



TRANSCANADA CORPORATION

ANNUAL INFORMATION FORM

March 7, 2005

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PRESENTATION OF INFORMATION

Unless otherwise noted, the information contained in this Annual Information Form (“AIF”) is given at or for the year ended, December 31, 2004 (“Year End”). Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles.

This AIF provides material information about the business and operations of TransCanada Corporation (“TransCanada”). TransCanada’s Management’s Discussion and Analysis dated March 1, 2005 (“MD&A”) and TransCanada’s Audited Consolidated Financial Statements are incorporated by reference into this AIF and can be found in TransCanada’s Annual Report to Shareholders for the year ended December 31, 2004 (“Annual Report”) which is available on SEDAR at www.sedar.com.

Unless the context indicates otherwise, a reference in this AIF to “TransCanada” includes the subsidiaries of TransCanada through which its various business operations are conducted. In particular, “TransCanada” includes references to TransCanada PipeLines Limited (“TCPL”). Where TransCanada is referred to with respect to actions that occurred prior to its 2003 plan of arrangement with TCPL, which is described below under the heading “TransCanada Corporation — Corporate Structure”, these actions were taken by TCPL or its subsidiaries. The term “subsidiary”, when referred to in this AIF, means direct and indirect wholly-owned subsidiaries of TransCanada or TCPL, as applicable.

Trends impacting TransCanada’s gas transmission and power businesses are discussed in the MD&A under the headings “Gas Transmission” (under the subheadings “Opportunities and Developments”, “Regulatory Developments” and “Business Risks”) and “Power” (under the subheadings “Opportunities and Developments” and “Business Risks”).

FORWARD-LOOKING INFORMATION

This AIF, the documents incorporated by reference into this AIF, and other reports and filings made with the securities regulatory authorities include forward-looking statements. All forward-looking statements are based on TransCanada’s beliefs and assumptions based on information available at the time the assumption was made. Forward-looking statements relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. Much of this information also appears in the MD&A. By its nature, such forward-looking information is subject to various risks and uncertainties, including those discussed in this AIF, which 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 given as of the date it is expressed in this AIF or otherwise, 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.

REFERENCE INFORMATION

For the reference information noted below, please refer to Schedule “A”.

- Exchange Rate of the Canadian Dollar
- Metric Conversion Table

TRANSCANADA CORPORATION

Corporate Structure

TransCanada's head office and registered office are located at 450 - 1st Street S.W., Calgary, Alberta, T2P 5H1.

TransCanada was incorporated pursuant to the provisions of the *Canada Business Corporation Act* on February 25, 2003 in connection with a plan of arrangement designed to establish TransCanada as the parent company of TCPL. The arrangement was approved by TCPL common shareholders on April 25, 2003 and, following court approval and the filing of Articles of Arrangement, the arrangement became effective May 15, 2003. Pursuant to the arrangement, the common shareholders of TCPL exchanged each of their TCPL common shares for one common share of TransCanada. The debt securities and preferred shares of TCPL remained obligations and securities of TCPL. TCPL continues to hold the assets it held prior to the arrangement and continues to carry on business as the principal operating subsidiary of the TransCanada group of entities. TransCanada does not hold any assets directly other than the common shares of TCPL.

TransCanada is a Canadian public company. Significant dates and events are set forth below.

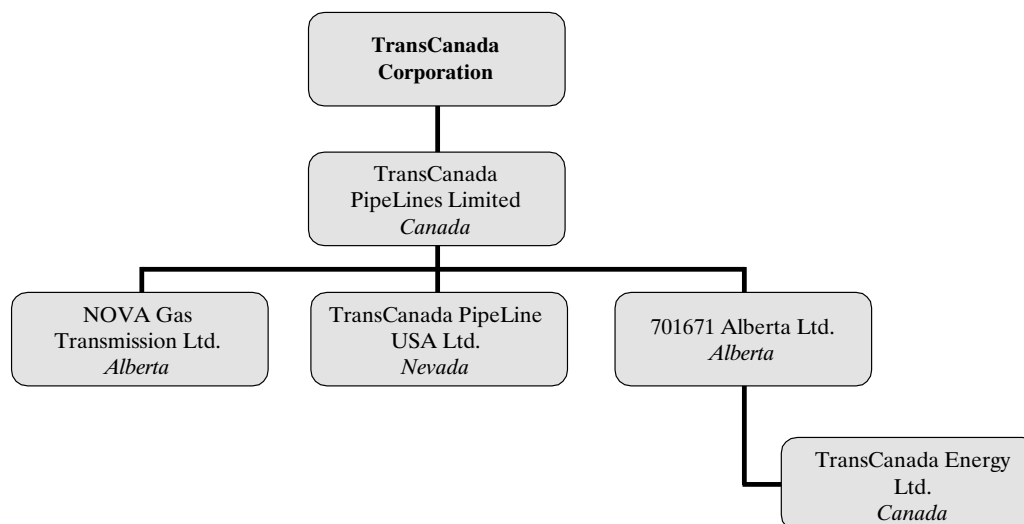
<u>Date</u>	<u>Event</u>
February 25, 2003	TransCanada incorporated under <i>Canada Business Corporations Act</i> .
May 15, 2003	Certificate of Arrangement issued.

The significant dates and events relating to TCPL are set out in TCPL's Annual Information Form for the year ended December 31, 2004, dated March 7, 2005.

TransCanada does not directly employ any employees or contractors. At Year End, TransCanada's principal operating subsidiary, TCPL, had approximately 2,473 employees, substantially all of whom were employed in Canada and the United States.

Significant Subsidiaries

TransCanada's significant subsidiaries⁽¹⁾ at Year End and the jurisdiction under which each subsidiary was incorporated are noted below. TransCanada owns, directly or indirectly, 100 per cent of the voting shares of each of these subsidiaries.



(1) Excludes certain of TransCanada's subsidiaries where:

- the total assets of each excluded subsidiary does not exceed ten per cent of the consolidated assets of TransCanada at Year End;
- the sales and operating revenues of each excluded subsidiary does not exceed ten per cent of the consolidated sales and operating revenues of TransCanada for the year ended December 31, 2004;

- the aggregate assets of all the excluded subsidiaries does not exceed 20 per cent of the consolidated assets of TransCanada at Year End; and
- the aggregate sales and operating revenues of all the excluded subsidiaries does not exceed 20 per cent of the consolidated sales and operating revenues of TransCanada for the year ended December 31, 2004.

GENERAL DEVELOPMENT OF THE BUSINESS

The general development of TransCanada's business during the last three financial years, and the significant acquisitions, events or conditions which have had an influence on that development, are described below.

Developments in Gas Transmission Business

TransCanada's focus has been to sustain, grow and optimize its natural gas transmission business. Summarized below are significant developments that have occurred in TransCanada's natural gas transmission business over the last three years.

2004

In September 2004, TransCanada and Petro-Canada signed a memorandum of understanding for the development of the Cacouna Energy liquefied natural gas ("LNG") facility in Cacouna, Québec, approximately 15 kilometers northeast of Rivière-du-Loup. The proposed facility will be capable of receiving, storing and regasifying imported LNG with an average annual send out capacity of approximately 500 million cubic feet per day of natural gas. TransCanada and Petro-Canada will share equally the construction costs of the facility, which are estimated to be \$660 million. TransCanada will operate the facility while Petro-Canada will contract for the facility's entire regasification capacity and supply the LNG. The proposed facility requires regulatory and other approvals from federal, provincial and municipal governments and regulators and the regulatory approval process is anticipated to take approximately two years to complete. Provided the necessary approvals are obtained, the facility is anticipated to be in service towards the end of this decade.

On October 1, 2004, TransCanada acquired the 380 kilometre Simmons pipeline system ("*Simmons Pipeline System*"), which delivers natural gas to the oil sands region near Fort McMurray, Alberta from several connecting receipt points on the Alberta System, for approximately \$22 million.

On November 1, 2004, TransCanada acquired the Gas Transmission Northwest pipeline system ("*GTN System*") and the North Baja pipeline system ("*North Baja System*") from National Energy & Gas Transmission, Inc. ("*NEGT*") for US\$1.7 billion, including approximately US\$0.5 billion of assumed debt, subject to typical closing adjustments. The GTN System, formerly known as Pacific Gas Transmission, extends more than 2,174 kilometres from a connection point on TransCanada's BC System and Foothills System near Kingsgate, British Columbia on the B.C.-Idaho border to a point near Malin, Oregon on the Oregon-California border. The natural gas transported on this system originates primarily in Canada and is supplied to markets in the Pacific Northwest, California and Nevada. The North Baja System extends 128 kilometres from a point near Ehrenberg, Arizona to a point near Ogilby, California on the California-Mexico border. The natural gas transported on the North Baja System comes primarily from supplies in the southwestern U.S. for markets in northern Baja California, Mexico.

In November 2004, TransCanada and Shell US Gas & Power LLC ("*Shell*") announced plans to jointly develop an offshore LNG regasification terminal, Broadwater Energy, in the New York State waters of Long Island Sound. The proposed floating storage and regasification unit will be capable of receiving, storing and regasifying imported LNG with an average send out capacity of approximately one billion cubic feet ("*Bcf*") per day of natural gas. TransCanada and Shell will build and install a floating storage and regasification unit at a location approximately 15 kilometers off the Long Island coast and 18 kilometers off the Connecticut coast. TransCanada will own 50 per cent of Broadwater Energy LLC, which will own and operate the facility, while Shell will contract for the facility's entire regasification capacity and supply the LNG. The estimated cost of construction is US\$700 million. The proposed Broadwater Energy LNG facility requires regulatory approval from Federal and State governments before construction can begin and the regulatory approval process is anticipated to take up to three years to complete. Provided the necessary approvals are granted and commercial commitments obtained, the facility could be in service in late 2010. TransCanada and Shell have filed a request with the U.S. Federal

Energy Regulatory Commission (“FERC”) to initiate a six to nine month public review of the Broadwater proposal.

In a referendum held in March 2004, the residents of Harpswell, Maine voted against leasing a town-owned site to build the Fairwinds LNG regasification facility. As a result, TransCanada and its partner, ConocoPhillips Company, suspended further work on this LNG project.

For further information about Gas Transmission Developments in 2004, refer to the headings “Business of TransCanada — Gas Transmission — Wholly-Owned Pipelines” and “Business of TransCanada — Gas Transmission — Other Gas Transmission” below.

2003

In August 2003, TransCanada acquired the remaining interests in Foothills Pipe Lines Ltd. (“*Foothills*”) that it did not previously own. The Foothills System, which is owned by Foothills, extends 1,040 kilometres and has two legs: one which originates south of Caroline, Alberta and runs along the foothills of the Rocky Mountains through the Crowsnest Pass to Kingsgate, B.C. where it connects to the GTN System; and the other which originates south of Caroline, Alberta and runs southeast across Alberta and Saskatchewan to the Canada-U.S. border near Monchy, Saskatchewan where it interconnects with Northern Border Pipeline Company (“*Northern Border Pipeline*”). The Foothills System carries over 30 per cent of all Canadian natural gas exports to the U.S.

TransCanada, through Foothills, holds certificates for both the Alaskan and Canadian segments of the Alaska Highway Pipeline Project and also holds significant right-of-way assets for the project in both Canada and Alaska.

In June 2003, TransCanada, the Mackenzie Delta Producers Group (“*Mackenzie Producers*”) and Mackenzie Valley Aboriginal Pipeline L.P. (“*Aboriginal Pipeline Group*” or “*APG*”) reached a funding and participation agreement. TransCanada agreed to finance the APG’s share of project development costs in exchange for several options, including an ownership interest in the pipeline, certain rights of first refusal in the Mackenzie Gas Pipeline Project and the right to have the Mackenzie Delta gas flow into the Alberta System.

Through acquisitions that took place in September and December 2003, TransCanada increased its ownership interest in Portland Natural Gas Transmission System Partnership (“*Portland*”) in the northeastern U.S. from 33.3 per cent to 61.7 per cent.

2002

In August 2002, TransCanada completed the acquisition of a portion of the two per cent general partnership interest in Northern Border Partners, L.P. (“*NBP L.P.*”), a publicly held limited partnership. This interest provides TransCanada with a 17.5 per cent voting interest on the partnership policy committee. NBP L.P. owns interests in pipelines and gas processing plants in the U.S. and Canada, including a 70 per cent interest in Northern Border Pipeline.

Developments in Power Business

In the past three years, TransCanada has grown its power business and, in particular, has increased its generation capacity from facilities it owns, operates and/or controls, including those under construction or in development, from approximately 4,033 megawatts (“*MW*”) in 2002 to 5,712 MW at Year End. Summarized below are significant developments that have occurred in TransCanada’s power business over the last three years.

2004

TransCanada received approval from the Québec government in April 2004, to develop the 550 MW natural gas-fired Bécancour cogeneration plant which is located at an industrial park near Trois-Rivières, Québec (“*Bécancour Plant*”) and which will supply its entire power output to Hydro-Québec Distribution under a 20 year power purchase agreement. The Bécancour Plant will also supply steam to two other companies located within the same industrial park. Construction of the 550 MW Bécancour Plant began in the third quarter of 2004. The

cost of the Bécancour Plant is estimated to be \$550 million, including capitalized interest, and the plant is expected to be in service in late 2006.

In April 2004, TransCanada sold its ManChief and Curtis Palmer power plants to TransCanada Power, L.P. (“*Power LP*”) for approximately US\$402.6 million, excluding closing adjustments. The acquisition was partially financed by Power LP through a public offering of subscription receipts which were subsequently converted into limited partnership units. TransCanada did not take up its full pro rata share of the units and as a result, its interest in the Power LP was reduced from 35.6 per cent to 30.6 per cent.

On September 29, 2004, TransCanada entered into an asset purchase agreement with USGen New England, Inc. (“*USGen*”), a power generation company, for the purchase of hydroelectric generation assets with a total generating capacity of 567 MW of power for US\$505 million. The asset purchase was subject to a bankruptcy court sanctioned auction in which TransCanada was declared the successful bidder. The assets include generating systems on two rivers in New England: the 484 MW Connecticut River system in New Hampshire and Vermont and the 83 MW Deerfield River system in Massachusetts and Vermont. The necessary bankruptcy court approvals for the sale have been granted; however, the sale is also subject to certain regulatory approvals and conditions. In December 2004, Vermont Hydroelectric Power Authority exercised its option with USGen to purchase the 49 MW Bellows Falls facility located on the Connecticut River system. Upon closing of this purchase option, the Bellows Falls facility will be sold to Vermont Hydroelectric for US\$72 million, thereby effectively reducing TransCanada’s total purchase price by that amount.

Cartier Wind Energy Inc. (“*Cartier Wind Energy*”), of which 62 per cent is owned by TransCanada, was awarded six wind energy projects by Hydro-Québec Distribution in October 2004, representing a total of 739.5 MW in the Gaspé region of Québec. The six projects are distributed throughout the Gaspésie-Iles-de-la-Madeleine region and the Regional County Municipality of Matane and are expected to cost a total of more than \$1.1 billion to develop and construct. Construction of the projects is expected to begin late in 2005 and the projects are expected to be commissioned between 2006 and 2012. Long-term electricity supply contracts, which are subject to approval by the Régie de l’Energie, were negotiated with Hydro-Québec Distribution for each of the six facilities and were executed on February 25, 2005. Cartier Wind Energy has begun the process of seeking environmental approvals for the projects.

Construction of the 165 MW MacKay River power plant located in Alberta was completed in 2003 and the plant was put into commercial service in 2004.

Construction of the 90 MW Grandview natural gas-fired cogeneration power plant on the site of the Irving Oil refinery in Saint John, New Brunswick (“*Grandview Plant*”) was completed by the end of 2004 and was commissioned in the first quarter of 2005. Under a 20 year tolling arrangement, a subsidiary of Irving Oil Limited will provide fuel to the Grandview Plant and has contracted for 100 per cent of the Grandview Plant’s heat and electricity output.

2003

In February 2003, TransCanada, as part of a consortium, acquired a 31.6 per cent interest in Bruce Power L.P. (“*Bruce Power*”) and a 33.3 per cent interest in Bruce Power Inc., the general partner of Bruce Power. Bruce Power leases its generation facilities from Ontario Power Generation Inc. (“*OPG*”). The facilities consist of eight nuclear reactors, five of which were operational at the end of 2003, with a capacity of 3,950 MW. An additional reactor with capacity of 750 MW commenced commercial operations in March 2004.

The members of the purchasing consortium of Bruce Power severally guaranteed, on a pro-rata basis, certain contingent financial obligations of Bruce Power related to operator licenses, the OPG lease agreement, power sales agreements and contractor services. Bruce Power continues to be operated by experienced nuclear power plant operators. Spent fuel and decommissioning liabilities remain with OPG under the terms of the lease.

2002

In November 2002, TransCanada completed the acquisition of the 300 MW ManChief power plant, situated approximately 145 kilometres northeast of Denver, Colorado. The ManChief power plant was subsequently sold to Power LP in 2004.

Recent Developments

In January 2005, TransCanada announced that it would develop a \$200 million natural gas storage facility near Edson, Alberta. The Edson facility is expected to have a capacity of approximately 50 Bcf and will connect to TransCanada's Alberta System. TransCanada has also secured a long-term contract with a third party for up to an additional 40 Bcf of storage capacity in Alberta. Upon completion of the Edson facility, combined with the existing storage capacity it holds through its 60 per cent interest in CrossAlta Gas Storage & Services Ltd., TransCanada will own or control more than 110 Bcf of storage capacity, which will amount to approximately one third of the storage capacity in Alberta at that time. TransCanada is in a position to provide fee based gas storage services directly to customers by April 2005 and the Edson facility's capacity will be available to customers on a phased in basis commencing in 2006.

In February 2005, TransCanada announced its intention to gauge industry interest in a project to develop a 3,000 kilometre oil pipeline, with capacity to transport approximately 400,000 barrels per day. The pipeline will run from Hardisty, in southeastern Alberta, south through Alberta, eastwards through Saskatchewan and Manitoba, and then south across the Canada — U.S. border through North Dakota, South Dakota, Iowa, Missouri and finally to the Wood River and Patoka delivery points in Illinois. The oil pipeline project will involve the conversion from gas service of approximately 1,240 kilometres of one line of TransCanada's existing multi-line Alberta System and Canadian Mainline as well as new pipeline construction. Discussions with various stakeholders have begun and, if sufficient support for the oil pipeline project is attained, TransCanada will proceed to seek the necessary regulatory approvals.

BUSINESS OF TRANSCANADA

TransCanada is a leading North American energy infrastructure company focused on natural gas transmission and power generation. At Year End, the gas transmission business accounted for approximately 77 per cent of revenues and 83 per cent of TransCanada's total assets and the power business accounted for approximately 23 per cent of revenues and 13 per cent of TransCanada's total assets. The following is a description of each of TransCanada's two main areas of operation.

The following table shows TransCanada's revenues from operations by segment, classified geographically, for the years ended December 31, 2004 and 2003.

	2004 (millions of dollars)	2003 (millions of dollars)
Gas Transmission		
Canada — Domestic Deliveries	2,441	2,492
Canada — Export Deliveries ⁽¹⁾	1,259	1,291
United States	217	173
	<u>3,917</u>	<u>3,956</u>
Power		
Canada — Domestic Deliveries	706	765
Canada — Export Deliveries ⁽¹⁾	2	2
United States	482	634
	<u>1,190</u>	<u>1,401</u>
Total Revenues⁽²⁾	<u><u>5,107</u></u>	<u><u>5,357</u></u>

Notes:

(1) Export deliveries include gas transmission revenues attributable to deliveries to U.S. pipelines and power deliveries to U.S. markets.

(2) Revenues are attributed to countries based on country of origin of product or service.

Gas Transmission Business

Canada

TransCanada, through subsidiaries, has substantial Canadian natural gas pipeline holdings, including:

- a natural gas transmission system running from the Alberta border east to delivery points in eastern Canada and the U.S. border (“*Canadian Mainline*”);
- a natural gas transmission system throughout the province of Alberta (“*Alberta System*”);
- a natural gas transmission system in southeastern B.C., southern Alberta and southwestern Saskatchewan (“*Foothills System*”);
- a natural gas transmission system in southeastern B.C. (“*BC System*”); and
- a 50 per cent interest in Trans Québec & Maritimes Pipeline Inc. (“*TQM*”) which operates a natural gas transmission system in southeastern Québec (“*TQM System*”).

United States

TransCanada, through subsidiaries, has natural gas pipeline holdings in the U.S. including:

- a natural gas transmission system running from northwestern Idaho, through Washington and Oregon to the California border (the “*GTN System*”);
- a natural gas transmission system in southern Arizona and California (the “*North Baja System*”);
- a 50 per cent interest in the Great Lakes Gas Transmission system (“*Great Lakes System*”) which is located in the north central U.S., roughly parallel to the Canada-U.S. Border;
- a 41 per cent interest in the Iroquois Gas Transmission System (“*Iroquois System*”) which runs southwards down through the eastern part of the State of New York;
- a 61.7 per cent interest in the Portland system which runs through Maine into Massachusetts;
- a 10 per cent effective ownership interest, held through TC PipeLines, L.P., in the Northern Border Pipeline system which is located in the upper midwestern portion of the U.S.; and
- a 17.4 per cent effective ownership interest in the Tuscarora Gas Transmission Company (“*Tuscarora*”) system which runs from Oregon eastwards to the upper portion of Nevada. One per cent of this interest is held directly through a subsidiary of TransCanada and the remainder is held through TransCanada’s interest in TC PipeLines, L.P.

TransCanada holds a 33.4 per cent interest in TC PipeLines, L.P., a publicly held limited partnership of which a subsidiary of TransCanada acts as the general partner. The remaining interest of TC PipeLines, L.P. is widely held by the public. TC PipeLines, L.P. holds a 30 per cent interest in Northern Border Pipeline and a 49 per cent interest in Tuscarora.

Gas Transmission

TransCanada’s transmission business principally includes the operation of the wholly-owned Canadian Mainline, Alberta System, Foothills System, BC System, GTN System and North Baja System as well as TransCanada’s other investments in partially-owned natural gas pipelines and storage facilities located primarily in Canada and the U.S.

Canadian natural gas transmission services are provided under gas transportation tariffs that provide for cost recovery including return of and return on capital as approved by the applicable regulatory authorities. In some cases, such tariffs are determined under agreements with customers and other interested parties, subject to regulatory approval. The net income of the gas transmission business is generated based on such tariffs. Under the current regulatory model, net income is not affected by fluctuations in the commodity price of natural gas, but such fluctuations influence both production levels and the natural gas basins from which North American natural gas consumers elect to purchase natural gas supplies.

Both the GTN System and the North Baja System operate under fixed rate models, under which maximum and minimum rates for various service types have been ordered by FERC and under which, these two systems are permitted to discount or negotiate rates on a non-discriminatory basis. The net earnings attributable to the GTN System and the North Baja System are impacted by variations in volumes delivered under the various service types that are provided, as well as by variations in the costs of providing transportation service.

The volume of natural gas shipments on the Canadian Mainline, Alberta System, Foothills System, BC System, GTN System and North Baja System depends on the volume of natural gas produced and sold both in and outside of Alberta, and on the cost and availability of other pipeline capacity. The natural gas transported by TransCanada on its Canadian pipelines comes primarily from the Western Canada Sedimentary Basin (“WCSB”). The WCSB’s estimated remaining established reserves of natural gas are approximately 55 trillion cubic feet (“Tcf”) with a remaining reserve-to-production ratio of approximately nine years at current levels of production. At present, incremental reserves are continually being discovered and generally maintain the reserve-to-production ratio at close to nine years. Production of natural gas from the WCSB has not increased since 2001. With the expansion of capacity on TransCanada’s wholly and partially-owned pipelines over the past decade, and the competition provided by other pipelines, combined with significant growth in natural gas demand in Alberta, TransCanada anticipates there will be excess pipeline capacity out of the WCSB for the foreseeable future.

In addition to the information concerning the gas transmission segment of TransCanada’s business set out herein, further information can be found in the MD&A under the heading “Gas Transmission — Opportunities and Developments”.

Wholly-Owned Pipelines

Canadian Mainline

The Canadian Mainline consists of 14,898 kilometres of pipeline system transporting natural gas from the Alberta border east to various delivery points in Canada and at the U.S. border.

Capital expenditures on the Canadian Mainline in 2004 were approximately \$43 million. These expenditures were primarily for some localized capacity capital and maintenance capital projects. TransCanada anticipates approximately \$57 million of further localized capital spending on the Canadian Mainline in 2005, primarily related to capacity capital and maintenance capital projects.

The following table sets forth the revenues earned and volumes delivered for the years ended December 31, 2004 and 2003 for the Canadian Mainline.

	2004		2003	
	Revenues⁽¹⁾	Per cent	Revenues	Per cent
	(millions of dollars)		(millions of dollars)	
<i>Revenues</i>				
Domestic Deliveries	952	44	1,035	46
Export Deliveries	1,201	56	1,214	54
Total	<u>2,153</u>	<u>100</u>	<u>2,249</u>	<u>100</u>
	2004		2003	
	Volume	Per cent	Volume	Per cent
	(Bcf)		(Bcf)	
<i>Volumes Transported</i>				
Domestic Deliveries	1,345	51	1,295	49
Export Deliveries	1,276	49	1,333	51
Total	<u>2,621</u>	<u>100</u>	<u>2,628</u>	<u>100</u>

Note:

(1) 2004 domestic revenues were reduced as a result of transportation service credits related to a new service offered. Total credits of \$23 million were reported against 2004 domestic revenues.

Canadian Mainline Contracted Firm Transportation Services

As of Year End, the Canadian Mainline was providing transportation for 127 shippers pursuant to 371 firm service transportation contracts. Approximately 44 per cent of the total daily transportation volume represented by these contracts relates to contracts for delivery of natural gas at U.S. border points.

As of Year End, the weighted average remaining term of firm transportation contracts on the Canadian Mainline was approximately 2.5 years compared to a weighted average remaining term of 3.2 years at December 31, 2003. These contracts are renewable by the customer providing notice to TransCanada at least six months prior to the expiry of the current contract term. The Canadian Mainline last operated at capacity with one year or longer firm service contracts during the 1998-1999 contract year. Since then, the Canadian Mainline has seen a 36 per cent decrease in firm contracted deliveries and a 19 per cent decrease in total deliveries originating at the Alberta border and in Saskatchewan. Further information can be found in the MD&A under the headings “Gas Transmission — Earnings Analysis” and “Gas Transmission — Opportunities and Developments”.

Regulation of the Canadian Mainline

Under the terms of the *National Energy Board Act* (Canada), the National Energy Board (“NEB”) regulates the construction, operation, tolls and tariffs of the Canadian Mainline. The NEB is the authority under the *Canadian Environmental Assessment Act* responsible for considering the environmental and social impacts of proposed pipeline projects. The Canadian Mainline tolls are designed to generate sufficient revenues for TransCanada to recover operating expenses, depreciation, taxes and financing costs of the Canadian Mainline, including interest on debt and payments on preferred securities 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 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 February 2003, the NEB denied TransCanada’s September 2002 request for a Review and Variance of an NEB decision referred to as the Fair Return Decision, which TransCanada considered unsatisfactory. Consequently, TransCanada applied for and was granted leave to appeal the NEB’s denial of the Review and Variance to the Federal Court of Appeal. However, in April 2004, the Federal Court of Appeal dismissed TransCanada’s appeal. TransCanada remains disappointed with the Fair Return Decision; however, the Federal Court of Appeal decision extinguished any means of having it varied. In the 2002 Fair Return Decision, the NEB denied an application by TransCanada requesting the adoption of an after-tax weighted average cost of capital methodology for establishing investment return and an after-tax weighted average cost of capital of 7.5 per cent, equivalent to a 12.5 per cent rate of return on deemed common equity of 40 per cent. The NEB instead affirmed a formula under which the rate of return on common equity (“ROE”) for the Canadian Mainline was determined to be 9.61 per cent in 2001, 9.53 per cent in 2002 and 9.79 per cent in 2003. The NEB increased deemed common equity to 33 per cent from the previously approved level of 30 per cent. TransCanada is of the belief that the Fair Return Decision does not recognize the long-term business risks of the Canadian Mainline.

In January 2004, TransCanada filed an application with the NEB to determine 2004 Canadian Mainline tolls and the NEB, because of the then pending appeal to the Federal Court of Appeal regarding the Fair Return Decision, decided to hear the application in two phases: Phase I which addressed all matters except cost of capital and Phase II which addressed cost of capital. As part of Phase I of the application, TransCanada originally requested an 11 per cent return on deemed common equity of 40 per cent, however, given the Federal Court of Appeal’s dismissal of TransCanada’s appeal respecting its request of the NEB to review the Fair Return Decision, TransCanada amended the application so as to request an ROE of 9.56 per cent, as determined under the NEB’s generic ROE formula on deemed common equity of 40 per cent. In its Phase I decision issued in September 2004, the NEB approved virtually all applied-for costs and the new Firm Transportation — Non Renewable service. The NEB considered the cost of capital portions of TransCanada’s application in Phase II of the proceeding and a decision on Phase II is expected in the second quarter of 2005.

In February 2005, TransCanada announced that it had reached a settlement with its Canadian Mainline shippers regarding the tolls and tariff that are applicable to the Canadian Mainline in 2005.

Further information about regulatory development involving the Canadian Mainline can be found in the MD&A under the headings “Gas Transmission — Regulatory Developments — Canadian Mainline” and “Consolidated Financial Review — Gas Transmission”.

Alberta System

The Alberta System, held by NOVA Gas Transmission Ltd. (“NGTL”), a subsidiary of TransCanada, is an Alberta-wide natural gas transmission system that collects and transports natural gas for use in Alberta and for delivery to connecting pipelines, such as the Canadian Mainline, the Foothills System and the BC System, as well as to other unaffiliated pipelines, at various points on the Alberta border for delivery to eastern Canada, B.C. and the U.S. The Alberta System includes 23,186 kilometres of mainlines and laterals. On October 1, 2004, the Simmons Pipeline System, which delivers gas to the Fort McMurray area, became part of the Alberta System.

Capital expenditures, which are dependent in part upon requests for increased transportation service by customers, were \$87 million in 2004. TransCanada anticipates approximately \$97 million of capital spending on the Alberta System in 2005. These capital expenditures will be primarily related to capacity expansion.

The following table sets forth the annual volumes delivered by the Alberta System for the years ended December 31, 2004 and 2003.

<u>Deliveries to Market Areas</u>	<u>2004</u>		<u>2003</u>	
	<u>Volume⁽¹⁾</u> (Bcf)	<u>Per cent</u>	<u>Volume⁽²⁾</u> (Bcf)	<u>Per cent</u>
Alberta	589	15	539	14
Eastern Canada and Eastern United States	1,418	36	1,552	40
Western United States	737	19	665	17
Midwestern United States	1,155	30	1,117	29
B.C.	10	—	10	—
Total	<u>3,909</u>	<u>100</u>	<u>3,883</u>	<u>100</u>

Notes:

- (1) Of the total volumes transported in 2004, 1.80 Tcf of natural gas was delivered to the Canadian Mainline, 743 Bcf of natural gas was delivered to the BC System and 768 Bcf of natural gas was delivered to the Saskatchewan portion of the Foothills System.
- (2) Of the total volumes transported in 2003, 1.89 Tcf of natural gas was delivered to the Canadian Mainline, 673 Bcf of natural gas was delivered to the BC System and 777 Bcf of natural gas was delivered to the Saskatchewan portion of the Foothills System.

Alberta System Contracted Firm Transportation Services

As of Year End, the Alberta System was providing transportation for 282 shippers pursuant to approximately 18,300 firm service transportation contracts.

As of Year End, the weighted average remaining term of firm transportation contracts was approximately 2.9 years, compared to a weighted average remaining term of 2.4 years as of December 31, 2003. Currently, these contracts are renewable by the customer providing notice to NGTL at least twelve months prior to the expiry of the current contract term.

Further information about the Alberta System can be found in the MD&A under the headings “Gas Transmission — Earnings Analysis” and “Gas Transmission — Opportunities and Developments”.

Regulation of the Alberta System

The construction and operation of the Alberta System is regulated by the Alberta Energy and Utilities Board (“EUB”) primarily under the provisions of the *Gas Utilities Act* (Alberta) and the *Pipeline Act* (Alberta). NGTL also requires the EUB’s approval for rates, tolls and charges, and the terms and conditions under which it provides its services. Under the provisions of the *Pipeline Act*, the EUB oversees various matters, including the

economic, orderly and efficient development of the pipeline, the operation and abandonment of the pipeline, and certain related pollution and environmental conservation issues. In addition to requirements under the *Pipeline Act*, the construction and operation of natural gas pipelines in Alberta are subject to certain provisions of, and require certain approvals under, other provincial legislation such as the *Environmental Protection and Enhancement Act* (Alberta).

Alberta System tolls are designed to generate sufficient revenues for NGTL to recover operating expenses, depreciation, taxes and financing costs of the Alberta System, including interest on debt and payments on securities attributable to the Alberta System, together with a return on deemed common equity.

In 2004, TransCanada received two significant regulatory decisions from the EUB in respect of the Alberta System which were disappointing.

In July 2004, the EUB released its decision in the generic cost of capital (“GCOC”) proceeding. All Alberta provincially regulated utilities, including the Alberta System, were mandated an ROE of 9.60 per cent for 2004. This generic ROE will be adjusted annually by 75 per cent of the change in long-term Government of Canada bonds from the previous year, consistent with the approach used by the NEB. The EUB also established a deemed common equity of 35 per cent for the Alberta System. This result was less than the applied for ROE of 11 per cent on deemed common equity of 40 per cent, which the company considered to be a fair return.

In September 2003, TransCanada filed Phase I of the 2004 General Rate Application (“GRA”) with the EUB, consisting of evidence in support of the applied-for rate base and revenue requirement. In its August 2004 decision, the EUB approved TransCanada’s purchase of the Simmons Pipeline System and the recovery of costs associated with firm transportation service arrangements with the Foothills, Simmons and Ventures LP systems; however, the EUB decision disallowed certain operating costs, including incentive compensation costs.

In September 2004, TransCanada filed with the Alberta Court of Appeal for leave to appeal the EUB’s decision on Phase I of the 2004 GRA with respect to the disallowance of applied-for incentive compensation costs. TransCanada believes the EUB made errors of law in deciding to deny the inclusion of these compensation-related costs in the revenue requirement which it considers necessary and prudent for the safe, reliable and efficient operation of the Alberta System. At TransCanada’s request, the Court of Appeal adjourned the appeal for an indefinite period of time to allow TransCanada to consider the merits of a review and variance application to the EUB in respect of 2004 costs, and work toward a negotiated settlement of future years’ tolls with its customers which would replace or amend TransCanada’s 2005 GRA. In September 2004, the EUB gave approval for TransCanada to enter into negotiations for a settlement that would not exceed three years.

In December 2004, the EUB approved interim rates that were effective in 2004 as final rates and approved interim rates effective January 1, 2005, which will remain in place until final 2005 rates are determined. In addition, in February 2005, TransCanada reached an agreement in principle with its Alberta System shippers in respect of a revenue requirement settlement for the period from January 1, 2005 until December 31, 2007. TransCanada is proceeding with finalizing the terms of the settlement with the negotiating parties and anticipates executing the settlement agreement in March 2005. TransCanada expects to file the settlement agreement with the EUB for approval, shortly thereafter.

Further information about regulatory developments involving the Alberta System can be found in the MD&A under the headings “Gas Transmission — Regulatory Developments — Alberta System” and “Consolidated Financial Review — Gas Transmission”.

Tolling Methodology for the Alberta System

The current tolling methodology and rate design for the Alberta System features differentiated pricing for each gas receipt point on the Alberta System. The receipt-point price is dependent on geographic location, the diameter of the pipe through which the customer’s natural gas travels, and the term of the transportation contract.

Foothills System

The Foothills System, which is regulated by the NEB and the Northern Pipeline Agency of Canada, is a 1,040 kilometre natural gas pipeline that transports western Canadian natural gas from central Alberta to connecting pipelines for transportation to markets in the U.S. Midwest, Pacific Northwest, California and Nevada. TransCanada merged Foothills' operations with its own in February 2004. TransCanada previously held a 50 per cent interest in Foothills and in August 2003, acquired the remaining interest.

The Alaska Highway Pipeline Project, which will bring Prudhoe Bay natural gas from Alaska to markets in Canada and the U.S., involves pipeline construction in Canada and Alaska. Foothills holds the priority right to build, own and operate the first pipeline through Canada for the transportation of Alaskan gas. This right was granted under the *Northern Pipeline Act* of Canada following a lengthy competitive hearing before the NEB in the late 1970's which resulted in a decision in favor of Foothills.

TransCanada spent approximately \$1 million on the Foothills System in 2004 and anticipates that it will spend approximately \$2 million on the Foothills System in 2005, primarily for maintenance capital.

BC System

The BC System, which is regulated by the NEB, consists of 201 kilometres of pipeline that carries natural gas from a connecting point with the Alberta System through the southeastern corner of B.C. to connect with the GTN System at the Canada-U.S. border near Kingsgate, B.C. The GTN System delivers gas to markets in California, Nevada and the northwestern U.S. Further information can be found about the GTN System under the heading "General Development of the Business — Developments in Gas Transmission Business — 2004", above and under the heading "Business of TransCanada — Gas Transmission — Wholly Owned Pipelines — GTN System", below.

In 2004, capital expenditures on the BC System were approximately \$1 million, primarily for maintenance capital. TransCanada anticipates approximately \$2 million of capital spending on the BC System in 2005, primarily for maintenance capital.

The BC System is regulated on a complaint basis and the tolls are based on a cost-of-service methodology. In December 2003, the NEB adopted interim rates and charges for 2004 pending the resolution of compensation cost issues with shippers on the BC System. As discussions continue in an effort to resolve these issues, the BC System closed the year on interim rates. On December 23, 2004, the NEB adopted new interim rates and charges for 2005, again pending resolution of the outstanding issues.

GTN System

The GTN System, which is a natural gas pipeline system regulated by FERC, is comprised of more than 2,174 kilometres of pipeline and runs from a connection point on TransCanada's BC System near Kingsgate, B.C. on the B.C.-Idaho border to a point near Malin, Oregon on the Oregon-California border. The natural gas transported on this system originates primarily in Canada and is supplied to the Pacific Northwest, California and Nevada.

As of Year End, 95 per cent of the GTN System's available long-term firm capacity was held among 43 shippers. The volume-weighted average remaining term of those contracts was approximately ten years. The GTN System operates under fixed rate models.

TransCanada acquired the GTN System in November 2004 and anticipates approximately \$11 million of capital spending on it in 2005, primarily for maintenance capital.

North Baja System

The North Baja System is a 128 kilometre natural gas pipeline which extends from a point near Ehrenberg, Arizona to a point near Ogilby, California on the California-Mexico border. The natural gas transported on the North Baja System comes primarily from supplies in the southwestern U.S. for markets in northern Baja California, Mexico. FERC also regulates the North Baja System.

During 2004, the North Baja System provided long-term transportation service to four customers. As of Year End, the volume-weighted average remaining term of all long-term contracted capacities on the North Baja System was approximately 18 years. Long-term firm service accounted for 93 per cent of the North Baja System's total transportation revenue and transported volumes in 2004. Like the GTN System, the North Baja System operates under fixed rate models.

TransCanada acquired the North Baja System in November 2004 and anticipates spending approximately \$2 million on capital expenditures in 2005. The majority of these capital expenditures relate to accommodating future gas supplies from LNG facilities on the Pacific Coast of Mexico, which are expected to be operational in 2007.

Other Gas Transmission

TransCanada actively pursues natural gas pipeline and pipeline-related development, acquisition and operation opportunities in Canada and the U.S., where these opportunities are driven by strong customer demand.

Great Lakes

TransCanada holds a 50 per cent interest in the Great Lakes System which is a 3,387 kilometre pipeline system which is operated by Great Lakes Gas Transmission Limited Partnership. The Great Lakes System transports Canadian natural gas from its interconnection with the Canadian Mainline at Emerson, Manitoba to markets in central Canada through an interconnect at St. Clair, Ontario as well as markets in the eastern and midwestern U.S. The Great Lakes System's rates are based on a five year settlement agreement which was approved by FERC in 2001 and is effective until October 31, 2005.

TC PipeLines, L.P.

TC PipeLines, L.P., a U.S. publicly-held limited partnership, was formed to acquire, own and participate in the management of U.S. based pipeline assets which are regulated by FERC. In May 1999, TransCanada's 30 per cent general partner interest in Northern Border Pipeline was conveyed to TC PipeLines, L.P. in exchange for cash and a 33.4 per cent interest in TC PipeLines, L.P., 31.4 per cent of which is comprised of units and two per cent of which is a general partnership interest. TC PipeLines, L.P. issued the balance of the units to the public. The main asset of TC PipeLines, L.P. is the 30 per cent interest in Northern Border Pipeline which operates a 2,010 kilometre natural gas pipeline system which connects with the Foothills System at the Saskatchewan-Montana border and serves the midwestern U.S., terminating at North Hayden, Indiana. In October 2001, Northern Border Pipeline completed a 55 kilometre pipeline extension and installed additional compression that provided 545 MMcf/d of incremental transportation capacity to North Hayden, Indiana and expanded Northern Border Pipeline's delivery capability into the Chicago area by approximately 30 per cent.

In September 2000, TC PipeLines, L.P. acquired a 49 per cent general partnership interest in Tuscarora from TCPL. Tuscarora owns a 386 kilometre natural gas pipeline system which transports natural gas from Malin, Oregon to Wadsworth, Nevada and delivers to points in northeastern California. In January 2001, the Tuscarora system was extended by the addition of a second citygate connection to the expanding Reno, Nevada metropolitan market.

A subsidiary of TransCanada acts as the general partner of TC PipeLines, L.P.

Iroquois

The Iroquois System, which is regulated by FERC, connects with the Canadian Mainline near Waddington, New York and delivers natural gas to customers in the northeastern U.S. TransCanada's aggregate interest in the Iroquois System, through two subsidiaries, is approximately 41 per cent.

Iroquois' Eastchester extension and expansion was completed and the facilities were put into service in February 2004. This expansion extends the Iroquois System from Long Island into New York City, adding 59 kilometres to the Iroquois System and will provide an additional 230 MMcf/d of new service into this market. The Iroquois System is now 663 kilometres in length.

In January 2004, Iroquois filed a rate application with FERC to establish rates for the Eastchester expansion. As a result of settlement conferences held in June and July 2004, Iroquois submitted a comprehensive settlement agreement to FERC in August 2004, which was approved by FERC in October 2004. The settlement agreement provides for recourse rates applicable until 2011 and implements an eight year rate moratorium for Eastchester.

Trans Québec & Maritimes

TransCanada holds a 50 per cent interest in the 572 kilometre TQM System which connects with the Canadian Mainline. TQM serves markets in Québec and connects with the Portland system. The TQM System is regulated by the NEB.

Portland

TransCanada holds a 61.7 per cent controlling interest in Portland which is a 471 kilometre interstate pipeline that interconnects with the pipeline system of TQM at the U.S.-Canada border near East Hereford, Québec, and with the Tennessee Gas Pipeline in Haverhill and Dracut, Massachusetts. The southern sections of Portland's system, consisting of 163 kilometres of pipeline, are part of the joint facilities shared with the Maritimes and Northeast Pipeline. Portland holds a one-third ownership interest in the joint facilities. Portland is regulated by FERC.

In August 2004, Portland initiated a restructuring plan whereby all of its operating and administrative functions would be performed by TransCanada pursuant to a services agreement. The transition of duties was completed by November 2004.

Northern Development

In 2004, TransCanada continued to pursue pipeline opportunities to move both Mackenzie Delta and Alaska North Slope natural gas to markets throughout North America. TransCanada worked with key stakeholders in the interest of participating in these pipeline projects, as set out below:

TransCanada, the Mackenzie Producers and the APG reached funding and participation agreements in June 2003. These agreements secured a role for TransCanada in the proposed Mackenzie Gas Pipeline Project and entitled the APG to become an equity participant. The Mackenzie Gas Pipeline Project involves the construction and operation of a natural gas pipeline system in the Mackenzie Valley that would move Mackenzie Delta natural gas from Inuvik, Northwest Territories to the northern border of Alberta, where it would connect with the Alberta System. TransCanada has agreed to finance the APG for its one-third share of project development costs. This share is currently expected to be \$90 million. This loan will be repaid from the APG's share of available future pipeline revenues. TransCanada funded \$34 million of this loan in 2003 and another \$26 million in 2004, for a total funding of \$60 million to date.

In October 2004, Imperial Oil Resources announced that applications for the main regulatory approvals for the Mackenzie Gas Pipeline Project had been submitted to the boards, panels and agencies responsible for assessing and regulating energy developments in the Northwest Territories. These filings mark a significant milestone in the project definition phase.

In 2004, TransCanada continued its discussions with Alaska Highway pipeline stakeholders including Alaska North Slope producers and the State of Alaska, relating to the Alaskan portion of the Alaska Highway pipeline project. In June 2004, TransCanada filed an application under the State of Alaska's *Stranded Gas Development Act*, and requested the State to resume processing the long pending application for a right of way lease across State lands. Once the right of way lease application is approved, TransCanada is prepared to convey the right of way lease to another entity if that entity is willing to connect with TransCanada's pipeline system. The lease conveyance would require an interconnection agreement with TransCanada at the Yukon-Alaska border.

In January 2004, Foothills and the Kaska First Nation signed an Agreement in Principle that provides the framework for a future participation agreement. The Agreement in Principle marks the completion of the second stage of negotiations related to a potential participation agreement for the Alaska Highway Pipeline Project.

Liquefied Natural Gas

In September and November of 2004, TransCanada announced plans for the development of two significant LNG facilities: the Cacouna Energy LNG facility and the offshore Broadwater Energy LNG regasification terminal. These developments are more fully described under the heading “General Development of the Business — Developments in Gas Transmission Business — 2004”, above in this AIF.

Ventures LP

TransCanada Pipeline Ventures Limited Partnership (“*Ventures LP*”), which is wholly owned by TransCanada, owns a 121 kilometre pipeline and related facilities, which supply natural gas to the oil sands region of northern Alberta, and a 27 kilometre pipeline which supplies natural gas to a petrochemical complex at Joffre, Alberta.

CrossAlta

TransCanada holds a 60 per cent interest in the Crossfield Storage Joint Venture which controls an underground gas storage facility near Crossfield, Alberta. The facility is commercially operated on behalf of the joint venture by CrossAlta Gas Storage & Services Ltd., in which TransCanada also holds a 60 per cent interest.

TransGas

TransCanada holds a 46.5 per cent interest in TransGas de Occidente S.A., a Colombian corporation which operates a 344 kilometre natural gas pipeline between the cities of Mariquita and Cali, Colombia.

Gas Pacifico

TransCanada holds a 30 per cent interest in Gasoducto del Pacifico (“*Gas Pacifico*”), a 540 kilometre natural gas pipeline from Argentina to Concepción, Chile.

Innergy

TransCanada holds a 30 per cent interest in INNERGY Holdings S.A., an industrial natural gas transportation and marketing company operating in the area of Concepción, Chile, which markets natural gas transported on the Gas Pacifico system.

Regulation of North American Pipelines

Under the *National Energy Board Act* (Canada), the NEB regulates the construction and operation of interprovincial pipelines and the Canadian portion of international pipelines as well as the traffic, tolls and tariffs applicable to those pipelines. The NEB also approves the import and export of natural gas.

Pipelines located within provincial boundaries are regulated by the applicable provincial regulatory body.

The construction and operations of the Alberta System and Ventures LP’s pipeline are regulated by the EUB.

With respect to TransCanada’s U.S. pipeline investments, the U.S. *Natural Gas Act of 1938* (“*NGA*”) establishes the framework for regulation of interstate natural gas transportation, facilities construction and terms and conditions of service. FERC is charged with implementing the NGA’s requirements. The terms and conditions of service under which TransCanada transports natural gas on the Great Lakes System, are subject to NGA authorizations issued by FERC. Interconnected natural gas pipelines and other U.S. interstate pipeline projects in which TransCanada owns an interest, are subject to FERC and NGA regulation, as well as certain state regulatory requirements.

Further information about the regulation of the Canadian Mainline, Alberta System and other pipeline systems, can be found under the heading “Business of TransCanada — Gas Transmission — Wholly Owned Pipelines” above.

Competition in Gas Transmission

TransCanada's wholly-owned pipelines are connected to and supplied by one of North America's largest natural gas basins, the WCSB. However, the WCSB is maturing and it will be a challenge for producers to increase production in this basin. Other pipeline systems connected to the WCSB, including some of TransCanada's interconnected pipelines, have expanded in the last few years. These expansions have provided shippers with additional flexibility and competitive choices when moving WCSB supplies to market. The WCSB gas supply is expected to remain essentially flat.

The Alberta System is the primary transporter of natural gas within the province of Alberta and to provincial boundary points. However, there are a number of alternative pipelines which offer price advantages and which compete with the Alberta System. In anticipation of and in response to these developments, the Alberta System's current tolling methodology was designed to enhance NGTL's ability to provide competitive pricing and service flexibility and to provide TransCanada with the ability to respond to potential future export bypass pipelines.

The Canadian Mainline is now one of five natural gas pipelines providing transportation service from the WCSB. Increased competition has led to the non-renewal of some of the firm service contracts on the Alberta System and the Canadian Mainline, and has led to decreased utilization on certain pipeline segments.

Further information about business risks in Gas Transmission can be found under the heading "Risk Factors — Gas Transmission" below and in the MD&A under the headings "Gas Transmission — Opportunities and Developments" and "Gas Transmission — Business Risks".

Research and Development

In 2004, TransCanada spent approximately \$7.0 million on research and development activities of which approximately \$2.5 million related to research on pipeline integrity management, approximately \$3.0 million on other regulated pipeline activities and approximately \$1.5 million on non-regulated pipeline ventures.

Power

The Power segment of TransCanada's business includes the acquisition, development, construction, ownership, operation and management of power plants, the marketing of electricity and the provision of electricity account services to energy and industrial customers.

The power plants and power supply that TransCanada owns, operates and/or controls, including those under development or in construction, in the aggregate, represent approximately 5,700 MW of power generation capacity in Canada and the U.S.

TransCanada owns and operates:

- gas-fired cogeneration plants in Alberta at Carseland (80 MW), Redwater (40 MW), Bear Creek (80 MW) and MacKay River (165 MW);
- a gas-fired cogeneration Grandview plant (90 MW) near Saint John, New Brunswick;
- a waste-heat fuelled power plant at the Cancarb facility in Medicine Hat, Alberta (27 MW); and
- a gas-fired, combined-cycle Ocean State Power plant in Burrillville, Rhode Island (560 MW).

TransCanada has long-term power purchase arrangements in place for:

- 100 per cent of the production of the Sundance A (560 MW) and 50 per cent interest, through a partnership, of the production of the Sundance B (353 MW of 706 MW) power facilities near Wabamun, Alberta.

TransCanada owns, but does not operate:

- a 31.6 per cent interest in the nuclear power generation facilities of Bruce Power in Ontario (1,485 MW of a total of 4,700 MW that is in operation); and

- a 17 per cent interest in Huron Wind L.P. whose assets are located at the Bruce Power site (2 MW of a total of 9 MW that is in operation).

TransCanada owns the following facilities which are under construction or development:

- the 550 MW gas-fired cogeneration Bécancour plant near Trois-Rivières, Québec, which is expected to be completed in late 2006; and
- a 62 per cent interest in Cartier Wind Energy which will construct six wind energy projects in the Gaspé region of Québec (458 MW of a total of 739.5 MW).

TransCanada is in the process of acquiring hydroelectric generation assets from USGen which are located on two rivers in New England and which will have a generating capacity of up to 518 MW, which excludes the generating capacity of the Bellows Falls facility (49 MW) as this plant is the subject of a purchase option held by a third party which has been exercised but not yet closed.

TransCanada has a power marketing office in Westborough, Massachusetts to manage the Ocean State Power purchase agreements and fulfill supply obligations, and to take advantage of additional marketing opportunities in the New England and New York markets. The office also markets the output of Power LP's Castleton power plant.

Operations and maintenance services for the Bruce Power plant continue to be supplied by Bruce Power management and staff. Bruce Power leases the Bruce Power facilities from OPG and currently operates six nuclear power units out of the eight on site. The two units that are not being operated are laid up. Bruce Power sells the output from the operating units through a combination of fixed-price contracts and spot market sales. Bruce Power is the tenant under a long-term lease with OPG and under the terms of the lease, spent fuel and site decommissioning liabilities remain the responsibility of OPG. Bruce Power is subject to risks related to the operation and maintenance of the nuclear power generating facilities, including risks relating to the use, handling, containment and storage of radioactive materials; limitations on the amounts and types of insurance that are commercially available to cover any related liabilities that may arise from these operations; changes in and varying interpretations of the extensive federal regulations that apply to Bruce Power's nuclear operations; modifications needed to meet increasing security requirements; and repairs, modifications, replacements and outages that may be necessitated as a result of testing and inspection programs which, themselves, may need to be enhanced in coming years to improve operations or satisfy increasing regulatory or other requirements.

Late in the fourth quarter of 2004, TransCanada responded to the Ontario government's Request for Proposals for 2,500 MW of new electricity generation capacity. TransCanada and OPG, through their limited partnership, Portlands Energy Centre L.P., responded by proposing a 550 MW combined-cycle natural gas-fuelled power plant that would be located in the Portlands area of downtown Toronto, Ontario. TransCanada, in its own right, responded to the Request for Proposals with another, unrelated proposal.

TransCanada continues to investigate potential power investment opportunities throughout North America, including a potential investment, together with its Bruce Power partners, in the Point Lepreau nuclear generating station in New Brunswick. The Point Lepreau facility, which is indirectly owned by the New Brunswick provincial government, is a 680 MW nuclear power plant with a CANDU reactor similar to the reactors operated by Bruce Power. No decision has been made by TransCanada and its partners as to whether an investment will be made in the Point Lepreau facility; however, discussions are ongoing with New Brunswick Power.

TransCanada Power, L.P.

TransCanada is the general partner of, manages and operates Power LP and holds 30.6 per cent of its outstanding limited partnership units. Power LP is a publicly-held limited partnership that owns eleven power plants in Canada and the U.S. which generate approximately 744 MW of power. It is one of the largest publicly traded power limited partnerships in Canada with a market capitalization of approximately \$1.7 billion. TransCanada supplies the natural gas fuel and waste heat for certain of Power LP's plants and buys output from one of the plants.

Power LP owns:

- the combined-cycle power plants, fuelled by a combination of natural gas and waste heat from adjacent TransCanada compression facilities in Tunis (43 MW), Nipigon (40 MW), Kapuskasing (40 MW) and North Bay (40 MW), all in Ontario;
- a natural gas cogeneration plant at Castleton-on-Hudson, New York (64 MW);
- a wood-waste fuelled power plant at Williams Lake, B.C. (66 MW);
- the wood-waste and waste heat Calstock power plant near Hearst, Ontario (35 MW);
- the simple-cycle ManChief power plant near Brush, Colorado (300 MW);
- the Curtis Palmer hydroelectric power facilities on the Hudson River near Corinth, New York (60 MW);
- the run-of-river hydroelectric facility on the Mamquam River north of Vancouver (50 MW); and
- the three-unit reservoir based hydroelectric Queen Charlotte station facility located on Moresby Island in B.C. (6 MW).

Other Power

PT Paiton

TransCanada effectively holds an approximate 11 per cent interest in PT Paiton Energy Company, which owns a power project consisting of two 615 MW coal-fired power units located in Indonesia.

Power Performance

The following tables set forth the revenues earned, power volumes marketed and generation capacity in Canada and the U.S. for the years ended December 31, 2004 and 2003 from TransCanada's power operations.

	2004		2003	
	Revenues	Per cent	Revenues	Per cent
	(millions of dollars)		(millions of dollars)	
<i>Revenues⁽¹⁾</i>				
Canada — Domestic	706	59	765	55
Canada — Export	2	—	2	—
United States	482	41	634	45
Total	<u>1,190</u>	<u>100</u>	<u>1,401</u>	<u>100</u>

	2004		2003	
	Volume	Per cent	Volume	Per cent
	(gigawatt hours)		(gigawatt hours)	
<i>Volumes Sold⁽²⁾⁽³⁾⁽⁴⁾</i>				
Canada — Domestic	24,426	79	20,575	74
Canada — Export	37	—	38	—
United States	6,457	21	7,397	26
Total	<u>30,920</u>	<u>100</u>	<u>28,010</u>	<u>100</u>

	2004		2003	
	Generation (MW)	Per cent	Generation (MW)	Per cent
<i>Generation Capacity</i> ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾				
Canada	3,112	76	2,641	73
United States	984	24	984	27
Total	<u>4,096</u>	<u>100</u>	<u>3,625</u>	<u>100</u>

Notes:

- (1) 2004 revenues reflect the sale of Curtis Palmer and ManChief facilities to Power LP on April 30, 2004.
- (2) Includes 100 per cent of volumes sold by, and the generation capacity of, Power LP (after eliminating intercompany transactions with TransCanada).
- (3) TransCanada, directly or indirectly, acquires 560 MW from Sundance A and 353 MW from Sundance B through long-term power purchase arrangements, which represent 100 per cent of the Sundance A and 50 per cent of the Sundance B power plant output, respectively.
- (4) Sales volumes in 2003 reflect TransCanada's 31.6 per cent share of Bruce Power output from the acquisition date of February 14, 2003.
- (5) 2004 excludes Bécancour (550 MW) and Grandview (90 MW) which were not in commercial service at Year End. 2003 excludes MacKay River (165 MW), Bécancour (550 MW), Grandview (90 MW) and Bruce, Unit 3 (237 MW) which were not in commercial service at December 31, 2003.
- (6) Excludes USGen generation capacity (518 MW, excluding the Bellows Falls facility), which TransCanada expects to acquire in 2005. Also excludes TransCanada's proportionate share of Cartier Wind Energy's generation capacity (458 MW) which is under development.

Regulation of Power

Deregulation of the power industry is proceeding at different stages throughout most of the markets in which TransCanada currently operates, which are primarily Alberta, Ontario and the northeastern U.S. In 2001, Alberta deregulated its generation assets and opened the market for retailers and wholesalers. In May 2002, the government of Ontario created a competitive, bid-based wholesale market for electricity in Ontario, a process that began with legislation first enacted under the *Electricity Act* in 1998. Later in 2002, after considerable volatility and rising prices under this new market, the government of Ontario instituted retail price caps, effectively shielding eligible customers from wholesale price volatility. After a change in government in Ontario, these retail caps were increased on April 1, 2004, to better reflect the cost of electricity. These caps do not directly affect the wholesale market in which TransCanada is primarily focused. In December 2004, the government of Ontario again restructured the Ontario markets by passing the *Electricity Restructuring Act*, 2004 ("ERA"). Among other things, the ERA places certain of the Ontario Power Generation Corporation's baseload nuclear and hydro generation assets under direct rate regulation by the Ontario Energy Board. Bruce Power was not affected by this legislation and remains a participant in the wholesale market in Ontario. Bruce Power is presently in discussions with a provincially appointed negotiator respecting the possible restart of Bruce Power's units 1 and 2. It is unclear whether these negotiations will result in any change to the commercial context in which Bruce Power operates. In addition, the ERA provides for a return to coordinated system planning by the newly created Ontario Power Authority ("OPA"), which is charged with managing the long-term supply of electricity in Ontario. The OPA will assume responsibility for procuring electricity supply through requests for proposals or otherwise, and will enter into new power purchase agreements with generators responding to procurement initiatives. It is possible that these and subsequent changes in Ontario's power industry, will have both positive and negative impacts on TransCanada's Ontario power operations.

TransCanada's investment in Ocean State Power and TransCanada's U.S. electric power marketing activities are subject to the jurisdiction of FERC under the U.S. *Federal Power Act*, as well as to the jurisdiction of certain state regulatory authorities in which the generation facilities are located. In 1998 and 1999, respectively, FERC began operation of competitive, bid-based wholesale power markets in New England and New York. These markets continue to evolve through consultation with government, regulators and market stakeholders. The northeastern markets in which TransCanada operates are converging in terms of structure with the recent adoption of Standard Market Design elements that have been defined by FERC.

Competition in Power

TransCanada's power business has operated and continues to operate in highly competitive markets with many participants that are driven mainly by price. TransCanada mitigates the effects of short-term changes in the market using various forms of hedging, including entering into fixed price forward sales. The quantity and term of such forward sales varies by region and depends on liquidity of markets in these regions. TransCanada also retains an amount of unsold generation capacity in order to preserve its flexibility in the short-term to manage TransCanada's portfolio of assets.

Further information about business risks in TransCanada's power business can be found in the MD&A under the heading "Risk Factors — Power" below and in the MD&A under the heading "Power — Business Risks".

Other Interests

Cancarb Limited

TransCanada owns Cancarb Limited, a world scale thermal carbon black manufacturing facility located in Medicine Hat, Alberta.

TransCanada Turbines

TransCanada owns a 50 per cent interest in TransCanada Turbines Ltd., a repair and overhaul business for aero-derivative industrial gas turbines. This business operates primarily out of facilities in Calgary, Alberta, with offices in Bakersfield, California; East Windsor, Connecticut and Liverpool, England.

TransCanada Calibrations

TransCanada owns an 80 per cent interest in TransCanada Calibrations Ltd., a gas meter calibration business certified by Measurement Canada, located at Ile des Chênes, Manitoba.

Discontinued Operations

Since 1999, TransCanada has focused on natural gas transmission and power generation in North America. During that time, TransCanada sold substantially all of its assets in the international, midstream, and oil and gas marketing businesses. For further information about Discontinued Operations please refer to the MD&A under the heading "Corporate — Discontinued Operations".

HEALTH, SAFETY AND ENVIRONMENT

TransCanada is committed to providing a safe and healthy environment for its employees and the public, and to the protection of the environment. Health, safety and environment ("HS&E") is a priority in all of TransCanada's operations. The HS&E Committee of TransCanada's Board of Directors ("Board") monitors compliance with the TransCanada HS&E corporate policy through regular reporting by TransCanada's department of Community, Safety & Environment. TransCanada's senior executives are also committed to ensuring TransCanada is in compliance with its policies and is an industry leader. Senior executives are regularly advised of all important operational issues and initiatives relating to HS&E by way of a formal reporting process. In addition, TransCanada's management system and performance in the HS&E area are assessed by an independent outside firm every three years or more often if the HS&E Committee requests it. The most recent assessment was completed by PricewaterhouseCoopers in January of 2004. These assessments involve senior executive interviews, review of policies and objectives, performance measurement and reporting.

TransCanada has an HS&E management system modeled after elements of the International Organization for Standardization's standard for environmental management systems which is known as ISO 14001, to facilitate the focus of resources on the areas of greatest risk to the organization's business activities relating to HS&E. It highlights opportunities for improvement, enables TransCanada to work towards defined HS&E expectations and objectives, and provides a competitive business advantage. HS&E outside, independent assessments, management system assessments and planned inspections are used to assess both the effectiveness of

implementation of HS&E programs, processes and procedures, and TransCanada's compliance with regulatory requirements.

TransCanada employs full-time staff dedicated to HS&E matters, and incorporates HS&E policies and principles into the planning, development, construction and operation of all its projects. Environmental protection requirements have not had a material impact on the capital expenditures of TransCanada to date; however, there can be no assurance that such requirements will not have a material impact on TransCanada's financial or operating results in future years. Such requirements can be dependent on a variety of factors including the regulatory environment in which TransCanada operates.

Environment

The most significant environmental issues facing TransCanada relate to climate change. Climate change is a strategic issue for TransCanada, particularly in light of the Canadian government's ratification of the Kyoto Protocol which came into force in February 2005 and requires Canada to reduce its greenhouse gas emissions significantly. The Canadian government is currently developing the policies relating to how it intends to meet these reduction targets and, until it is completed, TransCanada cannot predict the degree to which it will be affected. TransCanada has had a comprehensive climate change strategy in place since 1999, which includes five key areas of activity:

- Participation in policy forums;
- Implementation of direct emissions reduction programs;
- Assessment of new technology;
- Evaluation of emissions trading mechanisms; and
- Assessment of business opportunities.

Activities in each of these areas occurred in 2004 and will continue in 2005.

TransCanada received its sixth consecutive gold level reporting status for its 2004 Climate Change and Air Issues Annual Report from the Canadian Standards Association Canadian GHG Challenge Registry which was formerly the Voluntary Challenge and Registry ("VCR") program. To achieve gold level status, reports are rated in several categories. Only 12 per cent of the submissions to the registry have received gold level reporting recognition. In 2004, the VCR program was replaced with the Canadian GHG Challenge Registry as a result of the Canadian government passing legislation to mandate greenhouse gas emissions reporting.

LEGAL PROCEEDINGS

The Canadian Alliance of Pipeline Landowners' Association and two individual landowners have commenced an action under Ontario's *Class Proceedings Act*, 1992, against TransCanada and Enbridge Inc. for damages of \$500 million alleged to arise from the creation of a control zone within 30 metres of the pipeline pursuant to section 112 of the *National Energy Board Act*. TransCanada believes the claim is without merit and will vigorously defend the action. TransCanada has made no provision for any potential liability. A liability, if any, would be dealt with through the regulatory process.

TransCanada and its subsidiaries are subject to various other legal proceedings and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of TransCanada's management that the resolution of such proceedings and actions will not have a material impact on TransCanada's consolidated financial position or results of operations.

TRANSFER AGENT AND REGISTRAR

TransCanada's transfer agent and registrar is Computershare Trust Company of Canada with transfer facilities in the Canadian cities of Vancouver, Calgary, Winnipeg, Toronto, Montréal and Halifax.

INTEREST OF EXPERTS

TransCanada's auditor is KPMG LLP and as of March 1, 2005, the partners of KPMG LLP do not hold any registered or beneficial ownership, directly or indirectly, in the securities of TransCanada.

RISK FACTORS

A number of factors, including but not limited to those discussed in this section, could cause actual results or events to differ materially from current expectations.

TransCanada's businesses are highly complex and are dispersed over tens of thousands of square kilometres, often in remote locations. Pipeline and power facilities are subject to operational risks, including mechanical failure, physical degradation, operator error, manufacturer defects, labour disputes, terrorism, failure of supply, catastrophic events and natural disasters. The occurrence or continuation of such events could increase TransCanada's costs and reduce its ability to transport natural gas or generate power.

Gas Transmission

TransCanada faces competition in its gas transmission business at both the supply and market ends of its systems. The competition is a result of other pipelines accessing an increasingly mature WCSB and serving some of the same markets as TransCanada. In addition, the continued expiration of firm transportation contracts has resulted in significant reductions in firm contracted capacity on both the Canadian Mainline and Alberta System. As well, regulatory decisions continue to have significant impact on the financial returns for and future investments in TransCanada's Canadian wholly-owned pipelines.

Further information about competition risks in TransCanada's natural gas transmission business can be found under the heading "Business of TransCanada — Gas Transmission — Competition in Transmission" above and in the MD&A under the headings "Gas Transmission — Opportunities and Developments" and "Gas Transmission — Business Risks".

Power

TransCanada's power business and investments can be affected by a variety of factors including competition from other market participants, fluctuating market demand, reliance on the supply of feed stocks such as natural gas, wood waste, water, coal and uranium, fluctuating feed stock prices, fluctuating electricity prices, unexpected outages, third party power plant operator performance, power transmission disruptions and regulatory changes and influences.

Further information about competition risks in TransCanada's power business can be found under the headings "Business of TransCanada — Power — Competition in Power" above and in the MD&A under the heading "Power — Business Risks".

International

TransCanada's international investments are subject to a number of risks unique to international business. These risks include exchange controls and fluctuation of the local currency, political risk, community actions, changes in laws, price controls, the availability and quality of local labour skills, and labour unrest, among others. Such risks are mitigated by insurance policies, participation of local and foreign partners, prudent commercial structuring and other measures.

Corporate

TransCanada carries on its businesses with numerous counterparties with a wide range of creditworthiness. While processes are followed to address the creditworthiness of these counterparties, the failure of any

counterparty to meet its financial obligations could have an impact on TransCanada's financial position. Such failure could result from a number of factors beyond TransCanada's control, including (but not limited to) fluctuating energy prices, currency exchange and interest rates, changes in regulatory and economic environments, political instability and legally reviewable activities.

TransCanada operates primarily in Canada and the U.S. and as a result, its financial performance can be impacted by interest rates and foreign exchange rates. TransCanada has an active hedging program in place to address interest and foreign exchange rate risks, but there can be no assurance that such hedging will be adequate to address the risks.

TransCanada's growth strategy is dependent upon acquiring or constructing facilities and businesses that align with or complement its current businesses. TransCanada may incur costs in the pursuit of acquisitions or development of power or natural gas transmission assets that may not be completed. Failure by TransCanada to consummate negotiated acquisitions or new developments may result in contractual liabilities, liquidated damages, additional costs and expenses which could affect financial performance.

TransCanada's growth is also dependent on access to capital markets in the U.S. and Canada. Although significant credit facilities are currently available, changing market conditions could result in a materially increased cost of, or reduced access to capital which would reduce TransCanada's ability to pursue growth opportunities.

Further information about TransCanada's risk factors and risk management can be found in the MD&A under the headings "Gas Transmission — Business Risks", "Power — Business Risks" and "Risk Management".

DIVIDENDS

TransCanada has no formal dividend policy. The Board reviews the financial performance of TransCanada quarterly and makes a determination of the appropriate level of dividends to be declared in the following quarter. Currently, TransCanada's payment of dividends on its common shares is funded from dividends TransCanada receives as the sole shareholder of TCPL common shares. Provisions of various trust indentures and credit arrangements to which TCPL is a party, restrict TCPL's ability to declare and pay dividends to TransCanada, under certain circumstances and, if such restrictions apply, they may, in turn, have an impact on TransCanada's ability to declare and pay dividends on its common shares. In the opinion of TransCanada management, such provisions do not restrict or alter TransCanada's ability to declare or pay dividends.

The dividends declared per share during the past three completed financial years are set forth in the following table:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Dividends declared on common shares ⁽¹⁾	1.16	1.08	1.00

Note:

(1) Prior to May 15, 2003, dividends were paid by TCPL.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

TransCanada's authorized share capital consists of an unlimited number of common shares, of which approximately 484,914,324 were issued and outstanding at Year End, and an unlimited number of first preferred shares and second preferred shares issuable in series, of which none are outstanding. The following is a description of the material characteristics of each of these classes of shares.

Common Shares

The common shares entitle the holders thereof to one vote per share at all meetings of shareholders, except meetings at which only holders of another specified class of shares are entitled to vote, and, subject to the rights, privileges, restrictions and conditions attaching to the first preferred shares and the second preferred shares, whether as a class or a series, and to any other class or series of shares of TransCanada which rank prior to the

common shares, entitle the holders thereof to receive (i) dividends if, as and when declared by the Board out of the assets of TransCanada properly applicable to the payment of the dividends in such amount and payable at such times and at such place or places as the Board may from time to time determine and (ii) the remaining property of TransCanada upon a dissolution.

First Preferred Shares

Subject to certain limitations, the Board may, from time to time, issue first preferred shares in one or more series and determine for any such series, its designation, number of shares and respective rights, privileges, restrictions and conditions. The first preferred shares as a class, have, among others, provisions to the following effect.

The first preferred shares of each series shall rank on a parity with the first preferred shares of every other series, and shall be entitled to preference over the common shares, the second preferred shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends, the repayment of capital and the distribution of assets of TransCanada in the event of a liquidation, dissolution or winding up of TransCanada.

Except as provided by the Canada *Business Corporations Act* or as referred to below, the holders of the first preferred shares will not have any voting rights nor will they be entitled to receive notice of or to attend shareholders' meetings. The holders of any particular series of first preferred shares will, if the directors so determine prior to the issuance of such series, be entitled to such voting rights as may be determined by the directors if TransCanada fails to pay dividends on that series of preferred shares for any period as may be so determined by the directors.

The provisions attaching to the first preferred shares as a class may be modified, amended or varied only with the sanction of the holders of the first preferred shares as a class. Any such sanction to be given by the holders of the first preferred shares may be given by the affirmative vote of the holders of not less than 66⅔ per cent of the first preferred shares represented and voted at a meeting or adjourned meeting of such holders.

Second Preferred Shares

The rights, privileges, restrictions and conditions attaching to the second preferred shares are substantially identical to those attaching to the first preferred shares, except that the second preferred shares are junior to the first preferred shares with respect to the payment of dividends, repayment of capital and the distribution of assets of TransCanada in the event of a liquidation, dissolution or winding up of TransCanada.

RATINGS

TransCanada has not issued debt and is not rated. However, the following table sets out the credit ratings of outstanding classes of securities of TransCanada's subsidiary, TCPL, which has been rated:

<u>Overall</u>	<u>DBRS</u>	<u>Moody's</u>	<u>S&P</u>
Senior Secured Debt			
<i>First Mortgage Bonds</i>	A	A2	A
Senior Unsecured Debt			
<i>Debentures</i>	A	A2	A –
<i>Medium-term Notes</i>	A	A2	A –
Subordinated Debt	A (low)	A3	BBB+
Junior Subordinated Debt	Pfd-2	A3	BBB
Preferred Shares	Pfd-2 (low)	Baa1	BBB
Commercial Paper	R-1 (low)	P-1	—
Trend/Rating Outlook	Stable	Stable	Negative

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security 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 if, in its judgment, circumstances so warrant. A description of the rating agencies' credit ratings listed in the table above is set out below.

Dominion Bond Rating Service (DBRS)

DBRS has different rating scales for short and long-term debt and preferred shares. "High" or "low" grades are used to indicate the relative standing within a rating category. The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The R-1 (low) rating assigned to TransCanada's short-term debt is the third highest of ten rating categories and indicates satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. The A ratings assigned to TransCanada's senior secured and senior unsecured debt and the A (low) rating assigned to its subordinated debt are the third highest of ten categories for long-term debt. Long-term debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated entities. While a respectable rating, entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The Pfd-2 and Pfd-2 (low) ratings assigned to TransCanada's junior subordinated debt and preferred shares are the second highest of six rating categories for preferred shares. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial; however, earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies.

Moody's Investor Services (Moody's)

Moody's has different rating scales for short and long-term obligations. Numerical modifiers 1, 2 and 3 are applied to each rating classification, with 1 being the highest and 3 being the lowest. The P-1 rating assigned to TransCanada's short-term debt is the highest of four rating categories and indicates a superior ability to repay short-term debt obligations. The A2 ratings assigned to TransCanada's senior secured and senior unsecured debt and the A3 ratings assigned to its subordinated debt and junior subordinated debt are the third highest of nine rating categories for long-term obligations. Obligations rated A are considered upper-medium grade and are subject to low credit risk. The Baa1 rating assigned to TransCanada's preferred shares is the fourth highest of nine rating categories for long-term obligations. Obligations rated Baa are subject to moderate credit risk, are considered medium-grade, and as such, may possess certain speculative characteristics.

Standard & Poor's (S&P)

S&P has different rating scales for short and long-term obligations. Ratings may be modified by the addition of a plus (+) or minus (–) sign to show the relative standing within a particular rating category. The A and A– ratings assigned to TransCanada's senior secured and senior unsecured debt are the third highest of ten rating categories for long-term obligations. An A rating indicates the obligor's capacity to meet its financial commitment is strong; however, the obligation is somewhat susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. The BBB+ rating assigned to TransCanada's subordinated debt and the BBB ratings assigned to its junior subordinated debt and preferred shares are the fourth highest of ten rating categories for long-term obligations. An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

MARKET FOR SECURITIES

TransCanada's common shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE"). The following table sets forth the reported monthly high and low closing prices and monthly trading volumes of the common shares of TransCanada on the TSX for the period indicated:

Common Shares (TRP)

Month	High (\$)	Low (\$)	Volume Traded
December, 2004	30.35	28.51	18,175,381
November, 2004	29.52	27.00	17,243,717
October, 2004	28.31	26.98	21,415,001
September, 2004	28.60	27.11	29,869,649
August, 2004	27.72	26.28	14,911,517
July, 2004	26.79	25.37	17,985,303
June, 2004	27.30	25.70	21,550,578
May, 2004	28.39	26.92	19,232,179
April, 2004	29.40	26.31	29,357,948
March, 2004	29.72	27.60	39,732,275
February, 2004	27.83	26.47	27,926,798
January, 2004	28.43	26.45	22,784,477

In addition, the following securities of TransCanada's subsidiaries, TCPL and NGTL, are listed on the markets specified:

- TCPL's Cumulative Redeemable First Preferred Shares, Series U and Series Y are listed on the TSX;
- TCPL's 8.25% preferred securities due 2047, are listed on the NYSE;
- TCPL's 16.50% First Mortgage Pipe Line Bonds due 2007, are listed on the London Stock Exchange; and
- NGTL's 7.875% debentures due April 1, 2023, are listed on the NYSE.

DIRECTORS AND OFFICERS

As of March 7, 2005, the directors and executive officers of TransCanada as a group beneficially owned, directly or indirectly, or exercised control or direction over, 2,601,214 common shares of TransCanada and 19,800 units of Power LP, which constitutes less than one per cent of TransCanada's common shares and less than one per cent of the voting securities of any of its subsidiaries or affiliates. TransCanada collects this information from its directors and officers but otherwise has no direct knowledge of individual holdings of its securities. Further information as to securities beneficially owned, or over which control or direction is exercised, is provided in TransCanada's Management Proxy Circular dated March 1, 2005 ("*Proxy Circular*") under the heading "Business To Be Transacted at the Meeting — Election of Directors". See also "Additional Information" in this AIF.

Directors

Set forth below are the names of the twelve directors who served on TransCanada's Board at Year End, together with their jurisdictions of residence, all positions and offices held by them with TransCanada and its significant affiliates, their principal occupations or employment during the past five years and the year from which each

director has continually served as a director of TransCanada and, prior to the arrangement, with TCPL. Positions and offices held with TransCanada are also held by such person at TCPL.

<u>Name and Place of Residence</u>	<u>Principal Occupation During The Five Preceding Years</u>	<u>Director Since</u>
Douglas D. Baldwin Calgary, Alberta Canada	Chairman, Talisman Energy Inc., (oil and gas) since May 2003. President and Chief Executive Officer, TCPL, from August 1999 to April 2001. Director, Calgary Airport Authority, Citadel Group of Funds, Resolute Energy Inc. and UTS Energy Corporation. Member, Board of Governors, University of Calgary.	1999
Wendy K. Dobson Uxbridge, Ontario Canada	Professor, Rotman School of Management and Director, Institute for International Business, University of Toronto (education). Director, MDS Inc., Toronto-Dominion Bank and Vice Chair, Canadian Public Accountability Board.	1992
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C. Québec, Québec Canada	Senior Partner, Desjardins Ducharme Stein Monast (law firm). Director, Royal Bank of Canada, The Royal Trust Corporation of Canada, The Royal Trust Company, Rothmans Inc. and Metro Inc. Chair, Security Intelligence Review Committee. President, Fondation de la Maison Michel Sarrazin and President, Institut Québécois des Hautes Études Internationales, Laval University.	2002
Richard F. Haskayne, O.C., F.C.A. Calgary, Alberta Canada	Chairman of the Board, TransCanada and TCPL. Prior to February 19, 2003, Chairman, Fording Inc. (coal and wollastonite). Director, EnCana Corporation and Weyerhaeuser Company.	1998 (NOVA, 1991) ⁽¹⁾
Kerry L. Hawkins Winnipeg, Manitoba Canada	President, Cargill Limited (grain handlers, merchants, transporters, processors of agricultural products and gas marketers). Director, NOVA Chemicals Corporation, Shell Canada Limited and Hudson's Bay Company.	1996
S. Barry Jackson Calgary, Alberta Canada	Chairman, Resolute Energy Inc. (oil and gas) since 2002 and Chairman, Deer Creek Energy Limited (oil and gas) since 2001. President and Chief Executive Officer, Crestar Energy Inc. (oil and gas) from 1993 to 2000. Director, Nexen Inc.	2002
Paul L. Joskow Brookline, Massachusetts United States	Professor, Department of Economics, Massachusetts Institute of Technology (MIT) (education). Director of the MIT Center for Energy and Environmental Policy Research. Director, National Grid Transco plc. Trustee, Putnam Mutual Funds and President, Yale University Council.	2004

<u>Name and Place of Residence</u>	<u>Principal Occupation During The Five Preceding Years</u>	<u>Director Since</u>
Harold N. Kvisle ⁽²⁾ Calgary, Alberta Canada	President and Chief Executive Officer, TransCanada since May 2003 and TCPL since May 2001. Executive Vice-President, Trading and Business Development, TCPL, from June 2000 to April 2001. Senior Vice-President, Trading and Business Development, TCPL, from April 2000 to June 2000. Senior Vice-President and President, Energy Operations, TCPL, from September 1999 to April 2000. Director, PrimeWest Energy Inc. and Bank of Montreal. Past Chair, Interstate National Gas Association of America (INGAA) and Chair, Mount Royal College.	2001
David P. O'Brien ⁽³⁾ Calgary, Alberta Canada	Chairman, EnCana Corporation (oil and gas) since April 2002 and Chairman, Royal Bank of Canada (banking) since February 2004. Chairman and Chief Executive Officer, PanCanadian Energy Corporation (oil and gas) from October 2001 to April 2002. Chairman, President and Chief Executive Officer, Canadian Pacific Limited (transportation, energy and hotels) from May 1996 to October 2001. Director, Fairmont Hotels & Resorts Inc., Inco Limited, Molson Coors Brewing Company, Profico Energy Management Ltd. and The E & P Limited Partnership.	2001
James R. Paul Kingwood, Texas United States	Chairman, James and Associates (private investment firm). Member of the Advisory Board, AMEC plc.	1996
Harry G. Schaefer, F.C.A. Calgary, Alberta Canada	President, Schaefer & Associates (business advisory services). Vice-Chairman of the Board, TransCanada and TCPL. Chairman, Crestar Energy Inc. (oil and gas) from May 1996 to November 2000. Director, Agrium Inc. and Fording Canadian Coal Trust. Chairman, Alberta Chapter, Institute of Corporate Directors, Fellow, Institute of Corporate Directors and Director, The Mount Royal College Foundation.	1987
W. Thomas Stephens Boise, Idaho United States	Chairman and Chief Executive Officer, Boise Cascade LLC since November 2004. Director, The Putnam Funds.	1999

Notes:

- (1) NOVA Corporation merged with TCPL on July 2, 1998.
- (2) Mr. Kvisle will not stand for re-election as a director of Norske Skog Canada Limited at its April 27, 2005 annual meeting. Mr. Kvisle was elected to the Bank of Montreal's Board of Directors on February 22, 2005.
- (3) Mr. O'Brien was a director of Air Canada on April 1, 2003 when Air Canada filed for protection under the *Companies' Creditors Arrangement Act* (Canada). Mr. O'Brien resigned as a director from Air Canada in November 2003.

Each director holds office until the next annual meeting or until his or her successor is earlier elected or appointed. Mr. Haskayne and Mr. Paul will be retiring from their respective positions on the Board on April 29, 2005. Mr. Jackson has been designated as the next Chair of the Board and will succeed Mr. Haskayne as Chair upon his retirement on April 29, 2005.

Officers

All of the executive officers and corporate officers of TransCanada reside in Calgary, Alberta, Canada. References to positions and offices with TransCanada prior to May 15, 2003 are references to the positions and offices held with TCPL. Current positions and offices held with TransCanada are also held by such person at TCPL. As of the date hereof, the officers of TransCanada, their present positions within TransCanada and their principal occupations during the five preceding years are as follows:

Executive Officers

<u>Name</u>	<u>Present Position Held</u>	<u>Principal Occupation During the Five Preceding Years</u>
Harold N. Kvisle	President and Chief Executive Officer	Executive Vice-President, Trading and Business Development, June 2000 to April 2001. Senior Vice-President, Trading and Business Development, April 2000 to June 2000. Senior Vice-President and President, Energy Operations, September 1999 to April 2000.
Albrecht W.A. Bellstedt, Q.C. ⁽¹⁾	Executive Vice-President, Law and General Counsel	Senior Vice-President, Law and General Counsel, April 2000 to June 2000. Senior Vice-President, Law and Administration, September 1999 to April 2000.
Russell K. Girling	Executive Vice-President, Corporate Development and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, June 2000 to March 2003. Senior Vice-President and Chief Financial Officer, August 1999 to June 2000.
Dennis J. McConaghy	Executive Vice-President, Gas Development	Senior Vice-President, Business Development, October 2000 to May 2001. Senior Vice-President, Midstream/Divestments, June 2000 to October 2000. Prior to June 2000 Vice-President, Corporate Strategy and Planning.
Alexander J. Pourbaix	Executive Vice-President, Power	Executive Vice-President, Power Development, May 2001 to March 2003. Senior Vice-President, Power Ventures, June 2000 to May 2001. Prior to June 2000, Vice-President, Corporate Development, Power Services.
Sarah E. Raiss	Executive Vice-President, Corporate Services	Executive Vice-President, Human Resources and Public Sector Relations, June 2000 to January 2002. Senior Vice-President, Human Resources and Public Sector Relations, February 2000 to June 2000.

<u>Name</u>	<u>Present Position Held</u>	<u>Principal Occupation During the Five Preceding Years</u>
Ronald J. Turner	Executive Vice-President, Gas Transmission	Executive Vice-President, Operations and Engineering, December 2000 to March 2003. Executive Vice-President, International, June 2000 to December 2000. Prior to June 2000, Senior Vice-President, International.
Donald M. Wishart	Executive Vice-President, Operations and Engineering	Senior Vice-President, Field Operations, June 2000 to March 2003. August 1999 to June 2000, Senior Vice-President, Operations, Transmission Division.

Note:

- (1) Mr. Bellstedt, who served as a trustee of Atlas Cold Storage Income Trust, was subject to an Ontario Securities Commission cease trade order issued in respect of all insiders of Atlas Cold Storage Income Trust on December 2, 2003 and arose because of late filed financial statements required to reflect certain re-statements. The cease trade order was rescinded in January 2004.

Corporate Officers

<u>Name</u>	<u>Present Position Held</u>	<u>Principal Occupation During the Five Preceding Years</u>
Ronald L. Cook	Vice-President, Taxation	Prior to April 2002, Director, Taxation.
Rhondda E.S. Grant	Vice-President, Communications and Corporate Secretary	Prior to February 2005, Vice-President and Corporate Secretary.
Lee G. Hobbs	Vice-President and Controller	Prior to August, 2001, Director, Accounting.
Garry E. Lamb	Vice-President, Risk Management	Vice-President, Audit and Risk Management, June 2000 to October 2001. Vice-President, Risk Management, February 2000 to June 2000.
Donald R. Marchand	Vice-President, Finance and Treasurer	Vice-President, Finance and Treasurer

CORPORATE GOVERNANCE

The Board and members of TransCanada's management are committed to the highest standards of corporate governance. TransCanada is subject to a variety of corporate governance guidelines and requirements enacted by the TSX, the Canadian Securities Administrators ("CSA"), the NYSE, and by the U.S. Securities and Exchange Commission ("SEC") under its rules and those mandated by the U.S. *Sarbanes-Oxley Act* of 2002 ("SOX"). TransCanada's corporate governance practices comply with the TSX Company Manual Corporate Governance Guidelines, governance rules of the NYSE applicable to foreign issuers and applicable requirements of the CSA and SEC. As a non-U.S. company, TransCanada is not required to comply with most of the NYSE corporate governance listing standards applicable to U.S. domestic issuers. TransCanada discloses the significant ways in which its corporate governance practices differ from those followed by domestic companies listed on the NYSE, on its website at www.transcanada.com. TransCanada is in compliance with the CSA's Multilateral Instrument 52-110 pertaining to audit committees, as proposed to be amended. TransCanada is also in substantial compliance with the proposed corporate governance guidelines and proposed disclosure of corporate governance practice rules, both released for comment by the CSA on October 29, 2004. Full disclosure of TransCanada's corporate governance practices are set out in TransCanada's Proxy Circular. TransCanada's corporate governance documents, are available on TransCanada's website located at: http://www.transcanada.com/company/board_committees.html.

Audit Committee

TransCanada has an Audit Committee which is responsible for assisting the Board in overseeing the integrity of TransCanada's financial statements and compliance with legal and regulatory requirements and in ensuring the independence and performance of TransCanada's internal and external auditors. The members of the Audit Committee at Year End are Harry G. Schaefer (Chair), Douglas D. Baldwin, Paule Gauthier, S. Barry Jackson and Paul L. Joskow.

The Board believes that the composition of the Audit Committee reflects a high level of financial literacy and expertise. Each member of the Audit Committee has been determined by the Board to be "independent" and "financially literate" within the meaning of the definitions under Canadian and U.S. securities laws and the NYSE rules. In addition, the Board has determined that Mr. Schaefer is an "Audit Committee Financial Expert" as that term is defined under U.S. securities laws. The Board has made these determinations based on the education and breadth and depth of experience of each member of the Audit Committee. The following is a description of the education and experience, apart from their respective roles as directors of TransCanada, of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee:

Mr. Schaefer earned a Bachelor of Commerce from the University of Alberta, is a Chartered Accountant and is a Fellow of the Canadian Institute of Chartered Accountants. He has served on the boards of several public companies and other organizations, including as Chairman of the Alberta Chapter of the Institute of Corporate Directors, and on the Audit Committees of some of those boards. Mr. Schaefer has also held several executive positions with public companies.

Mr. Baldwin earned a Bachelor of Science in Chemical Engineering from the University of Saskatchewan. He has served on the boards of several public companies and other organizations and on the Audit Committees of some of those boards. Mr. Baldwin has also held several executive positions with public companies, including the position of President and Chief Executive Officer of both Esso Resources Canada Limited and TCPL.

Ms. Gauthier earned a Bachelor of Arts from the Collège Jésus-Marie de Sillery, a Bachelor of Laws from Laval University and a Master of Laws in Business Law (Intellectual Property) from Laval-University. She has served on the boards of several public companies and other organizations and on the Audit Committees of some of those boards.

Mr. Jackson earned a Bachelor of Science in Engineering from the University of Calgary. He has served on the boards of several public companies and on the Audit Committees of some of those boards. Mr. Jackson has also held several executive positions with public companies, including the position of President and Chief Executive Officer of Crestar Energy Inc.

Mr. Joskow earned a Bachelor of Arts with Distinction in Economics from Cornell University, a Masters of Philosophy in Economics from Yale University, and Ph.D. in Economics from Yale University. He has served on the boards of several public companies and other organizations and on the Audit Committees of some of those.

The Charter of the Audit Committee can be found in Schedule "B" of this AIF and on TransCanada's website under the Corporate Governance — Board Committees page, at the link specified above under the heading "Corporate Governance".

Pre-Approval Policies and Procedures

TransCanada's Audit Committee has adopted a pre-approval policy with respect to permitted non-audit services. Under the policy, the Audit Committee has granted pre-approval for specified non-audit services of \$25,000 or less that are within the annual pre-approved limit for non-audit services. For engagements of \$25,000 or less which are not within the annual pre-approved limit, and for engagements between \$25,000 and \$100,000, approval of the Audit Committee chair is required and the Audit Committee is to be informed of the engagement at the next scheduled Audit Committee meeting. For all engagements of \$100,000 or more, pre-approval of the Audit Committee is required. In all cases, regardless of the dollar amount involved, where there is a potential for conflict of interest involving the external auditor on an engagement, the Audit Committee chair must pre-approve the assignment.

To date, TransCanada has not approved any non-audit services on the basis of the de-minimis exemptions. All non-audit services have been pre-approved by the Audit Committee in accordance with the pre-approval policy described above.

External Auditor Service Fees

The aggregate fees for external auditor services rendered by KPMG LLP (“*External Auditor*”) for TransCanada in each of 2004 and 2003 fiscal years, are shown in the table below:

<u>Fee Category</u>	<u>2004</u>	<u>2003</u>	<u>Description of Fee Category</u>
	(millions of dollars)		
Audit Fees	2.50	1.80	Aggregate fees for audit services rendered by TransCanada’s External Auditor.
Audit Related Fees	0.06	0.05	Aggregate fees for assurance and related services rendered by TransCanada’s External Auditor that are reasonably related to performance of the audit or review of TransCanada’s financial statements and are not reported as Audit Fees. The nature of services comprising these fees related to the audit of the financial statements of TransCanada’s various pension plans.
Tax Fees	0.06	0.06	Aggregate fees rendered by TransCanada’s External Auditor for tax compliance and tax advice. The nature of these services consisted of: tax compliance including the review of original and amended tax returns; assistance with questions regarding tax audits; assistance in completing routine tax schedules and calculations; and tax services relating to common forms of domestic and international taxation (i.e.: income tax, capital tax, Goods and Services Tax and Value Added Tax).
All Other Fees	0.05	0.05	Aggregate fees for products and services other than those reported in this table above rendered by TransCanada’s External Auditor. The nature of these services consisted of activities with respect to TransCanada’s compliance with SOX and particularly, with section 404.
Total	2.67	1.96	

Other Board Committees

In addition to the Audit Committee, TransCanada has three other Board committees: the Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee. The members of each of these committees as of Year End are identified below:

Governance Committee

Chair: W.K. Dobson
Members: P.L. Joskow
D.P. O’Brien
J.R. Paul
H.G. Schaefer

Health, Safety & Environment Committee

Chair: D.D. Baldwin
Members: P. Gauthier
K.L. Hawkins
J.R. Paul
W.T. Stephens

Human Resources Committee

Chair: K.L. Hawkins

Members: W.K. Dobson

S.B. Jackson

D.P. O'Brien

W.T. Stephens

The charters of the Governance Committee, the Health, Safety & Environment Committee and the Human Resources Committee were filed with TransCanada's 2003 Annual Information Form dated February 24, 2004 and can be found on TransCanada's website under the Corporate Governance — Board Committees page at the link specified below.

Further information about TransCanada's Board committees and corporate governance can be found in the Proxy Circular under the heading "Corporate Governance" or on TransCanada's website located at: http://www.transcanada.com/company/board_committees.html.

Conflicts of Interest

The Board and members of TransCanada's management are not aware of any existing or potential material conflicts of interest between TransCanada or a subsidiary and any director or officer of TransCanada or its subsidiary. Directors and officers of TransCanada and its subsidiaries are required to disclose the existence of existing or potential conflicts in accordance with TransCanada policies governing directors and officers and in accordance with the *Canada Business Corporations Act*. If a director or officer has such a conflict, TransCanada requires that the director or officer absent themselves from any discussion or voting relating to the matter giving rise to the material existing or potential conflict.

ADDITIONAL INFORMATION

1. Additional information in relation to TransCanada may be found on SEDAR at www.sedar.com.
2. Additional information including directors' and officers' remuneration and indebtedness, principal holders of TransCanada's securities and securities authorized for issuance under equity compensation plans (all where applicable), is contained in TransCanada's Proxy Circular for its most recent annual meeting of shareholders that involved the election of directors and can be obtained upon request from the Corporate Secretary of TransCanada.
3. Additional financial information is provided in TransCanada's Audited Consolidated Financial Statements and MD&A for its most recently completed financial year.

GLOSSARY

AIF	— Annual Information Form of TransCanada Corporation dated March 7, 2005
Alberta System	— A natural gas transmission system throughout the province of Alberta
Annual Report	— TransCanada's Annual Report to Shareholders for the year ended, December 31, 2004
APG	— Aboriginal Pipeline Group or Mackenzie Valley Aboriginal Pipeline L.P.
Bcf	— Billion cubic feet
BC System	— A natural gas transmission system in southeastern B.C.
Bécancour Plant	— A power plant near Trois-Rivières, Québec
Board	— TransCanada's Board of Directors
Bruce Power	— Bruce Power L.P.
Canadian Mainline	— A natural gas pipeline system running from the Alberta border east to delivery points in eastern Canada and along the U.S. border
CSA	— Canadian Securities Administrators
ERA	— <i>Electricity Restructuring Act</i> , 2004
EUB	— Alberta Energy and Utilities Board
External Auditor	— KPMG LLP
FERC	— Federal Energy Regulatory Commission (USA)
Foothills	— Foothills Pipe Lines Ltd.
Foothills System	— A natural gas pipeline system in southeastern B.C., southern Alberta and southwestern Saskatchewan
Gas Pacifico	— Gasoducto del Pacifico
GCOC	— Generic cost of capital
GRA	— General rate application
Grandview Plant	— A power plant in Saint John, New Brunswick
Great Lakes System	— A natural gas pipeline system in the north central U.S., roughly parallel to the Canada-U.S. Border
GTN System	— A natural gas transmission system running from northwestern Idaho, through Washington and Oregon to California
HS&E	— Health, Safety and Environment
Iroquois System	— A natural gas pipeline system in New York
LNG	— Liquefied Natural Gas
Mackenzie Producers	— Mackenzie Delta Producers Group
MD&A	— TransCanada's Management's Discussion and Analysis dated March 1, 2005
Mmcf/d	— Million British thermal units per day
MW	— Megawatts
NBP L.P.	— Northern Border Partners, L.P.
NEB	— National Energy Board (Canada)
NEGT	— National Energy & Gas Transmission, Inc.
NGTL	— NOVA Gas Transmission Ltd.
North Baja System	— A natural gas pipeline system in southeastern California
Northern Border Pipeline	— Northern Border Pipeline Company
NYSE	— New York Stock Exchange
OPG	— Ontario Power Generation Inc.
Portland	— Portland Natural Gas Transmission System Partnership
Power LP	— TransCanada Power, L.P.
Proxy Circular	— TransCanada's Management Proxy Circular dated March 1, 2005
psi	— Pounds per square inch
ROE	— Return on common equity
SEC	— U.S. Securities and Exchange Commission
Shell	— Shell US Gas & Power LLC
Simmons Pipeline System	— A natural gas pipeline system in northeastern Alberta
SOX	— U.S. <i>Sarbanes-Oxley Act</i> of 2002

Tcf — Trillion cubic feet
TCPL — TransCanada PipeLines Limited
TQM — Trans Québec & Maritimes Pipeline Inc.
TQM System — A natural gas pipeline system in southeastern Québec
TransCanada — TransCanada Corporation
TSX — Toronto Stock Exchange
Tuscarora — Tuscarora Gas Transmission Company
USGen — US Gen New England, Inc.
VCR — Voluntary Challenge and Registry
WCSB — Western Canada Sedimentary Basin
Year End — December 31, 2004

SCHEDULE “A”

Exchange Rate of the Canadian Dollar

All dollar amounts in the AIF are in Canadian dollars, except where otherwise indicated. The following table shows the yearly high and low noon rates, the yearly average noon rates and the year-end noon spot rates for the U.S. dollar for the past five years, each expressed in Canadian dollars, as reported by the Bank of Canada.

	Year Ended				
	2004	2003	2002	2001	2000
Yearly High Noon Rate	1.3968	1.5747	1.6132	1.6021	1.5593
Yearly Low Noon Rate	1.1774	1.2924	1.5110	1.4936	1.4341
Yearly Average Noon Rate	1.3016	1.4014	1.5703	1.5484	1.4852
Year-End Noon Rate	1.2036	1.2924	1.5796	1.5926	1.5002*

* Year end noon rate for 2000 is as at December 29, 2000.

On March 7, 2005, the noon rate for the U.S. dollar as reported by the Bank of Canada was US \$1.00 = Cdn. \$1.2293.

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.

Metric	Imperial	Factor
Kilometres	Miles	0.62
Millimetres	Inches	0.04
Gigajoules	Million British thermal units	0.95
Cubic metres*	Cubic feet	35.3
Kilopascals	Pounds per square inch	0.15
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 degrees Celsius.

SCHEDULE “B”

CHARTER OF THE AUDIT COMMITTEE

PART 1

Establishment of Committee and Procedures

1. Committee

A Committee of the Directors to be known as the “Audit Committee” is established. The Committee shall assist the Board of Directors (the “Board”) in overseeing, among other things, the integrity of the financial statements of the Company, the compliance by the Company with legal and regulatory requirements and the independence and performance of the Company’s internal and external auditors.

2. Composition of Committee

The Committee shall consist of not less than three and not more than seven Directors, a majority of whom are resident Canadians (as defined in the Canada Business Corporations Act), and all of whom are unrelated and/or independent as defined in the applicable requirements of relevant securities legislation and the applicable rules of any stock exchange on which the Company’s securities are listed for trading. Each member of the Committee shall be financially literate and at least one member shall have accounting or related financial management expertise (as those terms are defined from time to time under the requirements or guidelines for audit committee service under securities laws and the applicable rules of any stock exchange on which the Company’s securities are listed for trading or, if it is not so defined as that term is interpreted by the Board in its business judgment).

3. Appointment of Committee Members

The members of the Committee shall be appointed by the Board on the recommendation of the Governance Committee. The members of the Committee shall be appointed as soon as practicable following each annual meeting of Shareholders, and shall hold office until the next annual meeting, or until their successors are earlier appointed, or until they cease to be Directors of the Company.

4. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board on the recommendation of the Governance Committee and shall be filled by the Board if the membership of the Committee is less than three Directors or if the Committee ceases to meet the requirements for audit committees as provided under securities laws and the rules of any stock exchange upon which the Company’s shares are listed for trading.

5. Committee Chair

The Board shall appoint a Chair for the Committee.

6. Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside at the meeting.

7. Secretary of Committee

The Committee shall appoint a Secretary who need not be a Director of the Company.

8. Meetings

The Chair, or any two members of the Committee, or the internal auditor, or the external auditors may call a meeting of the Committee. The Committee shall meet at least quarterly. The Committee shall meet periodically with management, the internal auditors and the external auditors in separate executive sessions.

9. Quorum

A majority of the members of the Committee, present in person or by telephone or other telecommunication device that permit all persons participating in the meeting to speak to each other, shall constitute a quorum.

10. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

11. Attendance of Company Officers and Employees at Meeting

At the invitation of the Chair of the Committee, one or more officers or employees of the Company may attend any meeting of the Committee.

12. Procedure, Records and Reporting

The Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate but not later than the next meeting of the Board.

13. Review of Charter and Evaluation of Committee

The Committee shall review its Charter annually or otherwise, as it deems appropriate, and if necessary propose changes to the Governance Committee and the Board. The Committee shall annually review the Committee's own performance.

14. Outside Experts and Advisors

The Committee, and on behalf of the Committee, the Committee Chair, is authorized when deemed necessary or desirable to retain independent counsel, outside experts and other advisors, at the Company's expense, to advise the Committee independently on any matter.

15. Reliance

Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to the Company and its subsidiaries.

PART II

Specific Mandate of Committee

16. Appointment of the Company's External Auditors

Subject to confirmation by the external auditors of their compliance with Canadian and U.S. regulatory registration requirements, the Committee shall recommend to the Board the appointment of the external auditors, such appointment to be confirmed by the Company's shareholders at each annual meeting. The Committee shall also recommend to the Board the compensation to be paid to the external auditors for audit services and shall pre-approve the retention of the external auditors for any permitted non-audit service and the fees for such service. The Committee shall also be directly responsible for the oversight of the work of the external auditor (including resolution of disagreements between management and the external auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The external auditor shall report directly to the Committee.

The Committee shall also receive periodic reports from the external auditors regarding the auditors' independence, discuss such reports with the auditors, consider whether the provision of non-audit services is compatible with maintaining the auditors' independence and the Committee shall take appropriate action to satisfy itself of the independence of the external auditors.

17. Oversight in Respect of Financial Disclosure

The Committee to the extent it deems it necessary or appropriate shall:

- (a) review, discuss with management and the external auditors and recommend to the Board for approval, the Company's audited annual financial statements, annual information form including management discussion and analysis, all financial statements in prospectuses and other offering memoranda, financial statements required by regulatory authorities, all prospectuses and all documents which may be incorporated by reference into a prospectus, including without limitation, the annual proxy circular, but excluding any pricing supplements issued under a medium term note prospectus supplement of the Company;
- (b) review, discuss with management and the external auditors and recommend to the Board for approval the release to the public of the Company's interim reports, including the financial statements, management discussion and analysis and press releases on quarterly financial results;
- (c) review and discuss with management and external auditors the use of "pro forma" or "adjusted" non-GAAP information and the applicable reconciliation;
- (d) review and discuss with management and external auditors financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made). The Committee need not discuss in advance each instance in which the Company may provide earnings guidance or presentations to rating agencies;
- (e) review annual and quarterly financial statements and annual disclosure documents of NOVA Gas Transmission Ltd. ("NGTL");
- (f) review with management and the external auditors major issues regarding accounting and auditing principles and practices, including any significant changes in the Company's selection or application of accounting principles, as well as major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies that could significantly affect the Company's financial statements;
- (g) review and discuss quarterly reports from the external auditors on:
 - (i) all critical accounting policies and practices to be used;

- (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;
 - (iii) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences;
- (h) review with management and the external auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements;
- (i) review with management, the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;
- (j) review disclosures made to the Committee by the Company's CEO and CFO during their certification process for the periodic reports filed with securities regulators about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls;
- (k) discuss with management the Company's material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies;

18. Oversight in Respect of Legal and Regulatory Matters

- (a) review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies;

19. Oversight in Respect of Internal Audit

- (a) review the audit plans of the internal auditors of the Company including the degree of coordination between such plan and that of the external auditors and the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control, fraud or other illegal acts;
- (b) review the significant findings prepared by the internal auditing department and recommendations issued by the Company or by any external party relating to internal audit issues, together with management's response thereto;
- (c) review compliance with the Company's policies and avoidance of conflicts of interest;
- (d) review the adequacy of the resources of the internal auditor to ensure the objectivity and independence of the internal audit function, including reports from the internal audit department on its audit process with associates and affiliates;
- (e) ensure the internal auditor has access to the Chair of the Committee and of the Board and to the Chief Executive Officer and meet separately with the internal auditor to review with him any problems or difficulties he may have encountered and specifically:
 - (i) any difficulties which were encountered in the course of the audit work, including restrictions on the scope of activities or access to required information, and any disagreements with management;
 - (ii) any changes required in the planned scope of the internal audit; and
 - (iii) the internal audit department responsibilities, budget and staffing;
 and to report to the Board on such meetings;
- (f) bi-annually review officers' expenses and aircraft usage reports;

20. Oversight in Respect of the External Auditors

- (a) review the annual post-audit or management letter from the external auditors and management's response and follow-up in respect of any identified weakness, inquire regularly of management and the external auditors of any significant issues between them and how they have been resolved, and intervene in the resolution if required;
- (b) review the quarterly unaudited financial statements with the external auditors and receive and review the review engagement reports of external auditors on unaudited financial statements of the Company and NGTL;
- (c) receive and review annually the external auditors' formal written statement of independence delineating all relationships between itself and the Company;
- (d) meet separately with the external auditors to review with them any problems or difficulties the external auditors may have encountered and specifically:
 - (i) any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management; and
 - (ii) any changes required in the planned scope of the audit;and to report to the Board on such meetings;
- (e) review with the external auditors the adequacy and appropriateness of the accounting policies used in preparation of the financial statements;
- (f) meet with the external auditors prior to the audit to review the planning and staffing of the audit;
- (g) receive and review annually the external auditors' written report on their own internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, and any steps taken to deal with such issues;
- (h) review and evaluate the external auditors, including the lead partner of the external auditor team;
- (i) ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law;

21. Oversight in Respect of Audit and Non-Audit Services

- (a) pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all permitted non-audit services, other than non-audit services where:
 - (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than 5% of the total fees paid by the Company and its subsidiaries to the external auditor during the fiscal year in which the non-audit services are provided;
 - (ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and
 - (iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee;
- (b) approval by the Committee of a non-audit service to be performed by the external auditor shall be disclosed as required under securities laws and regulations;
- (c) the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection. The decisions of any member to whom authority is

delegated to pre-approve an activity shall be presented to the Committee at its first scheduled meeting following such pre-approval;

- (d) if the Committee approves an audit service within the scope of the engagement of the external auditor, such audit service shall be deemed to have been pre-approved for purposes of this subsection;

22. Oversight in Respect of Certain Policies

- (a) review and recommend to the Board for approval policy changes and program initiatives deemed advisable by management or the Committee with respect to the Company's codes of business conduct and ethics;
- (b) obtain reports from management, the Company's senior internal auditing executive and the external auditors and report to the Board on the status and adequacy of the Company's efforts to ensure its businesses are conducted and its facilities are operated in an ethical, legally compliant and socially responsible manner, in accordance with the Company's codes of business conduct and ethics;
- (c) establish a non-traceable, confidential and anonymous system by which callers may ask for advice or report any ethical or financial concern, ensure that procedures for the receipt, retention and treatment of complaints in respect of accounting, internal controls and auditing matters are in place, and receive reports on such matters as necessary;
- (d) annually review and assess the adequacy of the Company's public disclosure policy;
- (e) review and approve the Company's hiring policies for employees or former employees of the external auditors (recognizing the Sarbanes-Oxley Act of 2002 does not permit the CEO, controller, CFO or chief accounting officer to have participated in the Company's audit as an employee of the external auditors' during the preceding one-year period) and monitor the Company's adherence to the policy;

23. Oversight in Respect of Pension Matters

- (a) consider and in accordance with regulatory requirements approve any changes in the Company's pension plans having to do with financial matters after consultation with the Human Resources Committee in respect of any effect such a change may have on pension benefits;
- (b) review and consider financial and investment reports relating to the Company's pension plans;
- (c) appoint and terminate the engagement of investment managers with respect to the Company's pension plans;
- (d) receive, review and report to the Board on the actuarial valuation and funding requirements for the Company's pension plans;

24. Oversight in Respect of Internal Administration

- (a) review annually the reports of the Company's representatives on certain audit committees of subsidiaries and affiliates of the Company and any significant issues and auditor recommendations concerning such subsidiaries and affiliates;
- (b) review the succession plans in respect of the Chief Financial Officer, the Vice President, Risk Management and the Director, Internal Audit;
- (c) review and approve guidelines for the Company's hiring of employees or former employees of the external auditors who were engaged on the Company's account;

25. Oversight Function

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles

and applicable rules and regulations. These are the responsibilities of management and the external auditors. The Committee, its Chair and any of its members who have accounting or related financial management experience or expertise, are members of the Board, appointed to the Committee to provide broad oversight of the financial disclosure, financial risk and control related activities of the Company, and are specifically not accountable nor responsible for the day to day operation of such activities. Although designation of a member or members as an “audit committee financial expert” is based on that individual’s education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, designation as an “audit committee financial expert” does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of any audit committee financial expert, like the role of all Committee members, is to oversee the process and not to certify or guarantee the internal or external audit of the Company’s financial information or public disclosure.