment

	December 31		
	1997	1996	1995
	(Millions of dollars)		
In service	\$ 3,278	\$ 3,104	\$ 2,897
Under construction	303	165	88
	3,581	3,269	2,985
Accumulated depreciation	(1,781)	(1,570)	(1,342)
Net book value	\$ 1,800	\$ 1,699	\$ 1,643

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8. Accounts Payable and Accrued Liabilities

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Accounts payable			
Trade	\$261	\$ 204	\$ 193
Other	65	59	65
	326	263	258
Accrued liabilities			
Interest	22	19	10
Site cleanup and restoration	6	5	10
Other	34	64	14
	62	88	34
Income taxes payable (receivable)	(16)	45	145
	\$372	\$ 396	\$ 437

9. Long-term Debt

	Maturity	December 31					
		1997		1996		1995	
		Debt	Average Interest Rate	Debt	Average Interest Rate	Debt	Average Interest Rate
		(Millions of dollars)					
Ethylene Plants I and II (1997 — U.S.\$135; 1996 — U.S.\$167; 1995 — US\$218)	1998 to 2004	\$ 193	6.4%	\$ 238	6.4%	\$294	6.9%
Exchange differential recoverable from customers through the contractual billing process		(24)		(22)		(26)	
		169		216		268	
Unsecured debentures and notes (1997 — U.S.\$625; 1996 — U.S.\$625; 1995 — U.S.\$350)	2000 to 2028	895	7.1%	857	7.1%	477	6.8%
Other		4		7		4	
		1,068		1,080		749	
Less instalments due within one year		(53)		(54)		(52)	
		\$1,015		\$1,026		\$697	
Cost-of-service		\$ 135		\$ 195		\$245	
Non-cost-of-service		933		885		504	
		\$1,068		\$1,080		\$749	

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Ethylene Plants I and II

Effective July 25, 1997, the secured financing on the ethylene plants was replaced by an unsecured facility. The replacement facility is repayable under an amortization schedule concurrent with the expiry of the original 20-year fixed term cost-of-service ethylene sales contracts. Final installment for the Ethylene Plant I loan is December 1998 and for the Ethylene Plant II loan is June 2004.

Unsecured Debentures and Notes (U.S.\$)

These financings consist of unsecured borrowings which rank pari passu in all respects with other unsecured and unsubordinated debt of the Corporation. The thirty year 7⁷/₈% Debentures due in 2025 are not redeemable prior to September 15, 2005. On or after such date, the Debentures may be redeemed at the option of the Corporation under terms and conditions of the Trust Indenture they were issued under. The thirty year 7% Debentures due 2026 and the thirty-two year 7¹/₄% Debentures due 2028 are redeemable at the option of the holders in 2003 and 2008, respectively.

Repayment Requirements

Repayment requirements in respect of long-term debt for the five years following December 31, 1997 are, 1998 — \$53 million, 1999 — \$40 million, 2000 — \$253 million, 2001 — \$40 million, 2002 — \$39 million.

Other Facilities

At December 31, 1997, NOVA Chemicals had a committed credit facility from a syndicate of Canadian Banks of \$500 million. The credit facility allows unsecured borrowings at floating rates under a revolving credit line with 364 day renewable revolving periods. At the end of each 364 day period either the banks or NOVA Chemicals may elect to convert the amounts outstanding under the facility into a four-year term loan. There have been no drawings under this facility as at December 31, 1997.

Interest Expense

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Interest on long-term debt	\$75	\$44	\$33
Interest on long-term debt to affiliate	8	7	4
Interest on short-term debt	4	17	18
Interest income	(4)	(2)	(1)
	\$83	\$66	\$54

10. Deferred Credits

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Deferred income taxes	\$237	\$231	\$231
Site cleanup and restoration	50	56	58
Other	61	58	17
	\$348	\$345	\$306

Other deferred credits include pension and post-retirement benefit accruals and restructuring accruals.

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11. Common Shares

Authorized

Unlimited number of voting common shares without par value.

Issued and Outstanding

Changes in common share capital during 1997, 1996 and 1995 are summarized below:

	1997		1996		1995	
	Number of Shares	Millions of Dollars	Number of Shares	Millions of Dollars	Number of Shares	Millions of Dollars
Beginning of Year ⁽¹⁾	13,000,008	\$722	13,000,006	\$722	13,000,006	\$629
Shares issued by NOVA Chemicals to NOVA Corporation	—	—	2 ⁽²⁾	—	—	93
End of Year	<u>13,000,008</u>	<u>\$722</u>	<u>13,000,008</u>	<u>\$722</u>	<u>13,000,006</u>	<u>\$722</u>

Notes:

- (1) In 1992, pursuant to a resolution of the Board of Directors, the Corporation reduced the stated common share capital by \$579 million in order to eliminate the deficit as at December 31, 1991.
- (2) On June 30, 1996, NOVA Chemicals issued common shares to acquire from NOVA all of the outstanding common shares of Novamerica Investments Ltd. The acquisition was accounted for under the continuity of interest method.

12. Cumulative Translation Adjustment

The cumulative translation adjustment represents the net unrealized foreign currency translation gain on the Corporation's net investment in self-sustaining foreign operations.

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Beginning of year	\$ 35	\$ 48	\$109
Effect of changes in exchange rates during the year on:			
Consolidated operations	(39)	(16)	(6)
Hedged with U.S. dollar debt	39	—	—
Equity accounted investments	22	3	(10)
Gain realized on the reduction of the net investment in a foreign subsidiary . .	—	—	(45)
End of year	<u>\$ 57</u>	<u>\$ 35</u>	<u>\$ 48</u>

13. Bank Loans

Bank loans are all unsecured. The weighted average year-end interest rate on bank loans was 4.8% (1996 — not applicable, 1995 — 6.7%).

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14. Income Taxes

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before income taxes as shown in the following table:

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Income before income taxes	\$ 273	\$ 351	\$ 757
Statutory income tax rate	44.62%	44.62%	44.58%
Computed income tax expense	\$ 122	\$ 157	\$ 337
Increase (decrease) in taxes resulting from:			
Manufacturing and processing deduction	(16)	(19)	(48)
Lower effective foreign tax rates	(10)	(21)	(28)
Non-taxable equity in earnings of affiliates	(13)	(12)	(31)
Non-provision of deferred income taxes on cost-of-service operations ⁽¹⁾ . .	20	22	18
Non-taxable portion of gain on sale of assets	—	—	(4)
Other	7	(1)	(7)
	\$ 110	\$ 126	\$ 237
Current income taxes	\$ 108	\$ 132	\$ 191
Deferred income taxes	2	(6)	46
	\$ 110	\$ 126	\$ 237

Note:

(1) For certain petrochemical operations, agreements for certain cost-of-service operations provide for the recovery of income taxes from customers. The Corporation records income tax expense on these operations equal to the amounts recoverable under the agreements, and therefore, there is no effect on net income. Some agreements limit the recoverable amount to current taxes payable. Accordingly, the provision for income taxes excludes deferred income tax recoveries relating to these operations. Cumulative unrecorded deferred income taxes payable amounted to \$42 million at December 31, 1997 (\$62 million at December 31, 1996; \$84 million at December 31, 1995).

The principal timing difference in calculating deferred income taxes, for both cost-of-service and non-cost-of-service operations, relates to deductions for tax purposes in respect of plant, property and equipment in excess of depreciation provided for in the accounts.

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15. Changes in Non-Cash Working Capital

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Receivables	\$(107)	\$ (52)	\$ 86
Inventories	92	(161)	(29)
Accounts payable and accrued liabilities	(24)	(41)	119
Changes in non-cash working capital	(39)	(254)	176
Reclassification and other items not having a cash effect	27	21	(9)
Changes in non-cash working capital having a cash effect	<u>\$ (12)</u>	<u>\$ (233)</u>	<u>\$167</u>
These changes relate to the following activities:			
Operating activities	\$ (39)	\$ (233)	\$167
Investing activities	27	—	—
	<u>\$ (12)</u>	<u>\$ (233)</u>	<u>\$167</u>

16. Post-Retirement Benefits

Pension Plans

The Corporation's pension plans cover substantially all employees. Pensions at retirement are related to years of service and remuneration during the last years of employment and are partially indexed to inflation. The cost of pension benefits earned by employees is determined using the projected unit credit method prorated on services and is expensed as the employees provide services. Actuarial reports are prepared regularly by independent actuaries for accounting and funding purposes. The Corporation funds the plan using a valuation based on the projected unit credit method and the plan's assets consist primarily of publicly traded equity and fixed income securities. The assumed future rates of return on assets and discount rates used to determine the estimated projected benefit obligations of the plans were 8% for 1997, 1996, and 1995. The assumed long-term salary and wage escalation rates, including merit increases, averaged 5.5% for 1997, 1996 and 1995.

Pension expense consisted of the following:

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Current service cost	\$ 14	\$ 12	\$ 12
Interest cost on projected benefit obligations	27	25	22
Return on assets	(29)	(24)	(21)
Net total of other components	1	1	3
	13	14	16
Amounts attributable to cost-of-service contracts	<u>(1)</u>	<u>(2)</u>	<u>(2)</u>
	<u>\$ 12</u>	<u>\$ 12</u>	<u>\$ 14</u>

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The status of the pension plans is as follows:

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Estimated obligations			
Projected benefits based on service to date and present remuneration	\$273	\$251	\$231
Additional amounts related to projected salary and wage increases	78	75	64
Total projected benefit obligations	351	326	295
Assets available at adjusted market value	345	334	267
Surplus (deficiency) on an accounting basis	\$ (6)	\$ 8	\$ (28)

The adjusted market value of plan assets is determined on a four-year moving average basis. Based on year end market values, the Corporation's pension plan assets at December 31, 1997 amounted to \$402 million (1996 — \$367 million; 1995 — \$289 million).

Post-Retirement Benefits Other Than Pensions

The Corporation provides medical care and life insurance benefits to eligible retirees and their dependents. Post-retirement costs are funded as they are incurred. The assumed long-term salary and wage escalation rates, including merit increases, averaged 5.5% for 1997, 1996 and 1995. Long-term medical inflation was assumed to be 5.5% (1996 — 5.5%; 1995 — 5.5%) and the discount rate used to calculate the accumulated post-retirement benefit obligations were 8% for 1997, 1996, and 1995. A 1% increase in the medical inflation rate would have increased the accumulated post-retirement benefit obligation by an additional \$4 million at December 31, 1997.

The Corporation accrues the cost of providing post-retirement benefits as the employees provide services. Prior to 1993, the cost of providing post-retirement benefits for employees was expensed when paid. The change to the accrual method was applied prospectively and resulted in an accumulated unrecorded obligation. This obligation is being recognized over the expected average remaining service lifetime of the employees, which is 15 years. At December 31, 1997, the unrecorded obligation is approximately \$27 million (1996 — \$24 million; 1995 — \$25 million).

Post-retirement benefit expense consist of the following:

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Current service costs	\$1	\$ 1	\$ 1
Interest costs on accumulated post-retirement obligations	1	2	2
Curtailement gain	2	—	—
Net total of other components	1	4	1
	5	7	4
Amounts attributable to cost-of-service contracts	—	(1)	(1)
Net post-retirement benefit expenses	\$5	\$ 6	\$ 3

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17. Related Party Transactions

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Transactions during the year:			
Interest expense to parent	\$ 12	\$ 7	\$ 4
Balances at December 31:			
Advances to (from) parent and affiliate:			
NOVA (parent) ⁽¹⁾	\$260	\$111	\$51
NOVA Gas International ⁽¹⁾	(3)	(3)	(3)
	\$257	\$108	\$48
Long-term debt due to affiliate:			
Note due to NOVA Gas International, bearing interest at 7.75%	\$ 97	\$ 97	\$97

Note:

(1) Amounts due from (to) parent and affiliate and long-term debt due to affiliate have no specified terms of repayment. NOVA Gas International is an affiliate through common ownership.

18. Contingencies and Commitments

- (a) Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of the Corporation.
- (b) The Corporation leases office space, data processing and transportation equipment under various operating leases. The minimum lease payments are approximately \$44 million in 1998, \$38 million in 1999, \$37 million in 2000, \$37 million in 2001, \$35 million in 2002, and \$230 million thereafter.
- (c) In addition to the future site cleanup and restoration costs which have been accrued (see notes 8 and 10), costs will be incurred in the future for plant sites when they are sold or are no longer used in the Corporation's operations. The liability with respect to these costs is not currently determinable.

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19. Segmented Information

NOVA Chemicals operates its petrochemicals business under the following principal business segments:

(a) *Financial Information by Business Segment*

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Revenue			
Olefins and polyolefins	\$2,656	\$2,578	\$2,489
Styrenics	829	586	690
Intersegment eliminations	(125)	(121)	(125)
	<u>\$3,360</u>	<u>\$3,043</u>	<u>\$3,054</u>
Depreciation			
Olefins and polyolefins	\$ 188	\$ 187	\$ 179
Styrenics	47	34	23
	<u>\$ 235</u>	<u>\$ 221</u>	<u>\$ 202</u>
Operating income (loss)			
Olefins and polyolefins	\$ 423	\$ 414	\$ 667
Styrenics	(71)	17	147
Re-engineering, computer system development and other costs	(15)	(32)	(64)
	<u>\$ 337</u>	<u>\$ 399</u>	<u>\$ 750</u>
Plant, property and equipment additions			
Olefins and polyolefins	\$ 235	\$ 70	\$ 78
Styrenics	87	174	58
Corporate and other	6	13	4
	<u>\$ 328</u>	<u>\$ 257</u>	<u>\$ 140</u>
	December 31		
	1997	1996	1995
	(Millions of dollars)		
Assets			
Olefins and polyolefins	\$1,753	\$1,775	\$1,731
Styrenics	756	689	395
Investment in Methanex	621	544	560
Investment in NGC	407	418	373
Corporate and other	414	449	347
	<u>\$3,951</u>	<u>\$3,875</u>	<u>\$3,406</u>

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(c) *Financial Information By Geographic Area*

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Revenue			
Canada	\$1,542	\$1,521	\$1,401
United States	1,387	1,107	1,287
Other	431	415	366
	<u>\$3,360</u>	<u>\$3,043</u>	<u>\$3,054</u>
Export sales from Canadian operations			
United States	\$ 815	\$ 693	\$ 983
Other	199	162	168
	<u>\$1,014</u>	<u>\$ 855</u>	<u>\$1,151</u>
Operating income (loss) ⁽¹⁾			
Canada	\$ 381	\$ 331	\$ 682
United States	(44)	68	68
	<u>\$ 337</u>	<u>\$ 399</u>	<u>\$ 750</u>
Equity in earnings of affiliates			
Canada	\$ 57	\$ 17	\$ 58
United States	27	41	15
	<u>\$ 84</u>	<u>\$ 58</u>	<u>\$ 73</u>
Assets ⁽¹⁾			
Canada	\$2,889	\$2,931	\$2,796
United States	1,062	944	610
	<u>\$3,951</u>	<u>\$3,875</u>	<u>\$3,406</u>

Note:

(1) Based on location of the operating facilities.

20. Financial Instruments

Financial Instrument Fair Values

Financial instrument fair values represent a reasonable approximation of amounts NOVA Chemicals would have received or paid to counter-parties on December 31, 1997 to unwind positions prior to maturity. At December 31, 1997, NOVA Chemicals has no plans to unwind these positions prior to maturity. The carrying amounts represent the receivable or payable recorded in the Consolidated Balance Sheet. The carrying amounts reported in the balance sheet for cash, accounts receivable and payable, and current bank loans approximate their fair value. NOVA Chemicals does not have a significant exposure to any individual customer or counter-party. Fair values and carrying amounts for long-term debt and derivative instruments are disclosed below.

	December 31					
	Carrying Amount			Estimated Fair Value ⁽¹⁾		
	1997	1996	1995	1997	1996	1995
Long-term debt ⁽²⁾	<u>\$1,068</u>	<u>\$1,080</u>	<u>\$749</u>	<u>\$1,112</u>	<u>\$1,079</u>	<u>\$765</u>

Notes:

(1) The fair value of long-term debt is based on quoted market prices, where available. If market prices are not available, fair values are estimated using discounted cash flow analyses, based on NOVA Chemicals' current incremental borrowing rates for similar borrowing arrangements.

(2) Includes debt instalments due within one year.

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Derivatives and Other Hedging Instruments

NOVA Chemicals sells petrochemical products at prices based on U.S. dollars, purchases energy commodities, invests in foreign operations and issues short- and long-term debt, including amounts in foreign currencies. These activities result in exposures to fluctuations in foreign currency exchange rates, commodity prices and interest rates. NOVA Chemicals manages its exposures by entering into contractual arrangements (derivatives) which reduce (hedge) the exposure by creating an offsetting position. The estimated fair values only represent the value of the hedge component of these transactions and do not consider the value of the contracted and anticipated transactions that are being hedged. NOVA Chemicals does not provide or require security on its derivative positions.

(a) ***Foreign exchange risk management***

NOVA Chemicals has U.S. and Canadian based petrochemical operations. The selling price for products sold by these operations is established in terms of the U.S. dollar. NOVA Chemicals reduces its exposure to fluctuations in the U.S. dollar by using forward exchange contracts and options to sell forward expected future receipts of U.S. dollars at specified rates and hedge its anticipated net exposure on U.S. cash flows. The forwards and options outstanding at December 31 are as follows:

	Year Ended December 31		
	1997	1996	1995
Foreign exchange forwards			
Notional amount	U.S.\$ 2,653	\$ 2,114	\$ 501
Average exchange rate per U.S. dollar	Cdn.\$ 1.34	\$ 1.34	\$ 1.39
Estimated fair value ⁽¹⁾	Cdn.\$ (175)	\$ (3)	\$ 9
Carrying value	Cdn.\$ —	\$ —	\$ —
Foreign exchange options			
Notional amount	U.S.\$ 120	\$ 140	\$ 260
Average exchange rate per U.S. dollar	Cdn.\$ 1.38	\$ 1.36	\$ 1.40
Estimated fair value ⁽¹⁾	Cdn.\$ (5)	\$ 5	\$ 10
Carrying value	Cdn.\$ —	\$ —	\$ —

Note:

(1) Asset (liability). The fair values of these instruments are estimated based on quoted market prices of comparable contracts, adjusted for maturity differences.

(b) ***Commodity Price Risk Management***

NOVA Chemicals uses commodity futures to hedge a portion of its exposure to price fluctuations on anticipated crude oil, refined products and natural gas transactions. The instruments are used to moderate the risk of fluctuations in feedstock prices by protecting against adverse short-term price movements, while limiting, somewhat, the benefits of favorable short-term price movements. They are not used for speculative purposes. Notional volumes for natural gas futures contracts at December 31, 1997 were 123.3 MMcf (December 31, 1996 — 41.3 MMcf, December 31, 1995 — 6.3 MMcf). Notional volumes for crude oil futures contracts at December 31, 1997 were 2.9 MMBbls (December 31, 1996 — 0.6 MMBbls, December 31, 1995 — 0.9 MMBbls). Occasionally, longer-term positions will be taken to manage price risk for anticipated supply requirements. At December 31, 1997, the estimated fair value of these outstanding contracts was \$24 million. (December 31, 1996 — \$15 million; December 31, 1995 — less than \$1 million).

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(c) ***Credit Risk Management***

Credit exposure on financial instruments arises from the possibility that a counter-party to an instrument in which NOVA Chemicals has an unrealized gain fails to perform. NOVA Chemicals only transacts with counter-parties having a minimum credit rating of A+ for its foreign exchange instruments and a minimum credit rating of BBB for its commodity risk management instruments. A limit on contingent exposure has been established for each counter-party based on the counter-party's credit rating. Credit exposure on commodity price risk instruments are managed through credit approval and monitoring procedures. NOVA Chemicals does not anticipate any counter-parties will fail to meet their obligations. At December 31, 1997 NOVA Chemicals' credit exposure was \$nil for foreign currency instruments (1996 — \$2 million) and \$24 million (\$15 million in 1996) for commodity based instruments.

21. United States Accounting Principles

(a) ***Reconciliation to Accounting Principles Generally Accepted in the United States***

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Net income in accordance with Canadian basis	\$ 163	\$225	\$520
Add (deduct) adjustments for:			
Equity in earnings of affiliates ⁽¹⁾	(3)	1	21
Other losses ⁽²⁾	(12)	—	—
Foreign exchange losses ⁽³⁾	(115)	(9)	(30)
Development costs ⁽⁴⁾	4	3	(13)
Inventory valuation adjustment ⁽⁵⁾	(5)	5	1
Income taxes ⁽⁶⁾	—	1	(4)
Prior period adjustment under Canadian GAAP ⁽⁷⁾	—	(9)	—
Other	(2)	1	1
Net income using United States basis	\$ 30	\$218	\$496

	December 31		
	1997	1996	1995
	(Millions of dollars)		
Balance sheet items in accordance with United States basis ⁽⁸⁾			
Current assets	\$1,024	\$1,111	\$ 756
Investments and other assets ⁽⁶⁾	\$1,186	\$1,181	\$1,208
Current liabilities	\$ 689	\$ 450	\$ 501
Deferred credits ⁽⁶⁾	\$ 341	\$ 436	\$ 441
Reinvested earnings	\$1,019	\$1,149	\$ 984

Notes:

- (1) NOVA Chemicals' share of adjustments made to Methanex's and NGC's financial information to comply with U.S. accounting principles.
- (2) U.S. accounting principles require impaired assets to be written down to fair market value whereas Canadian generally accepted accounting principles ("GAAP") require assets to be written down to net recoverable amounts.
- (3) U.S. accounting principles only allow deferral of gains or losses on forward exchange contracts if the contracts hedge firm foreign currency commitments. Gains or losses on forward exchange contracts that hedge anticipated future transactions must be realized in income. Canadian principles allow deferral of gains and losses on hedges of anticipated transactions.

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U.S. accounting principles only allow CTA realization when there is a partial or complete sale or liquidation of an investment in a foreign affiliate. Canadian principles allow CTA realization when there has been a reduction in the net foreign investment as a result of a dividend distribution.

- (4) U.S. accounting principles require that all research and development costs be expensed as incurred. Canadian principles allow capitalization of development costs if certain criteria are satisfied.
- (5) U.S. accounting principles require an allocation of fixed production overhead to inventory. Canadian accounting principles allow these costs to be expensed during the period.
- (6) U.S. accounting principles require companies to recognize deferred income taxes based on the liability method whereas Canadian accounting principles require that the deferral method be used. Under the U.S. basis companies are also required to record deferred income tax liabilities and long-term receivables for deferred income taxes to be collected from cost-of-service customers in future years. These amounts are not recorded under the Canadian basis.
- (7) Methanex reached a settlement with Revenue Canada in 1996 regarding the reassessment of their 1988 income tax return. Under Canadian GAAP, the settlement has been charged to prior year earnings. Under U.S. GAAP, the settlement would have been charged to current period earnings.
- (8) U.S. accounting principles require corporate joint ventures to be accounted for using the equity method whereas Canadian principles require proportionate consolidation of all joint ventures. The equity method does not result in any change to NOVA Chemicals' net income or shareholder's equity, however all assets, liabilities, revenue, expenses and most cash flow items are decreased when compared with the amounts that are presented using proportionate consolidation.

(b) *Projected Pension Benefit Obligations (PPBOs)*

United States accounting principles require the discount rate assumption for the valuation of PPBOs to be calculated based on the year-end rate for high-quality Canadian fixed income investments. This compares with the Canadian basis of accounting which uses management's best estimate of the long-term fixed income investment rate. For 1997, the U.S. basis discount rate was 6.5% compared with 8.0% using the Canadian basis. Using a 6.5% discount rate would have resulted in a \$14 million increase in the PPBO's on an accounting basis as at December 31, 1997. For 1996, the U.S. basis discount rate was 7.5% compared with 8.0% using the Canadian basis. Using a 7.5% discount rate would have resulted in an \$8 million increase in the PPBO's on an accounting basis as at December 31, 1996. For 1995, the discount rates were the same under both bases.

(c) *Interest and Income Tax Payments*

Under United States reporting rules, disclosure of third party interest payments and income tax payments is required. Third party interest payments were \$76 million in 1997, \$52 million in 1996 and \$47 million in 1995. Income tax payments were \$169 million in 1997, \$232 million in 1996 and \$74 million in 1995.

(d) *U.S. Accounting Developments*

For 1998, U.S. reporting requirements will require the inclusion of a comprehensive income statement in the financial statements. The comprehensive income statement will include net income and changes in items that are presently deferred in a separate component of shareholder's equity under U.S. GAAP such as the cumulative translation account which arises on translation of foreign currency balances of self-sustaining investments, differences between fair value and book value of futures hedges and excesses of pension liabilities over unrecognized past service costs. NOVA Chemicals is still in the process of quantifying the impact of this new U.S. accounting standard on its financial statements.

EXCHANGE RATES

NOVA Chemicals' accounts are expressed in Canadian dollars. In this Annual Information Form, all dollar amounts are stated in Canadian dollars except where otherwise indicated. The method followed by NOVA Chemicals for translating foreign currency transactions and accounts is set out in Note 1 to the Audited Consolidated Financial Statements of NOVA Chemicals as at December 31, 1997 contained herein.

The exchange rates at the end of each of the five years ended December 31, 1997, and the high, the low and the average noon rates for each of such periods are set forth in the following tables.

Exchange Rates for U.S. Dollars

The following table sets forth the exchange rates for United States dollars in terms of Canadian dollars based on the noon rate for United States dollars as reported by the Bank of Canada:

	Year Ended December 31				
	1997	1996	1995	1994	1993
High	\$1.4399	\$1.3865	\$1.4267	\$1.4090	\$1.3484
Low	1.3345	1.3287	1.3275	1.3085	1.2400
Average	1.3844	1.3636	1.3726	1.4018	1.2898
Year End	1.4291	1.3696	1.3652	1.3659	1.3217

(Example: \$1.00 U.S. = \$1.4291 Cdn.)

On April 16, 1998 the noon rate for U.S. dollars as reported by the Bank of Canada was U.S. \$1.00 = Cdn. \$1.4367.

Exchange Rates for Canadian Dollars

The following table sets forth the exchange rates for Canadian dollars in terms of United States dollars based on the noon rate for United States dollars as reported by the Bank of Canada:

	Year Ended December 31				
	1997	1996	1995	1994	1993
High	\$.7493	\$.7212	\$.7533	\$.7642	\$.8065
Low . . . . .	.6945	.7526	.7009	.7097	.7416
Average . . . . .	.7223	.7334	.7285	.7134	.7753
Year End . . . . .	.6997	.7301	.7325	.7321	.7566

(Example: \$1.00 Cdn. = \$.6997 U.S.)

On April 16, 1998 the noon rate for Canadian dollars as reported by the Bank of Canada was Cdn. \$1.00 = U.S. \$0.6960.

COVERAGE RATIOS⁽¹⁾⁽²⁾

Interest coverage on long-term debt for the year ended December 31, 1997 ⁽³⁾	4.6x
Net tangible asset coverage on long-term debt as at December 31, 1997 ⁽⁴⁾	2.7x

Notes:

- (1) Calculated in accordance with Canadian securities law disclosure requirements.
- (2) For purposes of calculating these financial ratios, long-term debt includes the current portion of long-term debt.
- (3) Interest coverage on long-term debt is equal to net income before interest expense on long-term debt and income taxes divided by annual interest requirements on long-term debt.
- (4) Net tangible asset coverage on long-term debt is equal to total assets less liabilities (excluding long-term debt) divided by long-term debt.



NOVA Chemicals

NOVA Chemicals Ltd.

QUARTERLY REPORT

March 31, 1998
(unaudited)

NOVA CHEMICALS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All dollar references in this quarterly report are to Canadian dollars unless otherwise indicated)

Results of Operations

	Three Months Ended		
	March 31 1998	December 31 1997	March 31 1997
	(unaudited, millions of dollars)		
Net income (loss)			
NOVA Chemicals operated facilities	\$ 26	\$ 10	\$ 56
Equity in earnings (losses) of Methanex Corporation	(2)	9	14
Equity in earnings of NGC Corporation	3	10	2
NGC Corporation asset write-down	—	(57)	—
	<u>\$ 27</u>	<u>\$ (28)</u>	<u>\$ 72</u>
Revenue			
Olefins and polyolefins	\$663	\$687	\$720
Styrenics	189	163	206
Intersegment eliminations	(35)	(27)	(34)
	<u>\$817</u>	<u>\$823</u>	<u>\$892</u>
Operating income (loss)			
Olefins and polyolefins	\$ 94	\$ 72	\$133
Styrenics	(22)	(22)	(11)
Computer system development and other costs	—	(4)	(3)
	<u>\$ 72</u>	<u>\$ 46</u>	<u>\$119</u>
Capital expenditures	\$108	\$138	\$ 40
Depreciation	\$ 61	\$ 62	\$ 59
Investment in Methanex Corporation	\$619	\$621	\$559
Investment in NGC Corporation	\$406	\$407	\$422

Change in Net Income

	Q1 1998 Compared With	
	Q4 1997	Q1 1997
	(unaudited, millions of dollars)	
Lower product margins	\$(19)	\$(29)
Higher (lower) sales volumes	7	(3)
Lower equity earnings of Methanex Corporation	(11)	(16)
Higher (lower) equity earnings of NGC Corporation	(7)	1
NGC Corporation asset write-down	57	—
Delayed start-up of Corunna plant	13	—
Other	15	2
	<u>\$ 55</u>	<u>\$(45)</u>

Selected Petrochemical Sales Volumes

	Three Months Ended		
	March 31 1998	December 31 1997	March 31 1997
	(millions of pounds)		
Ethylene			
Internal consumption	704	628	635
Third party sales	569	582	589
Total ethylene sales	<u>1,273</u>	<u>1,210</u>	<u>1,224</u>
Ethylene co-products			
Propylene	241	191	190
Other co-products	1,007	908	908
Total ethylene co-products sales	<u>1,248</u>	<u>1,099</u>	<u>1,098</u>
Polyethylene			
Linear low — density polyethylene	359	352	361
Low — density polyethylene	114	102	118
High — density polyethylene	155	146	159
Total polyethylene sales	<u>628</u>	<u>600</u>	<u>638</u>
Styrene			
Internal consumption	304	326	304
Third party sales	43	51	54
Total styrene sales	<u>347</u>	<u>377</u>	<u>358</u>
Polystyrene	<u>291</u>	<u>305</u>	<u>285</u>

Average Benchmark Prices on the U.S. Gulf Coast⁽¹⁾

	Q1 1998	Q4 1997	Q3 1997	Q2 1997	Q1 1997	Q4 1996
Polyethylene linear low — butene liner	\$0.34	\$0.35	\$0.37	\$0.40	\$0.38	\$0.43
Styrene	0.28	0.29	0.29	0.28	0.30	0.30
Polystyrene	0.41	0.39	0.40	0.41	0.42	0.43
Propylene	0.15	0.18	0.19	0.20	0.19	0.18
Methanol (U.S.\$per gallon) ⁽²⁾	0.48	0.56	0.55	0.58	0.55	0.48

Notes:

- (1) Average benchmark prices are not the actual prices realized by NOVA or any other petrochemical company.
- (2) Methanex's average realized prices.

NOVA-TransCanada merger and split-off of NOVA Chemicals Ltd.

On January 26, NOVA Corporation (NOVA) and TransCanada PipeLines Ltd. (“TransCanada”) announced their intention to merge. Immediately following the merger, NOVA Chemicals will be split off as a separate publicly traded company commodity chemicals owned by the combined TransCanada and NOVA shareholder groups. The merger will be effective following shareholder approvals of both companies and the receipt of the necessary tax, judicial and regulatory clearances.

As a stand alone entity, NOVA Chemicals will offer shareholders an investment in North America’s fifth largest publicly traded commodity chemicals company.

Consolidated Results

NOVA Chemicals Ltd.'s (the "Corporation" or "NOVA Chemicals") net income for the three month period ended March 31, 1998 was \$27 million, down \$45 million from 1997 first quarter results of \$72 million and up \$55 million from fourth quarter 1997 losses of \$28 million. Included in the 1997 fourth quarter results was the \$57 million NGC Corporation asset write-down.

NOVA Chemicals net income from operated facilities for the three month period ended March 31, 1998 was \$26 million, down \$30 million from the 1997 first quarter results of \$56 million and up \$16 million from fourth quarter results of \$10 million. Fourth quarter earnings in 1997 were reduced by \$13 million as a result of the extended plant shutdown at Corunna. Sales volumes remained fairly constant when compared to the first quarter of 1997, however lower selling prices for the Corporation's commodity chemicals resulted in the decline in net income. The effect of these lower prices has been partially offset by lower feedstock costs.

Equity contributions from Methanex Corporation and NGC Corporation was \$1 million for the three month period ended March 31, 1998, this compares to an equity contribution of \$19 million in the fourth quarter of 1997 (before the write-down associated with NGC) and \$16 million in the first quarter of 1997.

Olefins and Polyolefins

First quarter 1998 revenues for the Corporation's Olefins and Polyolefins business decreased 3% to \$663 million from \$687 million in the fourth quarter of 1997. Operating income in the first quarter of 1998 was \$94 million, an increase of \$22 million from the fourth quarter of 1997. Fourth quarter operating income in 1997 was reduced by the extended plant shutdown at Corunna. Sales volumes for polyethylene for the first quarter of 1998 were 628 million pounds compared to sales volumes of 600 million pounds in the fourth quarter of 1997. Polyethylene sales volumes remain at the strong levels achieved during the second half of 1997. Benchmark polyethylene prices in the first quarter were down U.S. 1 cent per pound compared with the fourth quarter of 1997. The negative effect of lower prices has been partially offset by lower feedstock costs.

Revenue for the Corporation's Olefins and Polyolefins business for the three month period ended March 31, 1998 decreased by 8% or \$57 million when compared to the same period in 1997. Operating income for the three month period ending March 31, 1998 decreased by \$39 million or 29% when compared to the same period in 1997. Sales volumes for polyethylene for the first quarter of 1998 were slightly lower than the sales volumes in the first quarter of 1997. However, the average benchmark selling price for linear low-density polyethylene has fallen 10% or U.S. 4 cents per pound when compared to the first quarter of 1997.

NOVA Chemicals expects the prices for our commodity chemicals to remain under downward pressure throughout 1998. However, NOVA Chemicals will continue to invest for long term growth and believes it will be well positioned to capture strong returns when the market improves.

The contribution to net income from the Corporation's cost-of-service ethylene operations at Joffre was \$9 million for the three month period ending March 31, 1998 which compares to earnings of \$10 million for the three month period ending March 31, 1997.

On February 13, NOVA Chemicals announced it had signed a long-term contract to supply ethylene to Shell Chemicals Canada Ltd. beginning late in the year 2000. NOVA Chemicals now has contracts in place for the ethylene production for all of its current and planned ethylene plants.

Styrenics

First quarter 1998 revenues for the Corporation's styrenics business of \$189 million was higher than the fourth quarter 1997 revenues of \$163 million but lower than the first quarter 1997 revenues of \$206 million. There was an operating loss in the first quarter 1998 of \$22 million which equalled the operating loss incurred in the fourth quarter of 1997. The operating loss for the first quarter of 1997 was \$11 million. The styrenics business continues to experience weak product demand and trough pricing. However, late in the quarter, polystyrene prices improved slightly and styrene margins widened on lower feedstock costs. NOVA Chemicals expects more modest improvements in the Styrenics business as the year progresses, both from higher polystyrene prices and lower styrene feedstock costs.

Equity Income from Methanex Corporation

A loss of \$2 million was recorded for Methanex Corporation ("Methanex") in the first quarter of 1998, this compares to a net income contribution of \$9 million in the fourth quarter of 1997 and \$14 million in the first quarter of 1997. The average realized price for methanol decreased by 14% or U.S. 8 cents per gallon in the first quarter of 1998 when compared to the fourth quarter of 1997. The decrease in earnings was principally due to lower methanol prices, lower sales volumes, losses on the sale of purchased methanol and higher unit costs as a result of reduced production. This was partially offset by an insurance settlement for recovery of lost contribution from the 1997 unplanned shutdown of Methanex's second plant in Chile.

Equity Income from NGC Corporation

Equity earnings of NCG Corporation ("NGC") for the first quarter of 1998 are \$7 million lower than the fourth quarter 1997 contribution of \$10 million (before the NGC asset write-down) and \$1 million higher than the first quarter 1997 contribution of \$2 million. The decrease in earnings contribution from NGC was a result of lower gas marketing margins and reduced margins in the gas processing business as a result of the decline in natural gas liquids prices.

Funds from Operations

Funds generated from operations of \$83 million for the three month period ending March 31, 1998 was basically equal to the funds generated from operations in the fourth quarter of 1997 and down 30% from the first quarter of 1997. This decrease in funds generated from operations when compared to the first quarter of 1997 is attributable to lower realized selling prices for NOVA Chemicals polyethylene resins in the first quarter of 1998 and negative cash flows from the styrenics business.

Investing Activities

For the three month period ending March 31, 1998 NOVA Chemicals capital expenditures were \$108 million. \$94 million was related primarily to the construction of the new ethylene and polyethylene plants at Joffre, Alberta, while \$14 million was related to maintaining existing plant facilities.

Financing Activities

During the first quarter of 1998 the Corporation drew down on its line of credit to cover the capital program expansion at the Joffre plant site.

At March 31, 1998 the Corporation had unused and available credit facilities from various Canadian banks of \$412 million.

Forward Looking Information

The information in this material contains forward-looking statements with respect to NOVA Chemicals or of its subsidiaries or associated companies. By their nature, these forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. NOVA Chemicals operates a commodity chemicals business, concentrating on ethylene, polyethylene, styrenics and methanol. Risks and uncertainties for NOVA Chemicals include petrochemical price levels (which depend on global supply and demand, capacity utilization, feedstock, and other costs), Canadian/U.S. exchange rates, technological factors, completion of the previously announced merger with TransCanada and split-off of NOVA Chemicals as an independent publicly traded company, performance by NGC and Methanex and other risks detailed from time to time in the publicly filed disclosures documents and securities commission reports of NOVA Chemicals, NOVA, Methanex, NGC and their subsidiaries or affiliated companies.

NOVA CHEMICALS LTD.
CONSOLIDATED BALANCE SHEET

	March 31 1998	December 31 1997
	(unaudited)	
	(millions of dollars)	
ASSETS		
Current Assets		
Receivables	\$ 412	\$ 442
Advances to parent and affiliates	262	257
Inventories	324	304
	<u>998</u>	<u>1,003</u>
Investments and other assets	1,147	1,148
Plant, property and equipment, net	1,845	1,800
	<u>\$3,990</u>	<u>\$3,951</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Bank loans	\$ 162	\$ 84
Accounts payable and accrued liabilities	344	372
Long-term debt installments due within one year	44	53
	<u>550</u>	<u>509</u>
Long-term debt	1,004	1,015
Long-term debt to affiliate	97	97
Deferred credits	341	348
Shareholder's Equity		
Common shares	722	722
Contributed surplus	20	20
Cumulative translation adjustment	46	57
Reinvested earnings	1,210	1,183
	<u>1,998</u>	<u>1,982</u>
	<u>\$3,990</u>	<u>\$3,951</u>

NOVA CHEMICALS LTD.
CONSOLIDATED STATEMENT OF INCOME AND REINVESTED EARNINGS

	Three Months Ended	
	March 31 1998	March 31 1997
	(unaudited) (millions of dollars)	
Revenue	\$ 817	\$ 892
Operating costs and expenses		
Feedstock costs and operating expenses	684	714
Depreciation	61	59
	745	773
Operating income	72	119
Other income (deductions)		
Interest expense	(20)	(21)
Equity in earnings of affiliates	1	16
Other	(1)	(2)
	(20)	(7)
Income before income taxes	52	112
Income taxes	(25)	(40)
Net income	27	72
Dividends	—	(80)
Reinvested earnings, beginning of period	1,183	1,180
Reinvested earnings, end of period	\$1,210	\$1,172

NOVA CHEMICALS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended	
	March 31 1998	March 31 1997
	(unaudited)	
	(millions of dollars)	
Operating activities		
Net income	\$ 27	\$ 72
Depreciation	61	59
Deferred income tax	(4)	4
Equity in earnings of affiliates	(1)	(16)
	83	119
Funds from operations		
Changes in non-cash working capital items:		
Receivables	30	(49)
Inventories	(20)	53
Accounts payable and accrued liabilities	(28)	(45)
Reclassifications and other items not having a cash effect	(6)	(9)
	59	69
Investing activities		
Proceeds on sale of assets	—	—
Plant, property and equipment additions	(108)	(40)
Other assets and long-term investments	(2)	(7)
	(110)	(47)
Financing activities		
Increase in current bank loans	78	—
Long-term debt repaid	(20)	(7)
Dividends	—	(80)
Advances to parent and affiliates	(5)	(126)
Deferred credits	(2)	—
	51	(213)
Decrease in cash	—	(191)
Cash, beginning of period	—	241
Cash, end of period	\$ —	\$ 50

NOVA CHEMICALS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(millions of dollars)
(unaudited)

1. Basis of Consolidated Financial Presentation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. The material subsidiaries of the Corporation at March 31, 1998 are as follows:

NOVA Chemicals (Canada) Ltd.	NOVA Investments (U.S.) Inc.
NOVA Chemicals Holdings Inc.	NOVA Petrochemicals Ltd.
NOVA Chemicals Inc.	Novacor Chemicals Holdings B.V.
NOVA Chemicals (International) S.A.	Novacor Chemicals Investments B.V.
NOVA Gas Services (U.S.) Inc.	Novamerica Investments Ltd.

The Corporation is a wholly-owned subsidiary of NOVA, and is the primary entity through which NOVA's petrochemical operations and business is conducted.

2. Reconciliation to United States Accounting Principles

	March 31 1998	March 31 1997
Net income in accordance with Canadian basis	\$ 27	\$ 72
Add (deduct) adjustments for:		
Equity in earnings of affiliates	2	(1)
Foreign exchange gains (losses)	28	(16)
Inventory valuation adjustment	2	(2)
Development costs	1	—
Net income in accordance with United States basis	<u>\$ 60</u>	<u>\$ 53</u>
Comprehensive income ⁽¹⁾		
Net income using U.S. basis	\$ 60	\$ 53
Unrealized foreign exchange losses on translation of self sustaining foreign operations	<u>(11)</u>	<u>(7)</u>
Comprehensive income in accordance with U.S. basis	<u>\$ 49</u>	<u>\$ 46</u>

Note:

(1) Accounting principles generally accepted in the United States require, for the year commencing January 1, 1998, the presentation of a separate statement of comprehensive income. This statement is not required under Canadian generally accepted accounting principles. Comprehensive net income includes all changes in equity during the period including items that are not in net income.

	March 31 1998	December 31 1997
Balance sheet in accordance with United States basis		
Current assets	\$ 1,022	\$ 1,024
Investments and other assets	1,182	1,162
Plant, property and equipment	1,837	1,790
Current liabilities	(685)	(689)
Long-term debt	(1,101)	(1,112)
Deferred credits	<u>(348)</u>	<u>(317)</u>
Shareholders' equity	<u>\$ 1,907</u>	<u>\$ 1,858</u>

NOVA CHEMICALS LTD.

(unaudited)

COVERAGE RATIOS⁽¹⁾

Interest coverage on long-term debt for the twelve months ended March 31, 1998 ⁽²⁾	4.7X
Net tangible asset coverage on long-term debt as at March 31, 1998 ⁽³⁾	2.7X

Notes:

- (1) Calculated in accordance with Canadian securities law disclosure requirements.
- (2) Interest coverage on long-term debt is equal to net income before interest expense on long-term debt and income taxes divided by annual interest requirements on long-term debt.
- (3) Net tangible asset coverage on long-term debt is equal to total assets (excluding deferred tax assets) less liabilities (excluding long-term debt) divided by long-term debt.

For purposes of calculating these financial ratios, long-term debt includes the long-term debt instalments due within one year.

**APPENDIX J — ENERGYCO. UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL STATEMENTS**

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COMPILATION REPORT

To the Directors of
TransCanada PipeLines Limited and
NOVA Corporation

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheet of EnergyCo. as at December 31, 1997 and the unaudited pro forma consolidated statement of income for the year ended December 31, 1997 which have been prepared for inclusion in the Joint Circular of TransCanada PipeLines Limited and NOVA Corporation dated May 19, 1998. In our opinion, the unaudited pro forma consolidated balance sheet and consolidated statement of income have been properly compiled to give effect to the proposed arrangement and the assumptions described in the accompanying notes thereto.

Calgary, Canada
May 19, 1998

“KPMG”
KPMG
Chartered Accountants

COMMENTS FOR UNITED STATES READERS ON DIFFERENCE BETWEEN CANADIAN AND UNITED STATES REPORTING STANDARDS

The above report, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of pro forma financial statements. United States standards do not provide for the expression of an opinion on the compilation of pro forma financial statements. To report in conformity with United States standards on the reasonableness of the pro forma adjustments and their application to the pro forma financial statements requires an examination or review which would be substantially greater in scope than the review as to compilation only that we have conducted. Consequently, under United States standards we would be unable to express any opinion with respect to the compilation of the accompanying unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statement of income.

Calgary, Canada
May 19, 1998

“KPMG”
KPMG
Chartered Accountants

ENERGYCO.

**PRO FORMA CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997**

(unaudited)

(millions of dollars except per share amount)

	NOVA	TransCanada	Reclass- ifications	Pro Forma Adjustments	Notes	Pro Forma Combined	Pro Forma NOVA Chemicals	Pro Forma EnergyCo.
			(Note 6)				(Note 3(c))	
Revenues	4,840	14,242.8	1,324.0	(240.0)	3(e)	20,166.8	3,360	16,806.8
Cost of Sales	3,429	11,157.0	716.0	(240.0)	3(e)	15,062.0	2,782	12,280.0
Other Costs and Expenses		1,433.6	624.0			2,057.6		2,057.6
Depreciation	469	424.8	28.0			921.8	235	686.8
	<u>3,898</u>	<u>13,015.4</u>				<u>18,041.4</u>	<u>3,017</u>	<u>15,024.4</u>
Operating Income	942	1,227.4				2,125.4	343	1,782.4
Other Expense/(Income)								
Financial charges	384	567.6	1.0			952.6	79	873.6
Financial charges of joint ventures . . .		97.5	17.0			114.5		114.5
Allowance for funds used during construction	(12)	(27.4)				(39.4)		(39.4)
Equity earnings	(105)		21.0			(84.0)	(84)	
General and corporate	12		(3.0)			9.0	9	
Other losses	122		(65.0)			57.0	57	
Interest and other income		(28.6)	(15.0)			(43.6)		(43.6)
	<u>401</u>	<u>609.1</u>				<u>966.1</u>	<u>61</u>	<u>905.1</u>
Income before Income Taxes	541	618.3				1,159.3	282	877.3
Income Taxes	216	161.3				377.3	114	263.3
Net Income	325	457.0				782.0	168	614.0
Preferred Securities Charges		13.1				13.1		13.1
Preferred Share Dividends	9	36.3				45.3		45.3
Net Income Applicable to Common Shares	<u>316</u>	<u>407.6</u>				<u>723.6</u>	<u>168</u>	<u>555.6</u>
Pro Forma Net Income per Share								<u>1.22</u>
Pro Forma Average Shares Outstanding (millions)								<u>453.7</u>

See accompanying notes to the unaudited pro forma consolidated financial statements.

ENERGYCO.
PRO FORMA CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 1997
(unaudited)
(millions of dollars)

	NOVA	TransCanada	Reclass- ifications (Note 6)	Pro Forma Adjustments	Notes	Pro Forma Combined	Pro Forma NOVA Chemicals (Note 3(c))	Pro Forma EnergyCo.
ASSETS								
Current Assets								
Cash and short-term investments	12	115.2	84.4			211.6	175	36.6
Accounts receivable	821	1,513.4	(33.9)			2,300.5	443	1,857.5
Inventories	389	352.5	(35.1)			706.4	304	402.4
Other		34.2				34.2	—	34.2
	<u>1,222</u>	<u>2,015.3</u>				<u>3,252.7</u>	<u>922</u>	<u>2,330.7</u>
Long-Term Investments	1,667	274.8	(222.0)			1,719.8	1,051	668.8
Plant, Property and Equipment	7,685	12,072.9	35.1			19,793.0	1,817	17,976.0
Other Assets		208.6	222.0			430.6		430.6
	<u>10,574</u>	<u>14,571.6</u>				<u>25,196.1</u>	<u>3,790</u>	<u>21,406.1</u>
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current Liabilities								
Notes payable	362	668.0	84.4			1,114.4	84	1,030.4
Accounts payable	936	1,447.7		230.0	3(d)	2,613.7	576	2,037.7
Accrued interest		178.7				178.7		178.7
Long-term debt due within one year	136	282.3				418.3	53	365.3
Non-recourse debt of joint ventures due within one year		51.0				51.0		51.0
	<u>1,434</u>	<u>2,627.7</u>				<u>4,376.1</u>	<u>713</u>	<u>3,663.1</u>
Deferred Amounts	393	113.1	(59.9)			446.2	346	100.2
Long-Term Debt	4,711	6,020.6	(237.0)			10,494.6	1,015	9,479.6
Non-Recourse Debt of Joint Ventures . .		982.8	237.0			1,219.8		1,219.8
Deferred Income Taxes		232.5	26.0			258.5		258.5
Junior Subordinated Debentures		223.9				223.9		223.9
Non-Controlling Interests		96.1				96.1		96.1
Shareholders' Equity								
Preferred securities		280.0				280.0		280.0
Preferred shares	200	512.6				712.6		712.6
Common shares	2,486	1,660.5				4,146.5	751	3,395.5
Contributed surplus		263.1				263.1	—	263.1
Retained earnings	1,293	1,530.4		(230.0)	3(d)	2,593.4	905	1,688.4
Foreign exchange adjustment	57	28.3				85.3	60	25.3
	<u>4,036</u>	<u>4,274.9</u>				<u>8,080.9</u>	<u>1,716</u>	<u>6,364.9</u>
	<u>10,574</u>	<u>14,571.6</u>				<u>25,196.1</u>	<u>3,790</u>	<u>21,406.1</u>

See accompanying notes to the unaudited pro forma consolidated financial statements.

ENERGYCO.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Description of the Arrangement

Pursuant to the Arrangement Agreement (the "Arrangement") dated January 24, 1998, as amended on May 19, 1998, NOVA Corporation ("NOVA") and TransCanada PipeLines Limited ("TransCanada") will combine their businesses and then split off the commodity chemicals business from the energy services businesses. The companies will be owned by the combined shareholder groups of NOVA and TransCanada. For the purposes of these pro forma financial statements, the energy services businesses are referred to as EnergyCo. and the commodity chemicals business is referred to as NOVA Chemicals.

EnergyCo. will operate in four business segments: Energy Transmission; Energy Marketing; Energy Processing; and International.

2. Basis of Presentation

The pro forma consolidated financial statements of EnergyCo. have been prepared for inclusion in the Joint Management Information Circular ("Joint Circular") dated May 19, 1998 related to the proposed Arrangement of NOVA and TransCanada.

The pro forma consolidated financial statements of EnergyCo. have been prepared by management in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These accounting principles are different in some respects from United States generally accepted accounting principles (U.S. GAAP) and a reconciliation of amounts that would be reported under U.S. GAAP is provided in Note 7.

The pro forma consolidated balance sheet as at December 31, 1997 is based on the audited consolidated balance sheet of NOVA as at December 31, 1997 and the audited consolidated statement of financial position of TransCanada as at December 31, 1997, as if the Arrangement had occurred on December 31, 1997. The pro forma consolidated statement of income for the year ended December 31, 1997 is based on the audited consolidated statements of income of NOVA and TransCanada for the year ended December 31, 1997, as if the Arrangement had occurred on January 1, 1997. In the opinion of management, these pro forma consolidated financial statements include all adjustments necessary for fair presentation.

The pro forma consolidated financial statements of EnergyCo. are not necessarily indicative of EnergyCo.'s financial position or results of operations if the events reflected herein had been in effect on the dates indicated or of the financial position or the results of operations to be expected in future periods. In preparing these pro forma consolidated financial statements, no adjustments have been made to reflect the operating synergies and administrative cost savings that may occur in future years as a result of the Arrangement. Further, no adjustments have been made to reflect restructuring costs that may be incurred as a result of the Arrangement.

The pro forma consolidated financial statements of EnergyCo. should be read in conjunction with the audited consolidated financial statements and notes thereto of NOVA and TransCanada and the unaudited pro forma consolidated financial statements of NOVA Chemicals which are included elsewhere in the Joint Circular.

3. Pro Forma Assumptions and Adjustments

The pro forma consolidated financial statements include the following assumptions and adjustments.

- (a) Through a series of steps in the Arrangement, each NOVA common share will be exchanged for 0.52 of a TransCanada common share. Each NOVA preferred share will be exchanged for 0.5 of an EnergyCo. preferred share. Each TransCanada common share (including TransCanada common shares acquired in exchange for NOVA common shares) will be exchanged for one EnergyCo. common share and 0.2 of

ENERGYCO.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

3. Pro Forma Assumptions and Adjustments (Continued)

a NOVA Chemicals common share. No fractional shares will be issued. Shareholders will receive cash in lieu of fractional shares. Dissenting shareholders will be entitled to be paid the fair value of their shares. For purposes of these pro forma financial statements, it is assumed that no cash will be required to be paid for fractional shares and that there will be no dissenting shareholders. It is assumed that the Arrangement will receive all necessary approvals.

It is expected that the nature of the business combination will be such that it will not be possible to identify an acquirer. Therefore, the business combination has been accounted for using the pooling of interests method of accounting whereby the pro forma consolidated financial statements reflect the assets and liabilities of NOVA and TransCanada at the values recorded by each of the companies, subject to the adjustments required to conform accounting policies and to effect the Arrangement. The results of operations for the period in which the combination occurs are reflected on a combined basis.

- (b) The number of common shares used in the calculation of net income per share is based on the issued and outstanding common shares of NOVA at December 31, 1997 multiplied by the exchange ratio of 0.52 plus the weighted average common shares of TransCanada for the year ended December 31, 1997.
- (c) Pursuant to the Arrangement, after the combination of NOVA and TransCanada, the commodity chemicals business is split off by the distribution of the shares of NOVA Chemicals, which will continue as a separate, publicly traded corporation. This information represents the unaudited pro forma financial statements of NOVA Chemicals which are included elsewhere in this Joint Circular.
- (d) Costs related to the transaction are estimated to be \$230.0 million. EnergyCo.'s share of such costs is estimated to be \$195.0 million. These costs include investment banking, legal and accounting fees, as well as certain income tax costs incurred as part of the corporate reorganizations required to complete the Arrangement. The transaction costs are charged to retained earnings.
- (e) Intercompany transactions between the energy services businesses of NOVA and TransCanada are eliminated.

ENERGYCO.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

4. Pro Forma Segmented Information

	<u>Year Ended December 31, 1997</u> (millions of dollars)
Energy Transmission	
Revenues	3,690.5
Costs and expenses	(1,447.2)
Depreciation	(568.9)
Operating income	1,674.4
Financial charges and other	(846.1)
Income taxes	(243.1)
Preferred share dividends	(36.3)
Net income applicable to common shares	<u>548.9</u>
Energy Marketing	
Revenues	12,325.0
Cost of sales	(12,055.0)
Other costs and expenses	(291.9)
Operating loss ⁽¹⁾	(21.9)
Financial charges and other	(10.6)
Income taxes	(19.9)
Net loss applicable to common shares ⁽¹⁾	<u>(52.4)</u>
Energy Processing	
Revenues	719.4
Costs of sales	(225.0)
Other costs and expenses	(259.6)
Depreciation	(71.3)
Operating income	163.5
Financial charges and other	(48.8)
Income taxes	(45.3)
Net income applicable to common shares	<u>69.4</u>
International	
Revenues	71.9
Costs and expenses	(105.5)
Operating loss	(33.6)
Other income and expenses	2.0
Income taxes	27.9
Net loss applicable to common shares	<u>(3.7)</u>
Unallocated Amounts	
Financial charges and other	<u>(6.6)</u>
Net Income Applicable to Common Shares	<u><u>555.6</u></u>

Note:

(1) Includes a \$65.0 million unusual charge incurred by Pan-Alberta Gas Ltd.

ENERGYCO.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

5. Supplementary Financial Information

	<u>Year Ended December 31, 1997</u> (millions of dollars except per share amount)
Revenues	16,806.8
Operating Costs and Expenses ⁽¹⁾	14,959.4
Operating Income	1,847.4
Other Expenses	905.1
Income before Income Taxes	942.3
Income Taxes	263.3
Net Income	679.0
Preferred Share Dividends and Preferred Securities Charges	58.4
Net Income Applicable to Common Shares	620.6
Pro Forma Net Income per Share	<u>\$ 1.37</u>

Note:

(1) Excludes a \$65.0 million unusual charge incurred by Pan-Alberta Gas Ltd.

6. Reclassifications

Certain figures have been reclassified so that the presentation of information is consistent between the combining companies.

7. Significant Differences Between Canadian and U.S. GAAP

This note should be read in conjunction with the 1997 audited consolidated financial statements of TransCanada and NOVA which are included elsewhere in this Joint Circular.

(a) Pro Forma Net Income in Accordance with U.S. GAAP

	<u>Year Ended December 31, 1997</u> (millions of dollars except per share amount)
Net income under Canadian GAAP	614.0
U.S. GAAP adjustments	
Preferred securities charges, net of tax	(13.1)
Income taxes	(7.1)
Arrangement costs ⁽¹⁾	(195.0)
Net income in accordance with U.S. GAAP	<u>398.8</u>
Basic and fully diluted net income per share in accordance with U.S. GAAP	<u>\$ 0.78</u>

Note:

(1) Under U.S. GAAP, transaction costs related to a business combination accounted for using the pooling of interests method are recognized as an expense.

ENERGYCO.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

7. **Significant Differences Between Canadian and U.S. GAAP (Continued)**

(b) *Pro Forma Condensed Balance Sheet in Accordance with U.S. GAAP*

	<u>December 31, 1997</u>
	(millions of dollars)
Current assets	2,225.8
Long-term investments	2,121.9
Plant, property and equipment	15,012.5
Regulatory asset	2,310.0
Other assets	417.0
	<u>22,087.2</u>
Current liabilities	3,373.1
Deferred amounts	100.2
Long-term debt	9,479.5
Deferred income taxes	2,490.7
Preferred securities	285.8
Trust originated preferred securities	218.1
Non-controlling interests	96.1
Shareholders' equity	6,043.7
	<u>22,087.2</u>

APPENDIX K — NOVA CHEMICALS
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

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COMPILATION REPORT

To the Directors of
NOVA Corporation and TransCanada PipeLines Limited

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheet of NOVA Chemicals as at December 31, 1997 and the unaudited pro forma consolidated statement of income for the year ended December 31, 1997 which have been prepared for inclusion in the Joint Circular of NOVA Corporation and TransCanada PipeLines Limited dated May 19, 1998. In our opinion, the pro forma consolidated balance sheet and consolidated statement of income have been properly compiled to give effect to the proposed arrangement and the assumptions described in the accompanying notes thereto.

Calgary, Canada
May 19, 1998

“ERNST & YOUNG”
ERNST & YOUNG
Chartered Accountants

COMMENTS FOR UNITED STATES READERS ON DIFFERENCE BETWEEN CANADIAN AND UNITED STATES REPORTING STANDARDS

The above report, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of pro forma financial statements. United States standards do not provide for the expression of an opinion on the compilation of pro forma financial statements. To report in conformity with United States standards on the reasonableness of the pro forma adjustments and their application to the pro forma financial statements requires an examination or review which would be substantially greater in scope than the review as to compilation only that we have conducted. Consequently, under United States standards we would be unable to express any opinion with respect to the compilation of the accompanying unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statement of income.

Calgary, Canada
May 19, 1998

“ERNST & YOUNG”
ERNST & YOUNG
Chartered Accountants

NOVA CHEMICALS
PRO FORMA CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1997
(unaudited)
(millions of dollars)

	NOVA Chemicals Ltd.	Pro Forma Adjustments	Pro Forma
		(Note 4)	
ASSETS			
Current assets			
Cash and cash equivalents	—	22 (a) 153 (c)	175
Receivables	442	1 (a)	443
Inventories	304		304
Due from parent	257	(257) (a)	—
	<u>1,003</u>		<u>922</u>
Investments and other assets	1,148	(97) (b)	1,051
Plant, property and equipment, net	1,800	17 (a)	1,817
	<u>3,951</u>		<u>3,790</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank loans	84		84
Accounts payable and accrued liabilities	372	180 (c) 8 (d)	576
Long-term debt instalments due within one year	53		53
	<u>509</u>		<u>713</u>
Long-term debt	1,015		1,015
Long-term debt due to affiliate	97	(97) (b)	—
Deferred credits	348	(2) (a)	346
Shareholders' equity			
Common shares	722	29 (a)	751
Contributed surplus	20	(20) (a)	—
Cumulative translation adjustment	57	3 (a)	60
Reinvested earnings	1,183	(27) (c) (8) (d)	905
	<u>1,982</u>		<u>1,716</u>
	<u>3,951</u>		<u>3,790</u>

See accompanying notes to unaudited pro forma consolidated financial statements.

NOVA CHEMICALS
PRO FORMA CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1997
(unaudited)
(millions of dollars, except per share amounts)

	NOVA Chemicals Ltd.	Pro Forma Adjustments (Note 4a)	Pro Forma
Revenues	3,360		3,360
Operating costs and expenses			
Feedstock and operating costs	2,788	(6)	2,782
Depreciation	235		235
	3,023		3,017
Operating income	337		343
Other income (expense)			
Interest expense	(83)	4	(79)
Equity in earnings of affiliates	84		84
NGC Corporation ("NGC") asset write-down	(57)		(57)
General and corporate	(8)	(1)	(9)
	(64)		(61)
Income before income taxes	273		282
Income taxes	(110)	(4)	(114)
Net income (Note 1)	163		168
Pro forma net income per share (Notes 1 and 4e)			\$ 1.85

NOVA CHEMICALS
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Supplemental Information	(\$ millions, except per share amount)
Pro forma net income	168
Add back NGC asset write-down	57
Pro forma net income before NGC asset write-down	225
Pro forma net income per share before NGC asset write-down	\$2.47

NOVA CHEMICALS
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

2. Basis of Presentation

As part of a proposed arrangement (the "Arrangement") involving NOVA Corporation ("NOVA") and TransCanada PipeLines Limited ("TransCanada"), the chemicals business of NOVA will be conducted under a separate, publicly traded corporation referred to herein as NOVA Chemicals.

Under the Arrangement, NOVA and TransCanada will be combined on a pooling of interests basis. Immediately thereafter NOVA Chemicals will be split off as a separate company to be owned by the combined group of NOVA and TransCanada shareholders. Accordingly, the split off will be accounted for at historical book values.

NOVA's chemical business is conducted primarily by a wholly owned subsidiary named NOVA Chemicals Ltd.

The unaudited pro forma consolidated financial statements have been prepared by management from the audited consolidated financial statements of NOVA Chemicals Ltd. as at and for the year ended December 31, 1997. In the opinion of management, these pro forma consolidated financial statements include all adjustments necessary for fair presentation in accordance with generally accepted accounting principles.

These pro forma financial statements are not necessarily indicative of the results of operations or the financial position which would have actually resulted had the pro forma transactions been effected on the dates indicated. Moreover, these pro forma financial statements are not intended to be indicative of the results of operations or financial position which may be achieved in the future.

These pro forma consolidated financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto for NOVA Chemicals Ltd. which are contained elsewhere in this Joint Circular.

3. Significant Accounting Policies

The pro forma consolidated financial statements have been compiled using the significant accounting policies as set out in the audited consolidated financial statements of NOVA Chemicals Ltd. for the year ended December 31, 1997.

4. Pro Forma Assumptions and Adjustments

The pro forma consolidated statement of income for the year ended December 31, 1997 has been prepared assuming the Arrangement occurred on January 1, 1997. The pro forma consolidated balance sheet gives effect to the Arrangement as though it occurred at December 31, 1997.

The pro forma adjustments reflect the following assumptions:

- (a) The consolidation of NOVA assets, liabilities, revenues and expenses allocated to NOVA Chemicals under the Arrangement. It is further assumed that NOVA Chemicals Ltd. paid a dividend of \$257 million to NOVA to provide NOVA with funds to repay the intercompany loan outstanding between these companies at December 31, 1997.
- (b) The redemption of \$97 million of preferred shares in NOVA Gas International Ltd. and the use of proceeds to repay long-term debt for the same amount due to NOVA Gas International Ltd.
- (c) The incurrence of \$180 million of income tax liabilities in connection with executing the transactions included in the Arrangement. In accordance with the Arrangement, \$153 million of these liabilities will be funded by EnergyCo. This funding is assumed to be received in cash on December 31, 1997. NOVA

NOVA CHEMICALS

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

4. Pro Forma Assumptions and Adjustments (Continued)

Chemicals' share of the income tax liability will be \$27 million and will be charged to reinvested earnings.

- (d) The incurrence of \$8 million of transaction costs to implement the Arrangement. These costs will be charged to reinvested earnings.
- (e) Pro forma net income per share has been calculated assuming 91 million common shares were outstanding during the year.

5. Significant Differences Between Canadian and United States GAAP

This note should be read in conjunction with Note 23 to NOVA's 1997 consolidated financial statements.

(a) *Pro forma Net Income Reconciliation*

	Year Ended December 31, 1997
	(millions of dollars, except for share data)
Net income using Canadian basis	168
U.S. GAAP adjustments	
Equity in earnings of affiliates	(3)
Other losses	(12)
Foreign exchange losses	(115)
Development costs	4
Inventory valuation adjustment	(5)
Other	(2)
Arrangement costs ⁽¹⁾	(35)
Net income in accordance with U.S. GAAP	—
Basic and fully diluted net income per share in accordance with U.S. GAAP . .	\$ —

Note:

- (1) Under U.S. GAAP, transaction costs related to a business combination accounted for using the pooling of interests method are recognized as an expense.

(b) *Balance sheet items using United States basis*

	December 31, 1997
	(millions of dollars)
Current assets	943
Investments and other assets	1,065
Plant, property and equipment	1,807
Current liabilities	(893)
Long-term debt	(1,015)
Deferred credits	(315)
Shareholders' equity	1,592

APPENDIX L
STOCK OPTION ADJUSTMENT FORMULAE

The following are formulae which have been adopted by the boards of directors of NOVA and TransCanada as applicable to effect the adjustments to determine the option exercise price and the number of shares subject to option for the replacement options to be granted upon the cancellation of the existing options described under "Treatment of Stock Options" in the Joint Circular.

Adjustment Formulae for the NOVA Stock Options

The formulae for the NOVA Stock Options as they pertain to the replacement EnergyCo. options contains two steps to ensure, for income tax purposes, that the adjustments properly track the steps in the Plan of Arrangement. The final exercise price for EnergyCo. options and the final number of EnergyCo. Common Shares subject to the replacement EnergyCo. options can be determined by reference to the second step.

Step 1

$$\text{Adjusted NOVA Chemicals Option Exercise Price} = \text{NOVA Option Exercise Price} \times \frac{\text{Fair Market Value of NOVA Chemicals Common Share}}{\text{Fair Market Value of NOVA Common Share}}$$

$$\text{Adjusted Number of NOVA Chemicals Optioned Shares} = \text{Number of NOVA Optioned Shares} \times \frac{\text{Fair Market Value of NOVA Common Share} - \text{Original NOVA Option Exercise Price}}{\text{Fair Market Value of NOVA Chemicals Common Share} - \text{Adjusted NOVA Chemicals Option Exercise Price}} \times .5$$

$$\text{Merged TransCanada Option Price} = \text{Original NOVA Option Exercise Price} \times \frac{\text{Fair Market Value of Merged TransCanada Common Share}}{\text{Fair Market Value of NOVA Common Share}}$$

$$\text{Number of Merged TransCanada Optioned Shares} = \text{Number of NOVA Optioned Shares} \times \frac{\text{Fair Market Value of NOVA Common Share} - \text{Original NOVA Option Exercise Price}}{\text{Fair Market Value of Merged TransCanada Common Share} - \text{Merged TransCanada Option Price}} \times .5$$

Step 2

This step does not affect the replacement NOVA Chemicals Options

$$\text{Adjusted EnergyCo. Option Price} = \text{Original NOVA Option Exercise Price} \times \frac{\text{Fair Market Value of EnergyCo. Common Share}}{\text{Fair Market Value of NOVA Common Share}}$$

$$\text{Adjusted Number of EnergyCo. Optioned Shares} = \text{Number of NOVA Optioned Shares} \times \frac{\text{Fair Market Value of NOVA Common Share} - \text{Original NOVA Option Exercise Price}}{\text{Fair Market Value of EnergyCo. Common Share} - \text{Adjusted EnergyCo. Option Exercise Price}} \times .5$$

Adjustment Formulae for the TransCanada Stock Options

$$\text{Adjusted EnergyCo. Option Exercise Price} = \text{Original TransCanada Option Exercise Price} \times \frac{\text{Fair Market Value of EnergyCo. Common Share}}{\text{Fair Market Value of TransCanada Common Share}}$$

$$\begin{array}{l} \text{Adjusted} \\ \text{Number of} \\ \text{EnergyCo.} \\ \text{Optioned} \\ \text{Shares} \end{array} = \begin{array}{l} \text{Number of} \\ \text{TransCanada} \\ \text{Optioned} \\ \text{Shares} \end{array} \times \frac{\text{Fair Market Value of TransCanada Common Share} - \text{Original TransCanada Option Exercise Price}}{\text{Fair Market Value of EnergyCo. Common Share} - \text{Adjusted EnergyCo. Option Exercise Price}}$$

Notes to Formulae:

- (1) NOVA is NOVA Corporation prior to the Effective Time.
- (2) TransCanada is TransCanada PipeLines Limited prior to the Effective Time.
- (3) NOVA Chemicals is the term used to describe NOVA Corporation after the Effective Time.
- (4) EnergyCo. is TransCanada following the reorganization described in section 3.2.16 of the Plan of Arrangement.
- (5) Merged TransCanada is TransCanada following the reorganization described in section 3.2.1 but prior to the reorganization described in section 3.2.16 of the Plan of Arrangement.
- (6) Fair Market Value of NOVA Chemicals Common Shares = 10 day weighted average trading price on the TSE after Effective Time.
- (7) Fair Market Value of EnergyCo. Common Share = 10 day weighted average trading price on the TSE after Effective Time.
- (8) Fair Market Value of NOVA Common Share = 10 day weighted average trading price on the TSE before Effective Time including the Effective Date.
- (9) The directors resolutions approving the replacement of the stock options define the Fair Market Value of Merged TransCanada Common Shares as the fair market value of such share, as defined in the Tax Ruling, immediately after the exchange of the NOVA options outstanding prior to these transactions for NOVA Chemicals options and merged TransCanada options which occurred concurrently with the declaration and payment of the dividend described in section 3.2.9 of the Plan of Arrangement and the stock consolidation described in section 3.2.11 of the Plan of Arrangement, but prior to the reorganization described in section 3.2.16 of the Plan of Arrangement. An actual dollar amount is not specified because the result of the first interim step does not affect the result of the second step.
- (10) Fair Market Value of TransCanada Common Shares = 10 day weighted average trading price on the TSE before Effective Time including the Effective Date.

APPENDIX M

United States Prospectus



TransCanada

TRANSCANADA PIPELINES LIMITED

Common Shares

**DIVIDEND
REINVESTMENT
AND
SHARE
PURCHASE PLAN**

This United States Prospectus offers common shares of TransCanada PipeLines Limited issuable under its Dividend Reinvestment and Share Purchase Plan to United States residents. This United States Prospectus is comprised of this cover page, together with the Canadian brochure appearing at pages M-C-1 through M-C-6, inclusive, and the Additional Information for United States Residents commencing at page M-S-1.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No person has been authorized in connection with the offering contained herein to give any information or to make any representations other than those contained in or incorporated by reference in this United States Prospectus and, if given or made, such information or representations must not be relied on as having been authorized by TransCanada PipeLines Limited. Neither delivery of this United States Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that information herein is correct as of any time since the date hereof.

This United States Prospectus does not constitute an offering in any jurisdiction in which such offering may not lawfully be made.

The date of this Prospectus is May 29, 1998.



TransCanada

**DIVIDEND REINVESTMENT
AND
SHARE PURCHASE PLAN**

December 5, 1996

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

Features of the Dividend Reinvestment and Share Purchase Plan (the “Plan”) include the following:

- Shareholders may elect to reinvest their cash dividends from common and/or preferred shares of TransCanada PipeLines Limited (the “Company” or “TransCanada”) in additional common shares of the Company.
- Common shares purchased with these cash dividends are acquired at 95% of the Average Market Price (see “Price of Additional Common Shares”) and credited to the participant’s account.
- Participants in the Plan may make optional cash payments of up to Cdn.\$5,000 or U.S.\$3,500 per quarter to purchase additional common shares at 100% of the Average Market Price.
- Participants are not required to pay brokerage commissions or any other costs associated with the Plan.
- Full investment of all funds is possible since fractional shares are also credited to the participant’s account.
- Statements of Account are mailed to participants each quarter detailing the investments made on their behalf.

Purpose

The Plan allows eligible holders of common and/or preferred shares of the Company to purchase additional common shares of the Company by reinvesting their cash dividends and/or by making optional cash payments.

Participation

Except as described below, a registered holder of common and/or preferred shares of the Company is eligible to join the Plan at any time by completing an Authorization Form and sending it to Montreal Trust Company of Canada (the “Trustee”). Beneficial owners of common and/or preferred shares of the Company whose shares are not registered in their own names may participate in the Plan after having their shares transferred into their own names. An owner whose shares are held in a specific segregated registered account, such as a numbered account with a bank, trust company or broker, may direct that company to enroll that account in the Plan with respect to those shares. Once a shareholder has enrolled in the Plan, participation continues automatically unless terminated in accordance with the terms of the Plan.

Under the terms of the Plan, shareholders may:

- (a) direct the Trustee to reinvest cash dividends on all of the common and/or preferred shares of the Company registered in a particular name or manner in additional common shares of the Company; and/or
- (b) direct the Trustee to invest optional cash payments in additional common shares of the Company.

A registered holder shall become a participant in the Plan with regard to the reinvestment of dividends as of the first dividend record date following receipt by the Trustee of a properly completed Authorization Form. If an Authorization Form is received by the Trustee after the record date for a particular dividend, that dividend will be paid to the shareholder in the usual manner, and participation in the Plan with regard to dividends will commence with the next dividend record date. Dividend record dates for the common and preferred shares are generally the last business day of each of March, June, September and December.

A registered holder shall become a participant in the Plan with regard to optional cash payments as of the first common share dividend payment date following receipt by the Trustee of a payment and a properly completed Authorization Form. Optional cash payments to the Company under the Plan may not be less than Cdn.\$50 or U.S.\$35 per remittance and may not exceed an aggregate of Cdn.\$5,000 or U.S.\$3,500 in any quarter.

Future payments may be made by any participant in the Plan by forwarding a cheque or money order to the Trustee, in Canadian or United States dollars, payable to TransCanada PipeLines Limited together with an Optional Cash Payment Form. This form is attached to each quarterly Statement of Account. Optional cash payments may be made at any time, but only those payments received on or before a common share dividend payment date will be applied to the purchase of additional common shares. Payments received after a common

share dividend payment date will be held by the Trustee for investment on the next common share dividend payment date.

Because neither the Trustee nor the Company pays interest on these funds, participants are advised to provide a cheque post-dated to the next common share dividend payment date. These dates are generally the last business day of each of January, April, July and October.

There is no obligation to make an optional cash payment, and the amount (subject to the limits stipulated above) may vary from time to time.

Participants should note that common shares of the Company acquired outside of the Plan may not be registered exactly the same as holdings enrolled in the Plan and therefore may not be automatically enrolled in the Plan. Participants purchasing additional common shares outside of the Plan are advised to contact the Trustee if these shares are to be enrolled in the Plan.

It has come to the Company's attention that, at times, certain investment dealers have acquired substantial amounts of the Company's common shares prior to the dividend record date solely for the purpose of exploiting the arbitrage opportunities of participating in the Plan. The Company reserves the right to deny access to the Plan to any such investment dealer or other shareholder.

Method of Purchase

Cash dividends payable on the common and/or preferred shares registered in the Plan, less any applicable withholding tax, will be applied automatically on each dividend payment date to the purchase of additional common shares of the Company. Additional common shares will also be acquired with the cash dividends from common shares accumulated in the participant's account.

Optional cash payments to the Plan will be applied to the purchase of additional common shares of the Company on the common share dividend payment date following receipt of such payment.

A participant's account will be credited with the number of additional common shares of the Company, including fractional shares computed to four decimal places, which is equal to the amounts to be invested for such participant divided by the applicable purchase price.

Full investment of funds under the Plan is possible because fractions of common shares as well as whole common shares are credited to participant's accounts. The rounding of any fractional interest is determined by the Trustee using such methods as it deems appropriate in the circumstances.

Common shares issued pursuant to the Plan will initially be registered in the name of Montreal Trust Company of Canada, as Trustee for the participants. If Montreal Trust Company of Canada ceases to act as the Trustee under the Plan, another trustee will be designated by the Company.

Price of Additional Common Shares

The price of additional common shares purchased with optional cash payments will be 100% of the Average Market Price. For these purposes, the Average Market Price will be the weighted average price of all common shares of the Company traded on The Toronto Stock Exchange on the twenty (20) trading days preceding the applicable dividend payment date. The price of additional common shares of the Company purchased with cash dividends will be 95% of the Average Market Price.

Costs

There are no brokerage commissions payable for common shares purchased from the Company under the Plan. In addition, the Company pays all administrative costs of the Plan.

Statements of Account

The Trustee will maintain an account for each participant in the Plan. A Statement of Account will be mailed by the Trustee to each participant approximately two (2) weeks after each quarterly investment. This statement will set out the amount of cash dividends paid on the participant's common and/or preferred shares for the quarter, the total amount of any optional cash payments received from the participant during the quarter, the number of additional common shares purchased through the Plan for the quarter, the date(s) of these

purchases, the applicable purchase price(s) per share and the updated total number of common shares being held for the participant in the Plan. These statements are a participant's continuing record of the cost of purchases and should be kept for tax purposes. In addition, each participant will receive the appropriate information annually for reporting dividends for tax purposes.

Share Certificates

Generally, certificates for common shares purchased through the Plan will be held for participants and reported on the quarterly Statement of Account. This service protects against loss, theft or destruction of share certificates. Participants who require a share certificate but who do not wish to terminate participation in the Plan may obtain a certificate for any number of whole common shares held in their account by written request to the Trustee. A certificate will not be issued for a fraction of a share.

Plan accounts are maintained in the names in which certificates were registered with the Company at the time the participant enrolled in the Plan. Consequently, certificates for whole common shares withdrawn from the Plan will be registered in exactly the same manner when issued.

Shares being held for a participant in the Plan may not be pledged, sold or otherwise disposed of by a participant. A participant who wishes to pledge, sell or otherwise dispose of such shares must request that a certificate for the required number of shares be issued before such action may be taken. Certificates will generally be issued to participants within three (3) weeks of receipt by the Trustee of a participant's written request. Both the new certified shares and the shares remaining in a participant's account will continue to receive dividend reinvestment.

Termination of Participation

Participation in the Plan may be terminated by written notice to the Trustee signed by the registered holder or his/her agent. If such notice is not signed by the registered holder, sufficient evidence of another's authority to act on behalf of the registered holder must be supplied. If notice of termination is not received by the Trustee at least three (3) business days before a common share dividend record date, settlement of the participant's account will not commence until after the next investment has been completed.

Generally, a termination will be processed within three (3) weeks of receipt by the Trustee of a written request for termination or within three (3) weeks after a payment date. The Trustee does not sell shares or provide cash for any whole common shares held for participants.

When a participant terminates participation in the Plan or when the Plan is terminated by the Company, the participant will receive a certificate for the whole common shares held in the participant's account, a cash payment for any fraction of a common share and the return of any uninvested optional cash payments. The cash payment for any fraction of a common share will be based on the Average Market Price for the immediately preceding investment date.

Participation in the Plan will be terminated upon receipt by the Trustee of evidence of the death of a participant. In such case, a certificate for the whole common shares in the participant's account will be issued in the name of the deceased participant along with a cash payment for any fraction of a common share in the account and the return of any uninvested optional cash payments. Requests for issuance of a certificate and/or a cash payment for a fractional share in the name of an estate must be accompanied by appropriate documentation.

After termination of participation in the Plan, all cash dividends will be paid to the shareholder in cash.

Disposition of Shares Held in Certificate Form

Shareholders may have shares held in the Plan in certificate form (see "Share Certificates"). If a participant sells or transfers all of his or her shares of the Company held in certificate form that are enrolled in the Plan, the Trustee will continue to reinvest the dividends on any common shares not in certificate form being held for the participant in the Plan, until a notice of termination is received by the Trustee.

Rights Offerings

If the Company makes available to its registered holders of common shares any rights to subscribe for additional shares or other securities, rights certificates will be forwarded to participants in the Plan in proportion to the number of whole common shares being held for them. Such rights will not be made available for any fraction of a share held for a participant.

Stock Dividends and Stock Splits

With respect to any common shares held for a participant in the Plan which are not in certificate form, any stock dividends (other than stock dividends paid as a result of participation in a stock dividend plan) and any common shares resulting from a stock split will be credited to the participant's account based upon the number of whole and fractional shares being so held for the participant in the Plan. In connection with common shares held in certificate form by a Plan participant, certificates for common shares resulting from such a stock dividend or stock split on common shares will be mailed directly to the participant in the same manner as to shareholders who are not participating in the Plan.

Share Voting

Whole common shares held for a participant's account under the Plan are voted in the same manner as common shares held in certificate form, either by proxy or by the participant in person. Shares for which instructions are not received will not be voted.

Responsibilities of the Company and the Trustee

Neither the Company nor the Trustee shall be liable for any act undertaken or omitted in good faith, or have any duties, responsibilities or liabilities except as are expressly set forth in the Plan or are required by law. In particular, the Company and the Trustee must comply with all applicable laws now or hereafter in force which may impose a duty to permit any properly authorized party to have access to and examine and make copies of any records relating to the Plan.

Participants should recognize that neither the Company nor the Trustee can assure a profit or protect against a loss on common shares purchased under the Plan.

Amendment, Suspension or Termination of the Plan

The Company reserves the right to amend, suspend or terminate the Plan at any time, but such action shall have no retroactive effect which would prejudice the interests of participants. Participants will be sent written notice of any such amendment, modification, suspension or termination. If the Plan is terminated by the Company, participants will receive a certificate for whole common shares being held for them, a cash payment for any fraction of a common share and the return of any uninvested optional cash payments.

Notices

All notices required to be given to a participant in the Plan will be mailed to the participant at the most recent address shown on the records of the Company.

All communications to the Trustee and requests for forms or information regarding the Plan should be directed to:

Montreal Trust Company of Canada
Stock Transfer Services
#600 - 530 Eighth Avenue S.W.
Calgary, Alberta
CANADA
T2P 3S8
(403) 267-6555

Tax Considerations

The following is a general description of the Canadian income tax issues affecting participants in the Plan based on the laws and administrative policies in effect on December 5, 1996.

Shareholders should consult tax advisors in their country of residence about the tax consequences which will result from their participation in the Plan.

Residents of Canada

Under the Income Tax Act (Canada) and the Taxation Act (Quebec), the cost of the common shares acquired pursuant to this Plan will equal the amount paid therefor, namely:

- (a) for common shares purchased with cash dividends on the Company's common or preferred shares, the cost will be 95% of the Average Market Price; and
- (b) for common shares purchased with optional cash payments, the cost will be 100% of the Average Market Price.

These Acts also require that the cost of all common shares acquired after 1971 be averaged.

The fact that dividends are reinvested pursuant to the Plan does not affect the tax payable on such dividends by participants. All dividends reinvested by an individual will be included in a participant's income and will be subject to the gross-up and dividend tax credit rules. Private corporations and certain other corporations may be subject to refundable tax on dividends so invested.

A participant will not realize any taxable income when receiving a certificate for whole common shares from the Plan whether upon request for such shares from the participant's account, upon termination of participation by the participant or upon termination of the Plan by the Company. However, a participant who holds shares as capital property may realize a capital gain or loss on the sale or exchange of whole common shares acquired through the Plan.

When a participant terminates participation in the Plan or when the Plan is terminated by the Company, the participant will receive a cash payment for fractional holdings. A deemed dividend may arise if the cash payment for a fractional share exceeds the paid-up capital in respect of such fraction and a capital gain or capital loss may also be realized in certain circumstances. The deduction of a capital loss is restricted.

The full amount of capital gains and the amount of dividends received (exclusive of the gross-up) are included in taxable income for purposes of calculating the alternative minimum tax.

Non-residents of Canada

Shareholders outside of Canada may participate in the Plan if permitted by law in the jurisdiction where they reside. Dividends designated by a non-resident participant for reinvestment under the Plan will be reduced by the amount of Canadian withholding tax applicable thereto.

Use of Proceeds

The proceeds received by the Company from the issue of common shares under the Plan will be used for general corporate purposes.

**ADDITIONAL INFORMATION
FOR
UNITED STATES RESIDENTS**

Tax Considerations for United States Citizens or Residents

The following discussion of certain Canadian and United States Federal income tax consequences of participation in the Plan by a citizen or a resident of the United States, its territories or possessions (a "U.S. Participant") is based on the applicable Canadian and United States law and regulations in effect on May 19, 1998. It is for general guidance only and does not purport to be complete. In addition, a U.S. Participant may incur United States state and local income tax consequences in addition to, and possibly differing substantially from, the Federal tax consequences. Accordingly, a U.S. Participant should consult his own tax advisor with respect to the income tax consequences of participating in the Plan.

Canadian Non-Resident Tax

Dividends paid on the Company's common and preferred shares to U.S. Participants and designated for reinvestment under the Plan will generally be reduced by Canadian withholding tax of 15% before reinvestment.

United States Federal Taxes

The fact that dividends are reinvested does not relieve participants of any liability for taxes which may be payable on such dividends.

The amount to be included in a U.S. Participant's United States Federal taxable income due to dividends reinvested in the Plan is the United States dollar equivalent of the sum of:

- the fair market value on the payment date of the common shares purchased with reinvested dividends; and
- the amount withheld for Canadian withholding tax.

For this purpose, the fair market value of common shares on the payment date will generally be the average of the high and low sale price for that date, as reported by the exchange on which the common shares are principally traded. A U.S. Participant will generally be entitled, subject to certain limitations, to a credit against United States Federal income tax for Canadian taxes withheld from such dividends. A deduction against United States Federal taxable income may be claimed for such Canadian taxes if a credit is not elected.

The tax basis for a U.S. Participant for each share or fraction of a share acquired through the dividend reinvestment option of the Plan is the fair market value of such share or fraction thereof on the date it is purchased.

Shares purchased with optional cash payments through the share purchase option of the Plan have a tax basis set at the actual purchase price per share.

The holding period for shares purchased with common or preferred share dividends or optional cash payments begins on the day following the purchase date. U.S. Participants will not recognize any taxable income when receiving a certificate for whole shares from their account. Gain or loss will be recognized when shares received through the Plan are sold or exchanged by participants and when participants receive a cash payment from the Company for a fraction of a share upon termination of their account or upon termination of the Plan by the Company. The amount of this gain or loss will be the difference between the amount a participant receives for the shares and the tax basis for such shares. The gain or loss will be capital gain or loss assuming that the shares are held as capital assets and will be long-term if the holding period of such shares exceeds one (1) year. In the case of individuals, estates and trusts, capital gain recognized from the sale of shares held for more than 18 months generally will be taxed at a maximum rate of 20%, and capital gain from the sale of shares held for more than one year but not more than 18 months generally will be taxed at a maximum rate of 28%.

Available Information

TransCanada is subject to the informational requirements of the United States Securities Exchange Act of 1934 (the "Exchange Act") and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Under a multijurisdictional disclosure system adopted by the United States, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. Such reports and other information concerning the Company may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street N.W., Washington, D.C. 20549, at the New York Regional Office, 7 World Trade Center, New York, New York, 10048 and at the Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material may also be obtained upon written request addressed to the Securities and Exchange Commission, Public Reference Section, 450 Fifth Street, Washington, D.C. 20549 at prescribed rates. Such material may also be inspected and copied at the offices of the New York Stock Exchange, Inc., 20 Broad Street, 7th Floor, New York, New York on which exchange the Company's common shares are listed. The Company's common shares are also listed on the Vancouver, Alberta, Winnipeg, Toronto and Montreal stock exchanges. The Commission also maintains a website that contains reports, proxy statements and information statements and other information. The website address is: <http://www.sec.gov>.

A Registration Statement relating to the common shares offered hereby has been filed with the Commission. This Prospectus omits certain of the information contained in the Registration Statement.

Incorporation of Certain Documents by Reference

The following documents, which are filed with the Commission pursuant to the Exchange Act, are incorporated herein by reference:

- (a) the Company's Annual Report on Form 40-F, as amended, for the year ended December 31, 1997;
- (b) the Company's unaudited interim consolidated financial statements for the period ended March 31, 1998 (filed as part of a Form 6-K report dated May 22, 1998);
- (c) the Company's Form 6-K report dated May 29, 1998 to which is attached the Joint Management Information Circular with respect to the proposed Arrangement involving NOVA Corporation and the Company;
- (d) the Company's Form 6-K reports dated March 10, 1998 and March 12, 1998 relating to the filing of exhibits in connection with an offering of the Registrant's medium term notes;
- (e) the Company's Form 6-K reports dated February 2, 1998 and March 2, 1998 relating to, among other things, the Company's proposed Arrangement with NOVA Corporation; and
- (f) the description of the Common Shares (and related rights under the Company's Shareholder Rights Plan) contained in the Company's Registration Statement on Form 8-A dated May 21, 1985, as amended by a Form 8 dated May 27, 1985, and on a Form 8-A dated December 2, 1994, as amended by a Form 8-A/A Post Effective Amendment No. 1 dated May 3, 1995.

All subsequent reports on Form 40-F and, to the extent, if any, designated therein, reports on Form 6-K filed by the Company with the Commission pursuant to the Exchange Act after the date of this Prospectus and prior to the termination of any offering hereunder shall be deemed to be incorporated by reference into this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, including any beneficial owner, upon written or oral request of such person, a copy of any or all of the foregoing documents incorporated herein by reference (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference in such documents). Requests should be directed to the Company, TransCanada PipeLines Tower, 111 - Fifth Avenue, S.W., P.O. Box 1000, Station M, Calgary, Alberta, Canada T2P 4K5, Attention: Corporate Secretary and Associate General Counsel, telephone number (403) 267-6100.

Enforceability of Certain Liabilities

The enforcement by investors of civil liabilities under the United States federal securities laws may be affected adversely by the fact that the Company is incorporated or organized under the laws of Canada, that some or all of its officers and directors may be residents of Canada, that some or all of the experts named in the registration statement may be residents of Canada and that all or a substantial portion of the assets of the Company and said persons may be located outside the United States.

As a result, it may be difficult for shareholders to effect service of process within the United States upon the directors, officers and experts who are not residents of the United States, or to enforce or recover upon judgments against such persons and the Company of courts of the United States predicated upon civil liability provisions of the United States federal securities laws. The Company believes that judgments predicated solely upon civil liability provisions of the United States federal securities laws against such persons would be enforceable if such judgments otherwise met the requirements for enforcement of a foreign judgment in Canada and that original actions predicated solely upon United States federal securities laws may be brought against the Company or against any of its directors, officers or experts, who are not residents of the United States, in a court of competent jurisdiction in Canada if the court is satisfied that the United States is the *lex loci delicti* (i.e., the place of the wrong) for such claim.

Experts

The consolidated financial statements included in the Company's Annual Report on Form 40-F for the fiscal year ended December 31, 1997 have been incorporated by reference in this Prospectus in reliance upon the report of KPMG, independent chartered accountants, and upon the authority of said firm as experts in auditing and accounting.

To the extent that KPMG or another firm of independent chartered accountants audits and reports on financial statements of the Company issued at future dates, and consents to the use of their report thereon, such financial statements also will be incorporated by reference in this Prospectus in reliance upon their report and upon the authority of such firm as experts in auditing and accounting.

Supplement dated May 29, 1998

Special Procedures for Shareholders of NOVA Corporation

In connection with the proposed Plan of Arrangement (the "Arrangement") between NOVA Corporation ("NOVA") and the Company, holders of preferred shares and common shares of NOVA will be afforded the opportunity to become participants in the Plan upon the effectiveness of the Arrangement. If shareholders of NOVA wish to become enrolled in the Plan in respect of the common shares or preferred shares of the Company acquired pursuant the Arrangement, they should check the appropriate box on the white or green letter of transmittal, as applicable, which they will receive in connection with the implementation of the Arrangement. If such letter of transmittal with this box checked is received by Montreal Trust Company of Canada as Depository before June 26, 1998, the common shares of the Company to which a holder of common shares of NOVA is entitled under the Arrangement will be transferred to the Plan from NOVA's Dividend Reinvestment and Share Purchase Plan upon its termination in connection with the Arrangement, without any further action by the NOVA shareholder.