TransCanada

# TRANSCANADA CORPORATION

# ANNUAL INFORMATION FORM

February 22, 2007

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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, 2006 ("*Year End*"). Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles.

Unless the context indicates otherwise, a reference in this AIF to "TransCanada" or the "Company" includes TransCanada Corporation and the subsidiaries of TransCanada Corporation 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, with reference to TransCanada means direct and indirect wholly-owned subsidiaries of, and entities controlled by, TransCanada or TCPL, as applicable.

TransCanada's Management's Discussion and Analysis dated February 22, 2007 ("*MD&A*") is incorporated by reference into this AIF and can be found on SEDAR at www.sedar.com under TransCanada's profile.

Information relating to metric conversion can be found at Schedule "A" to this AIF.

## FORWARD-LOOKING INFORMATION

This AIF, the documents incorporated by reference into this AIF, and other reports and filings made with the securities regulatory authorities contain certain information that is forward-looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward looking information. All forward-looking statements are based on TransCanada's beliefs and assumptions based on information available at the time such statements were made. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include, among other things, the ability of TransCanada to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, regulatory decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy industry sectors, construction and completion of capital projects, access to capital markets, interest and currency exchange rates, technological developments and the current economic conditions in North America. By its nature, such forward-looking information is subject to various risks and uncertainties, including those material risks discussed in this AIF under "Risk Factors" and in the MD&A under "Pipelines — Business Risks" and "Energy — Business Risks", which could cause TransCanada's actual results and experience to differ materially from the anticipated results or other expectations expressed. The material assumptions in making these forward-looking statements are disclosed in the MD&A under the headings "TransCanada Overview", "TransCanada's Strategy", "Outlook", "Pipelines — Opportunities and Developments", "Pipelines — Outlook", "Energy — Opportunities and Developments" and "Energy — Outlook". 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, except as required by law.

## TRANSCANADA CORPORATION

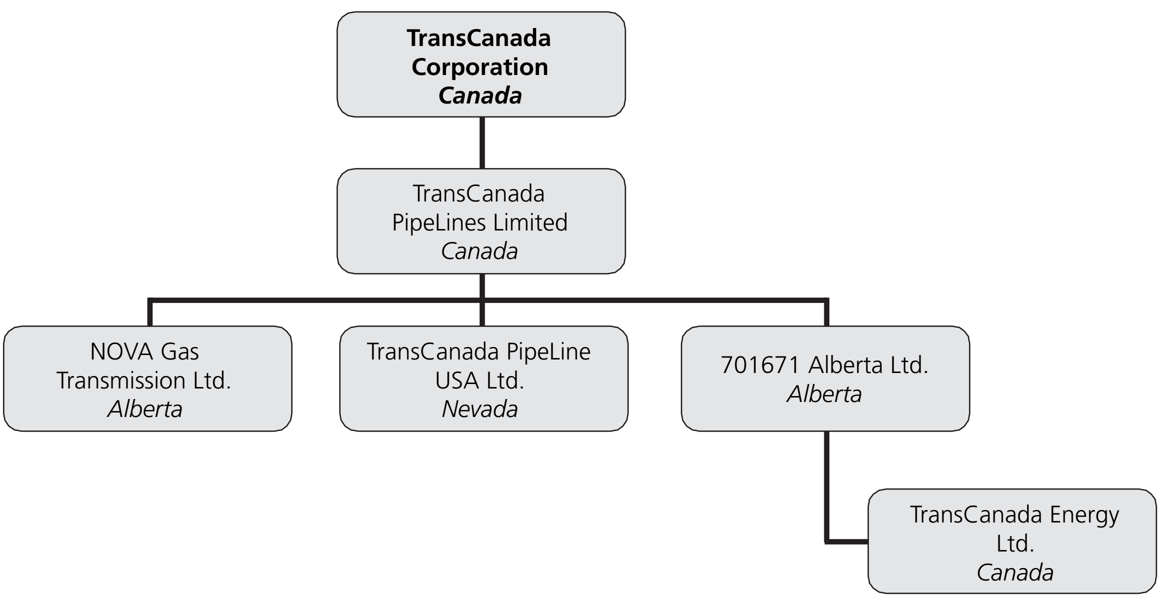
### Corporate Structure

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 which established 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 material assets directly other than the common shares of TCPL and receivables from certain of TransCanada's subsidiaries.

At Year End, TransCanada's principal operating subsidiary, TCPL, had approximately 2,350 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 the subsidiary do not exceed ten per cent of the consolidated assets of TransCanada at Year End;
- the sales and operating revenues of the subsidiary do not exceed ten per cent of the consolidated sales and operating revenues of TransCanada for the year ended December 31, 2006;
- the aggregate assets of all the excluded subsidiaries do 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 do not exceed 20 per cent of the consolidated sales and operating revenues of TransCanada for the year ended December 31, 2006.

## GENERAL DEVELOPMENT OF THE BUSINESS

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

Effective June 1, 2006, TransCanada revised the composition and names of its reportable business segments to *Pipelines* and *Energy*. Pipelines is principally comprised of the company's pipelines in Canada, the United States and Mexico. Energy includes the company's power operations, natural gas storage business and liquefied natural gas ("*LNG*") projects in Canada and the United States.

### Developments in the Pipelines Business

TransCanada's strategy in pipelines is focused on both growing its North American natural gas transmission network and maximizing the long-term value of its existing pipeline assets. Summarized below are significant developments that have occurred in TransCanada's pipelines business over the last three years.

***2006***

***Pipeline Developments***

- January 2006. TransCanada secured firm, long-term contracts for the Keystone oil pipeline project totalling 340,000 barrels per day with durations averaging 18 years;
- April 2006. TC PipeLines, LP, an affiliate of TransCanada, acquired an additional 20 per cent general partnership interest in Northern Border Pipeline Company ("*NBPL*") for approximately US$307 million which brings the total general partnership interest in NBPL to 50 per cent. TC PipeLines, LP also indirectly assumed approximately US$122 million of the debt of NBPL. TransCanada expects to become the operator of NBPL in April 2007. TransCanada is the parent company of TC PipeLines GP, Inc., the general partner of TC PipeLines, LP;
- April 2006. TransCanada sold its 17.5 per cent general partner interest in Northern Border Partners, L.P. for approximately US$29.5 million;
- December 2006. The 130 km Tamazunchale pipeline in east central Mexico went into commercial service;
- December 2006. TC PipeLines, LP acquired 49 per cent of Sierra Pacific Resources' 50 per cent interest in Tuscarora Gas Transmission Company ("*Tuscarora*"), with an option to acquire the remaining one per cent interest, for US$100 million, plus US$37 million of assumed debt, subject to certain post closing adjustments. TC PipeLines, LP now holds a 99 per cent interest in Tuscarora and TransCanada indirectly holds a one per cent ownership interest. TransCanada became the operator of Tuscarora;
- December 2006. TransCanada entered into a purchase and sale agreement (the "*ANR Purchase and Sale Agreement*") with El Paso Corporation, pursuant to which TransCanada agreed to acquire American Natural Resources Company and ANR Storage Company (collectively, "*ANR*"). TransCanada also agreed to purchase an additional 3.55 per cent interest in Great Lakes Gas Transmission Limited Partnership ("*Great Lakes*") from El Paso Corporation. The total purchase price is approximately US$3.4 billion and includes approximately US$488 million of assumed debt. The acquisition includes an approximately 17,000-kilometre pipeline system and 230 billion cubic feet ("*Bcf*") of storage capacity in the United States. The acquisition closed on February 22, 2007, as discussed under "General Development of the Business – Recent Developments" in this AIF;
- December 2006. TC PipeLines, LP agreed to acquire a 46.45 per cent interest in Great Lakes from El Paso Corporation for a purchase price of US$962 million which includes the assumption of approximately US$212 million of assumed debt, subject to certain post closing adjustments. The acquisition closed on February 22, 2007, as discussed under "General Development of the Business – Recent Developments" in this AIF;
- TransCanada continued to invest in the Canadian Mainline and the Alberta System;

- TransCanada continued funding of the Mackenzie Valley Aboriginal Pipeline Limited Partnership for its participation in the Mackenzie Gas Pipeline Project; and
- TransCanada continued discussions relating to the proposed Alaska Highway Pipeline Project.

***Regulatory Matters***

- February 2006. TransCanada filed an application with the U.S. Federal Energy Regulatory Commission ("*FERC*") for a certificate for a two-phase expansion of its existing natural gas pipeline in southern California, the North Baja system ("*North Baja System*") and the construction of a new lateral pipeline in California's Imperial Valley;
- April 2006. The National Energy Board (the "*NEB*") approved a negotiated settlement of the 2006 Canadian Mainline tolls which included a deemed common equity ratio of 36 per cent and incentives for managing cost through fixing certain components of the revenue requirement;
- June 2006. TransCanada filed an application with the NEB seeking approval to transfer a portion of TransCanada's Canadian Mainline natural gas transmission facilities to the Keystone oil pipeline project for the purposes of transporting crude oil from Alberta to refining centres in the U.S. Midwest, which was approved by the NEB in February 2007. Additionally, in December 2006, TransCanada filed an application with the NEB for approval to construct and operate the Canadian portion of the Keystone oil pipeline, which is anticipated to be in service in late 2009; and
- June 2006. TransCanada filed a rate case with the FERC requesting a number of tariff changes including an increase in rates for certain services on the Gas Transmission Northwest system ("*Gas Transmission Northwest System*"). Further information relating to the Gas Transmission Northwest System can be found in this AIF under "Business of TransCanada – Regulation".

Further information about these developments can be found in this AIF under "General Development of the Business – Recent Developments" and in the MD&A under the heading "TransCanada's Strategy – Pipelines" and "Pipelines – Opportunities and Developments".

***2005***

***Pipeline Developments***

- February 2005. TransCanada announced the Keystone oil pipeline project, a US$2.1 billion oil pipeline project to transport approximately 435,000 barrels per day of heavy crude oil from Alberta to Illinois;
- March 2005. TransCanada sold 3,574,200 common units of TC PipeLines, LP for US$153 million;
- TransCanada continued discussions relating to the proposed Alaska Highway Pipeline Project;
- June 2005. TransCanada acquired an additional interest in the Iroquois Gas Transmission System L.P. ("*Iroquois System*") for US$13.6 million. The acquisition increased TransCanada's ownership interest from 40.96 per cent to 44.48 per cent;
- June 2005. TransCanada commenced construction of the Tamazunchale Pipeline in east-central Mexico which went into service in December 2006; and
- TransCanada continued funding of the Mackenzie Valley Aboriginal Pipeline Limited Partnership for its participation in the Mackenzie Gas Pipeline Project.

***Regulatory Matters***

- March 2005. TransCanada reached a settlement with shippers and other interested parties regarding the annual revenue requirements of its Alberta System for the years 2005, 2006 and 2007. The settlement was approved by regulators; and
- May 2005. TransCanada received the NEB's decision on the Canadian Mainline 2004 Tolls and Tariff Application (Phase II), approving an increase in the deemed common equity component of TransCanada's Canadian Mainline System's capital structure from 33 per cent to 36 per cent effective January 1, 2004.

***2004***

***Pipeline Developments***

- November 2004. TransCanada acquired the Gas Transmission Northwest System and the North Baja System from National Energy & Gas Transmission, Inc. for US$1.7 billion, including approximately US$0.5 billion of assumed debt.

**Developments in the Energy Business**

In the past three years, TransCanada has grown its energy business and, in particular, has increased its power generation capacity from facilities it owns, operates and/or controls, including those under construction or in development, from approximately 5,700 megawatts ("*MW*") in 2004 to approximately 7,700 MW at Year End. Summarized below are significant developments that have occurred in TransCanada's energy business over the last three years.

***2006***

***Energy Developments***

- TransCanada continued construction of the Cartier wind energy project ("*Cartier Wind Energy Project*"), of which 62 per cent is owned by TransCanada. The first of six proposed wind farm projects was commercial in late 2006 and construction commenced on the second which is expected to be in service in late 2007. The other phases of the Cartier Wind Energy Project will continue, subject to future appropriations and approvals, through 2012 at five different locations in the Gaspé region of Québec and capacity is expected to total 740 MW when all phases are complete. Once completed, the entire output of the Cartier Wind Energy Project will be supplied to Hydro-Québec Distribution under 20-year power purchase contracts;
- September 2006. Portlands Energy Centre L.P., 50 per cent owned by TransCanada, signed a 20-year Accelerated Clean Energy Supply ("*ACES*") contract with the Ontario Power Authority for Portlands Energy Centre ("*PEC*"), a 550 MW high-efficiency, combined-cycle natural gas generation plant is being constructed in downtown Toronto. The capital cost of PEC is estimated to be approximately $730 million. PEC is expected to be operational in simple-cycle mode and delivering 340 MW of electricity beginning June 2008, and is expected to be completed in the second quarter of 2009, delivering up to 550 MW of power under the ACES contract;
- September 2006. Construction of the 550 MW Bécancour cogeneration plant near Trois Rivières, Québec, was completed and placed in commercial service providing power to Hydro-Québec Distribution;
- November 2006. TransCanada was awarded a 20-year Clean Energy Supply contract by the Ontario Power Authority to build, own and operate a 683 MW natural gas-fired power plant near the Town of Halton Hills, Ontario. TransCanada expects to invest approximately $670 million in the Halton Hills Generating Station, which is anticipated to be in service in the second quarter of 2010;
- December 2006. The Edson gas storage facility was placed in service; and
- TransCanada continued work on the restart and refurbishment project at Bruce A nuclear power generation facility in Ontario. The first unit is expected to be online in late 2009 subject to approval by the Canadian Nuclear Safety Commission.

***Regulatory Matters***

- January 2006. TransCanada, on behalf of the Broadwater Energy project, filed an application with the FERC for approval of the LNG regasification project to be located in Long Island Sound, New York. The United States Coast Guard issued a report which determined that the waterways associated with the project are suitable if additional measures are implemented to manage the safety and security risks associated with the project. Broadwater's application to the New York Department of State for a determination that the project is consistent with New York's coastal zone policies was deemed complete by the state in November of 2006. Also in

November, the FERC issued a statement which concludes that with strict adherence to federal and state permit requirements and regulations, and Broadwater's proposed mitigation measures and the FERC's recommendations, the Broadwater project will not result in significant impacts to the environment; and

- December 2006. A public hearing on the Cacouna Energy LNG facility in Cacouna, Québec (the "*Cacouna Energy Project*") was held in May and June of 2006 and in December 2006 the Minister of the Environment for Québec and the federal Minister of the Environment, jointly released the report of the Joint Commission on the Cacouna Energy Project. The report has several recommendations and opinions but overall, in management's view, appears to be favourable to the project. TransCanada continues to work towards gaining regulatory approval and provided the necessary approvals are obtained, the facility is anticipated to be in service sometime in 2010;

Further information about each of these energy developments can be found in the MD&A under the heading "TransCanada's Strategy – Energy" and "Energy – Opportunities and Developments".

***2005***

***Energy Developments***

- February 2005. TransCanada advanced the 740 MW Cartier Wind Energy Project with the signing of long term electricity supply contracts;
- April 2005. TransCanada acquired the hydroelectric power generation assets from USGen New England, Inc. for approximately US$503 million;
- September 2005. TransCanada sold all of its interests in TransCanada Power, L.P. ("*Power LP*") to EPCOR Utilities Inc. for net proceeds of $523 million;
- October 2005. Bruce Power A L.P. ("*Bruce A*") entered into agreements with the Ontario Power Authority to restart units 1 and 2, extend the operating life of unit 3 and replace the generators on unit 4 at Bruce A. The capital program for the restart and refurbishment work is expected to total approximately $4.25 billion with TransCanada's share expected to be approximately $2.125 billion;
- December 2005. TransCanada sold its approximate 11 per cent interest in P.T. Paiton Energy Company to subsidiaries of The Tokyo Electric Power Company, resulting in gross proceeds of US$103 million;
- December 2005. TransCanada acquired the remaining rights and obligations of the 756-megawatt Sheerness Power Purchase Arrangement ("*PPA*") from the Alberta Balancing Pool for $585 million;
- TransCanada commenced construction of a natural gas storage facility located near Edson, Alberta; and
- Ocean State Power successfully restructured its long-term natural gas fuel supply contracts with its supplier.

***Regulatory Matters***

- TransCanada continued working toward gaining regulatory approval for its two LNG projects: Cacouna in Québec and the Broadwater Energy project, offshore of New York State in Long Island Sound.

***2004***

***Energy Developments***

- April 2004. TransCanada received approval from the Québec government to develop the 550 MW natural gas-fired Bécancour cogeneration plant located at an industrial park near Trois-Rivières, Québec ("*Bécancour Plant*") and which will supply its entire power output to Hydro-Québec Distribution under 20 year power purchase contracts. Construction of the 550 MW Bécancour Plant began in the third quarter of 2004;
- April 2004. TransCanada sold its ManChief and Curtis Palmer power plants to Power LP for approximately US$403 million, excluding closing adjustments;
- September 2004. TransCanada and Petro-Canada signed a memorandum of understanding for the development of the Cacouna Energy Project. 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. The proposed facility requires regulatory and other approvals from federal, provincial and municipal governments and regulators;

- October 2004. The Cartier Wind Energy Project, of which 62 per cent is owned by TransCanada, was awarded six wind energy projects by Hydro-Québec Distribution, representing a total of 740 MW in the Gaspé region of Québec. The six proposed projects are distributed throughout the Gaspésie-Iles-de-la-Madeleine region and the Regional County Municipality of Matane;
- 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 Bcf per day of natural gas. TransCanada owns 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 proposed Broadwater Energy LNG facility required regulatory approval from federal and state governments before construction could begin;
- 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; and
- 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 January 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.

**Recent Developments**

On February 22, 2007, TransCanada closed its acquisitions of ANR and an additional 3.55 per cent interest in Great Lakes from El Paso Corporation for approximately US$3.4 billion, and includes approximately US$488 million of assumed long-term debt. For further information see "General Development of the Business – Developments in the Pipelines Business" in this AIF.

In February 2007, TC PipeLines, LP completed a private placement offering of 17,356,086 units at a price of US$34.57 per unit. TransCanada acquired 50 per cent of the units for US$300 million, increasing its total ownership to 32.1 per cent. TransCanada also invested an additional approximately $12 million to maintain its general partnership ownership interest in TC PipeLines, LP. The total private placement resulted in gross proceeds of approximately US$612 million which were used to partially finance TC PipeLines, LP's acquisition of its 46.45 per cent interest in Great Lakes.

On February 6, 2007, TransCanada entered into an agreement with a syndicate of underwriters, under which they agreed to purchase from TransCanada and sell to the public 39,470,000 subscription receipts. On February 14, 2007, TransCanada completed this public offering of subscription receipts. The purchase price of $38.00 per subscription receipt resulted in proceeds of approximately $1.5 billion, which were used by TransCanada towards financing the acquisition of ANR. The underwriters have an option to purchase an additional 5,920,500 common shares at a price of $38.00 per common share at any time up to and including March 16, 2007.

TransCanada received NEB approval on February 9, 2007, to transfer a section of the Canadian Mainline natural gas transmission facilities to the Keystone oil pipeline project to transport crude oil from Alberta to refining centres in the U.S. Midwest. TransCanada continues to proceed with applications for U.S. regulatory approvals at federal and state levels. Construction of the Keystone pipeline is expected to begin in early 2008, with commercial operations scheduled to commence in the fourth quarter of 2009. In addition, TransCanada announced in January 2007 the start of a binding Open Season for an expansion and extension of the proposed Keystone oil pipeline. The purpose of the Open Season is to obtain binding commitments to support the expansion of the proposed Keystone pipeline from approximately 435,000 barrels per day to 590,000 barrels per day and the construction of a 468 km extension of the

United States portion of the pipeline. The US$700 million expansion and extension project is targetted to be in-service in the fourth quarter of 2010.

In February 2007, TransCanada received approval from the NEB to integrate the B.C. system into the Foothills System in southern B.C. An agreement between the Company and shippers on the B.C. system includes a sharing mechanism for anticipated cost savings through increased administrative efficiencies arising from the integration of the two systems.

In January 2007, TransCanada received a procedural order from the FERC establishing a timeline for Gas Transmission Northwest System's rate case proceeding. The comprehensive filing requests a number of tariff changes, including increased rates for transportation services. The hearing into this rate case is scheduled to commence on October 31, 2007. For further information see this AIF under "Business of TransCanada – Regulation".

## BUSINESS OF TRANSCANADA

TransCanada is a leading North American energy infrastructure company focused on pipelines and energy. At Year End, Pipelines accounted for approximately 53 per cent of revenues and 71 per cent of TransCanada's total assets and the Energy business accounted for approximately 47 per cent of revenues and 25 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, 2006 and 2005.

| **Revenues From Operations** *(millions of dollars)* | **2006** | **2005**[(4)] |
|---|---|---|
| **Pipelines** | | |
| Canada – Domestic Deliveries | **2,390** | 2,281 |
| Canada – Export Deliveries[(1)] | **971** | 1,159 |
| United States | **629** | 553 |
| | **3,990** | 3,993 |
| **Energy**[(2)] | | |
| Canada – Domestic Deliveries | **2,566** | 1,218 |
| Canada – Export Deliveries[(1)] | **1** | 1 |
| United States | **963** | 912 |
| | **3,530** | 2,131 |
| **Total Revenues**[(3)] | **7,520** | 6,124 |

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

(2) Revenues include sales of natural gas.

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

(4) Effective June 1, 2006, TransCanada revised the composition and names of its reportable business segments to *Pipelines* and *Energy*. The financial reporting of these segments was aligned to reflect the internal organizational structure of the Company. Pipelines principally comprises the Company's pipelines in Canada, the U.S. and Mexico. Energy includes the Company's power operations, natural gas storage business and liquefied natural gas projects in Canada and the U.S. The segmented information has been retroactively reclassified to reflect the changes in reportable segments. These changes had no impact on consolidated net income.

**Pipelines Business**

TransCanada has substantial Canadian and U.S. natural gas pipeline and related holdings, including:

***Canada***

- a natural gas transmission system running from the Alberta border east to delivery points in eastern Canada and at various U.S. border points ("*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 (the "*B.C. and Foothills Systems*");
- a 121 km natural gas transmission pipeline and related facilities which supply natural gas to the oil sands region of northern Alberta and a 27 km natural gas pipeline which supplies natural gas to a petrochemical complex at Joffre, Alberta; and
- a 50 per cent interest in Trans Québec & Maritimes Pipeline Inc. ("TQM") which operates a natural gas transmission system in southeastern Québec (the "TQM" System).

***United States***

- effective February 22, 2007, TransCanada owns the ANR system (the "*ANR System*"), a natural gas transmission system which extends approximately 17,000 km from producing fields in Louisiana, Oklahoma, Texas and the Gulf of Mexico to markets in Wisconsin, Michigan, Illinois, Ohio and Indiana;
- the Gas Transmission Northwest System, a natural gas transmission system running from northwestern Idaho, through Washington and Oregon to the California border;
- the North Baja System, a natural gas transmission system which extends from southwestern Arizona to a point near Ogilby, California on the California/Mexico border;
- effective February 22, 2007, a 68.5 per cent effective ownership 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. Of this interest 53.55 per cent is held directly by TransCanada and the remainder is held through TransCanada's interest in TC PipeLines, LP;
- a 44.5 per cent interest in the Iroquois System which runs southwards down through the eastern part of the State of New York terminating at points in Long Island and New York City;
- a 61.7 per cent interest in the Portland Natural Gas Transmission system ("*Portland System*") which runs through Maine and New Hampshire into Massachusetts;
- effective February 22, 2007, a 16.1 per cent effective ownership interest, held through TC PipeLines, LP, in the NBPL system ("*NBPL System*") which is located in the upper midwestern portion of the U.S.; and
- effective February 22, 2007, a 32.8 per cent effective ownership interest in the Tuscarora system ("*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, LP.

As at February 22, 2007, TransCanada holds a 32.1 per cent interest in TC PipeLines, LP, a publicly held limited partnership of which a subsidiary of TransCanada acts as the general partner. The remaining interest of TC PipeLines, LP is widely held by the public. At Year End, TC PipeLines, LP also held a 50 per cent interest in NBPL and a 99 per cent interest in Tuscarora. Additionally, as at February 22, 2007, TC PipeLines, LP owns the remaining 46.45 per cent in Great Lakes.

***International***

TransCanada also has the following natural gas pipeline and related holdings in Mexico and South America:

- a 46.5 per cent interest in the TransGas system which runs from Mariquita in central Colombia to Cali in southwest Colombia;

- a 30 per cent interest in the Gas Pacifico pipeline which extends from Loma de la Lata, Argentina to Concepción, Chile;
- a 30 per cent interest in INNERGY Holdings S.A. which is an industrial natural gas marketing and distribution company based in Concepción, Chile; and
- a 100 per cent interest in the Tamazunchale pipeline, which extends from the Pemex Gas facilities near Naranjos, Veracruz, Mexico to an electricity generation station near Tamazunchale, San Luis Potosi, Mexico.

Further information about TransCanada's pipeline holdings, developments and opportunities and significant regulatory developments which relate to pipelines can be found in the MD&A under the headings "Pipelines – Opportunities and Developments" and "Pipelines – Financial Analysis".

In addition, information about the Mackenzie Gas Pipeline Project and the Alaska Highway Pipeline Project can be found in the MD&A under the headings "Pipelines – Opportunities and Developments – Mackenzie Gas Pipeline Project" and "Pipelines – Opportunities and Developments – Alaska Highway Pipeline Project", respectively.

## Regulation

### *Canada*

CANADIAN MAINLINE

Under the terms of the *National Energy Board Act* (Canada), the Canadian Mainline and B.C. and Foothills Systems are regulated by the NEB. The NEB sets tolls which provide TransCanada the opportunity to recover projected costs of transporting natural gas, including the return on the Canadian Mainline's and B.C. and Foothills System's average investment base. In addition, new facilities are approved by the NEB before construction begins and the NEB regulates the operation of the Canadian Mainline and B.C. and Foothills Systems. Net earnings of the Canadian Mainline and B.C. and Foothills Systems may be affected by changes in investment base, the allowed return on equity, the level of deemed common equity and any incentive earnings.

ALBERTA SYSTEM

The Alberta System is regulated by the Alberta Energy and Utilities Board ("*EUB*") primarily under the provisions of the *Gas Utilities Act* ("*GUA*") and the *Pipeline Act*. Under the GUA, the Alberta System rates, tolls and other charges, and terms and conditions of services are subject to approval by the EUB. Under the provisions of the *Pipeline Act*, the EUB oversees various matters including the economic, orderly and efficient development of pipeline facilities, the operation and abandonment of the facilities 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 other provincial legislation such as the *Environmental Protection and Enhancement Act*.

### *United States*

TransCanada's wholly-owned and partially owned U.S. pipelines, including ANR System, Gas Transmission Northwest System, Great Lakes System, Iroquois System, Portland System, NBPL System, North Baja System and Tuscarora System, are 'natural gas companies' operating under the provisions of the *Natural Gas Act of 1938* and the *Natural Gas Policy Act of 1978*, and are subject to the jurisdiction of the FERC. The *Natural Gas Act of 1938* grants the FERC authority over the construction and operation of pipelines and related facilities. The FERC also has authority to regulate rates for natural gas transportation and interstate commerce.

GAS TRANSMISSION NORTHWEST SYSTEM AND NORTH BAJA SYSTEM

Rates and tariffs of the Gas Transmission Northwest System and the North Baja System have been approved by the FERC. These two systems operate under fixed rate models, whereby rates for various service types have been approved by the FERC and under which each of the two systems is permitted to discount or negotiate rates on a non-discriminatory basis. Currently effective rates for mainline capacity on the Gas Transmission Northwest System went into effect on January 1, 2007, following Gas Transmission Northwest System's filing of a general rate case in

June 2006 under Section 4 of the *Natural Gas Act of 1938*. Gas Transmission Northwest System's current rates were accepted for filing by the FERC, subject to refund. Refunds, with interest, may be due following approval of final rates by the FERC. Gas Transmission Northwest System's previously effective rates, which remained in effect through December 31, 2006, were established through a 1994 rate proceeding which culminated in a settlement that was approved by the FERC in 1996. Rates for capacity on the North Baja System were established in the FERC's initial order certificating construction and operations of its system.

PORTLAND SYSTEM

In 2003, the Portland System received final approval from the FERC of its general rate case under the *Natural Gas Act of 1938*. The Portland System is required to file a general rate case under the *Natural Gas Act of 1938* with a proposed effective date of April 1, 2008.

**Energy Business**

The Energy segment of TransCanada's business includes the acquisition, development, construction, ownership and operation of electrical power generation plants, the purchase and marketing of electricity, the provision of electricity account services to energy and industrial customers, and the development, construction, ownership and operation of natural gas storage and LNG facilities in Canada and the United States.

The electrical power generation plants and power supply that TransCanada owns, operates and/or controls, including those under development or in construction, in the aggregate, represent approximately 7,700 MW of power generation capacity. Power plants and power supply in Canada account for approximately 85 per cent of this total, and power plants in the United States account for the balance, being approximately 15 per cent.

TransCanada owns and operates:

- natural gas-fired cogeneration plants in Alberta at Carseland (80 MW), Redwater (40 MW), Bear Creek (80 MW) and MacKay River (165 MW);
- the natural gas-fired cogeneration plant (90 MW) near Saint John, New Brunswick (Grandview);
- a waste-heat fuelled power plant at the Cancarb facility in Medicine Hat, Alberta (27 MW) (Cancarb);
- a natural gas-fired, combined-cycle plant in Burrillville, Rhode Island (560 MW) (Ocean State Power);
- hydroelectric generation assets in New Hampshire, Vermont and Massachusetts (567 MW) (TC Hydro);
- a natural gas-fired cogeneration plant near Trois-Rivières, Québec (550 MW) (Bécancour); and
- a natural gas storage facility near Edson, Alberta (Edson).

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

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

TransCanada has:

- a 60 per cent interest in CrossAlta Gas Storage Services Ltd., an underground natural gas storage facility located near Crossfield, Alberta;
- a long-term natural gas storage lease with a third party located in Alberta; and
- a 62 per cent interest in the Baie-des-Sables Cartier Wind Energy Project in the Gaspé region of Québec (68 MW of a total 109.5 MW).

TransCanada owns, but does not operate:

- a 48.7 per cent partnership interest in the Bruce A nuclear power generation facility in Ontario (730.5 MW of a total of 1,500 MW that is currently in operation. Another 1,500 MW, of which 730.5 MW are attributable to

TransCanada, will be generated from two other units currently under refurbishment with restart expected to begin in late 2009 or early 2010);

- a 31.6 per cent partnership interest in the Bruce B nuclear power generation facilities in Ontario (1,011 MW of a total of 3,200 MW that is in operation); and
- a 16.7 per cent interest in Huron Wind L.P. whose assets are located at the Bruce site (2 MW of a total of 9 MW that is in operation).

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

- a 62 per cent interest in the Cartier Wind Energy Project which is expected to construct five additional wind energy projects in the Gaspé region of Québec over the period 2007 to 2012 (391 MW of a total of 630 MW), subject to future appropriations and approvals;
- a 50 per cent interest in the Portlands Energy Centre, a 550 MW natural gas-fired power plant located in the Portlands area of Toronto, which is expected to be in commercial service in second quarter 2009;
- the 683 MW Halton Hills natural gas-fired power plant located near the Town of Halton Hills, Ontario, which is anticipated to be in service in the second quarter of 2010;
- a joint venture with Shell on the Broadwater LNG project located offshore of New York State in Long Island Sound, a facility when completed that would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately one billion cubic feet per day of natural gas; and
- a joint venture with Petro-Canada on the Cacouna LNG project located in Québec at Gros Cacouna harbour on the St. Lawrence River, a facility when completed that would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately 500 million cubic feet per day of natural gas.

Further information about TransCanada's energy holdings and significant developments and opportunities relating to energy can be found in the MD&A under the headings "Energy" – Financial Analysis" and "Energy – Opportunities and Developments".

**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.

## HEALTH, SAFETY AND ENVIRONMENT

TransCanada is committed to providing a safe and healthy environment for its employees, contractors, 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 conformance with the TransCanada HS&E corporate policy through regular reporting provided by TransCanada's department of Community, Safety & Environment. TransCanada's senior executives are also committed to ensuring TransCanada is in conformance with its policies and regulated requirements and is an industry leader. Senior executives are regularly advised of all important operational issues and initiatives relating to HS&E by way of formal reporting processes. TransCanada's HS&E management system and performance 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 conducted in November 2006 by Det Norsk Veritas. These assessments involve senior executive and employee interviews, review of policies, procedures, objectives, performance measurement and reporting.

TransCanada's HS&E management system is modeled to the elements of the International Organization for Standardization's (ISO) standard for environmental management systems, ISO 14001. The HS&E management system facilitates the focus of resources on the areas of significant risk to the organization's HS&E business activities. The system highlights opportunities for improvement, enables TransCanada to work towards defined HS&E expectations and objectives, and provides a competitive business advantage. Independent third party assessments, internal management system assessments and work place and facility planned inspections are used to evaluate the implementation effectiveness of the HS&E programs, processes and procedures, and confirms 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**

Climate change remains a serious issue for TransCanada. The change of government in Canada in early 2006 resulted in a shift of focus from meeting environmental regulation targets to a broader emphasis on clean air as well as greenhouse gas emissions. The government of Canada released the *Clean Air Act* on October 19, 2006. At this time, however, the policy framework for the new regulations has not been released by the federal government and detailed sectoral targets and timeframes as well as compliance options have not been set. At a provincial level, the Québec government has passed legislation for a hydrocarbon royalty on industrial greenhouse gas emitters. The details as to how the royalty will be applied have not yet been determined but it is expected these details will be set in the coming year. In Alberta, the government has indicated it will continue with its own plan for implementing regulations to manage greenhouse gas emissions. It is yet to be determined how this effort will tie into a federal program.

In the United States, state level initiatives are under way to limit greenhouse gas emissions, particularly in the north-eastern United States and California. Details have not been finalized and the impact to TransCanada's United States based assets is uncertain.

Despite this uncertainty, TransCanada continues with its programs to manage greenhouse gas emissions from its assets, and to evaluate new processes and technologies that result in improved efficiencies and lower greenhouse gas emissions rates. In addition, TransCanada remains involved in policy discussions in those jurisdictions where policy development is under way and where the Company has operations.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Canadian Alliance of Pipeline Landowners' Association (CAPLA) and two individual landowners commenced an action in 2003 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.* On November 20, 2006, the Ontario Superior Court granted the motion of TransCanada and Enbridge Inc. for a dismissal of the case. CAPLA has now appealed the decision. TransCanada continues to believe the claim is without merit and will vigorously defend the action. TransCanada has made no provision for any potential liability. Any 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.

## MATERIAL CONTRACTS

The ANR Purchase and Sale Agreement as described in this AIF under "General Development of the Business – Developments in the Pipelines Business" is available on SEDAR at www.sedar.com under TransCanada's profile.

## 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

Our auditors, KPMG LLP, have confirmed that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## RISK FACTORS

A discussion of the Company's risk factors can be found in the MD&A for the year ended December 31, 2006, which is incorporated by reference, under the headings "Pipelines – Opportunities and Developments", "Pipelines – Business Risks", "Energy – Opportunities and Developments", "Energy – Business Risks" and "Risks and Risk Management".

## DIVIDENDS

TransCanada's Board of Directors has not adopted a 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 common shareholder of TCPL. 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 currently restrict or alter TransCanada's ability to declare or pay dividends.

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Dividends declared on common shares | **$1.28** | $1.22 | $1.16 |

## DESCRIPTION OF CAPITAL STRUCTURE

### Share Capital

TransCanada's authorized share capital consists of an unlimited number of common shares, of which 488,975,399 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 approval of the holders of the first preferred shares as a class. Any such approval 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.

## CREDIT RATINGS

Although TransCanada has not issued debt to the public, it has been assigned an issuer rating by Moody's Investors Service of A3 with a stable outlook. TransCanada does not presently intend to issue debt securities to the public in its own name and future financing requirements are expected to continue to be funded primarily through its subsidiary, TCPL. The following table sets out the credit ratings assigned to those outstanding classes of securities of TCPL which have been rated:

| Overall | DBRS | Moody's | S&P |
|---|---|---|---|
| Senior Secured Debt<br>*First Mortgage Bonds* | A | A2 | A |
| Senior Unsecured Debt<br>*Debentures*<br>*Medium-term Notes* | <br>A<br>A | <br>A2<br>A2 | <br>A–<br>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(1) | Stable | Negative |

(1) At February 22, 2007, the DBRS rating was confirmed as stable. At December 31, 2006 the rating was under review. Discussed further, in DBRS section below.

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 TCPL'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 TCPL'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 TCPL'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.

Subsequent to TransCanada's December 22, 2006 announcement of its plans to acquire ANR, DBRS put TCPL's rating under review with developing implications. On February 22, 2007, DBRS confirmed the rating of TCPL with a stable trend and subsequently removed TCPL's rating from under review.

### 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 TCPL'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 TCPL'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 TCPL'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 TCPL's senior secured and senior unsecured debt, respectively, 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 TCPL'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 2006 | 40.77 | 38.95 | 20,122,013 |
| November 2006 | 39.14 | 36.50 | 21,499,249 |
| October 2006 | 36.34 | 33.95 | 19,350,398 |
| September 2006 | 35.97 | 34.65 | 22,209,089 |
| August 2006 | 36.35 | 34.86 | 22,367,872 |
| July 2006 | 34.75 | 31.70 | 17,073,298 |
| June 2006 | 34.50 | 31.55 | 23,121,387 |
| May 2006 | 33.50 | 30.94 | 30,019,492 |
| April 2006 | 34.73 | 33.02 | 20,961,283 |
| March 2006 | 35.38 | 33.67 | 25,708,683 |
| February 2006 | 35.25 | 34.57 | 21,932,670 |
| January 2006 | 37.01 | 34.75 | 24,218,158 |

In addition, the following securities of TransCanada's subsidiary, TCPL, 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; and
- TCPL's 16.50% First Mortgage Pipe Line Bonds due 2007, are listed on the London Stock Exchange.

## DIRECTORS AND OFFICERS

As of February 22, 2007, the directors and officers of TransCanada as a group beneficially owned, directly or indirectly, have exercisable options to own, or exercised control or direction over 1,676,238 common shares of TransCanada 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 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 thirteen 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.

| Name and Place of Residence | Principal Occupation During the Five Preceding Years | Director Since |
|---|---|---|
| Kevin E. Benson[(1)]<br>Wheaton, Illinois<br>United States | President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) since June 2003, and Laidlaw, Inc. from September 2002 to June 2003. President and Chief Executive Officer, The Insurance Corporation of British Columbia from December 2001 until September 2002. Director, Laidlaw International, Inc. | 2005 |
| Derek H. Burney, O.C.<br>Ottawa, Ontario<br>Canada | Senior strategic advisor at Ogilvy Renault LLP (law firm). President and Chief Executive Officer, CAE Inc. (technology) from October 1999 to August 2004. Lead director at Québecor World Inc. (communications and media) from April 2003 to November 2005. Chairman, CanWest Global Communications Corp. and Lead Director, Shell Canada Limited. | 2005 |
| Wendy K. Dobson<br>Uxbridge, Ontario<br>Canada | Professor, Rotman School of Management and Director, Institute for International Business, University of Toronto (education). Vice Chair, Canadian Public Accountability Board. Director, Toronto-Dominion Bank. | 1992 |
| E. Linn Draper<br>Lampasas, Texas<br>United States | Corporate Director. Chairman, President and Chief Executive Officer of Columbus, Ohio-based American Electric Power Co., Inc. from April 1993 to April 2004. Director, Alliance Data Systems Corporation, Lead Director, Alpha Natural Resources, Inc., Chair of NorthWestern Corporation and Director, Temple-Inland Inc. | 2005 |

| Name and Place of Residence | Principal Occupation During the Five Preceding Years | Director Since |
|---|---|---|
| The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C.<br>Québec, Québec<br>Canada | Senior Partner, Desjardins Ducharme LLP (law firm). Director, Cossette Communication Group Inc., Institut Québecois des Hautes Études Internationales, Laval University, Metro Inc., RBC Dexia Investor Services Trust, Rothmans Inc. and Royal Bank of Canada. | 2002 |
| Kerry L. Hawkins<br>Winnipeg, Manitoba<br>Canada | Corporate Director. President, Cargill Limited (agricultural) from September 1982 to December 2005. Director, NOVA Chemicals Corporation and Shell Canada Limited. | 1996 |
| S. Barry Jackson<br>Calgary, Alberta<br>Canada | Corporate Director. Chair of the Board, TransCanada since April 2005. Chair of Resolute Energy Inc. (oil and gas) from January 2002 to April 2005 and Chair of Deer Creek Energy Limited (oil and gas) from April 2001 to September 2005. Director, Cordero Energy Inc. and Nexen Inc. | 2002 |
| Paul L. Joskow<br>Brookline, Massachusetts<br>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 PLC and Putnam Mutual Funds. | 2004 |
| Harold N. Kvisle<br>Calgary, Alberta<br>Canada | President and Chief Executive Officer, TransCanada since May 2003 and TCPL since May 2001. Director, Bank of Montreal and PrimeWest Energy Inc. Chair of the Mount Royal College Board of Governors. | 2001 |
| John A. MacNaughton, C.M.<br>Toronto, Ontario<br>Canada | Corporate Director. Chairman of the Canadian Trading and Quotation System Inc. Founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board from 1999 to 2005. Director, Nortel Networks Corporation. | 2006 |
| David P. O'Brien(2)<br>Calgary, Alberta<br>Canada | Corporate Director. Chair, EnCana Corporation (oil and gas) since April 2002 and Chair, Royal Bank of Canada since February 2004. Chair and Chief Executive Officer of PanCanadian Energy Corporation (oil and gas) from October 2001 to April 2002. Director, Focus Energy Trust, Molson Coors Brewing Company, and C.D. Howe Institute. Chancellor, Concordia University. | 2001 |
| Harry G. Schaefer, F.C.A.<br>Calgary, Alberta<br>Canada | President, Schaefer & Associates (business advisory services). Vice-Chair of the Board, TransCanada since May 2003 and TCPL since June 1998. Director, Agrium Inc. and Trustee of Fording Canadian Coal Trust. | 1987 |
| D. Michael G. Stewart<br>Calgary, Alberta<br>Canada | Principal of the privately held Ballinacurra Group of Investment Companies since March 2002. A number of senior executive positions with Westcoast Energy Inc. (energy infrastructure, services and utilities) including Executive Vice-President, Business Development from September 1993 to March 2002. Director Canadian Energy Services Inc. and Pengrowth Corporation. | 2006 |

(1) Mr. Benson was President and Chief Executive Officer of Canadian Airlines International Ltd. from July 1996 to February 2000. Canadian Airlines International Ltd. filed for protection under the *Companies' Creditors Arrangement Act* (Canada) and applicable bankruptcy protection statutes in the United States on March 24, 2000.

(2) 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. Stewart was elected to the Board on April 28, 2006 and Mr. MacNaughton was appointed to the Board on June 14, 2006. In addition, Mr. Schaefer will retire effective April 27, 2007 and Mr. W.T. Stephens has been selected as a new nominee for election. Mr. Stephens previously served on the Board from 2000 to 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*

| Name | Present Position Held | Principal Occupation During the Five Preceding Years |
|---|---|---|
| Harold N. Kvisle | President and Chief Executive Officer | President and Chief Executive Officer. |
| Russell K. Girling | President, Pipelines | Executive Vice-President, Corporate Development and Chief Financial Officer, March 2003 to June 2006. Prior to March 2003, Executive Vice-President and Chief Financial Officer. |
| Gregory A. Lohnes | Executive Vice-President and Chief Financial Officer | Prior to June 2006, President and Chief Executive Officer of Great Lakes Gas Transmission Company. |
| Dennis J. McConaghy | Executive Vice-President, Pipeline Strategy and Development | Prior to June 2006, Executive Vice-President, Gas Development. |
| Sean McMaster[(1)] | Executive Vice-President, Corporate and General Counsel and Chief Compliance Officer | Executive Vice-President, General Counsel and Chief Compliance Officer from October 2006 to January 2007. Prior to October 2006, General Counsel and Chief Compliance Officer. Prior thereto, General Counsel since June 2006. Vice-President, Transactions, Power Division, TCPL from April 2003 to June 2006. President TransCanada Power Services Ltd., general partner of TransCanada Power LP from June 2003 to August 2005. Prior to June 2003, Vice-President, Power Services Ltd. |
| Alexander J. Pourbaix | President, Energy | Executive Vice-President, Power March 2003 to June 2006. Prior to March 2003, Executive Vice-President, Power Development. |
| Sarah E. Raiss | Executive Vice-President, Corporate Services | Executive Vice-President, Corporate Services. |
| Donald M. Wishart | Executive Vice-President, Operations and Engineering | Prior to March 2003, Senior Vice-President, Field Operations. |

(1) Mr. McMaster was appointed Executive Vice-President, General Counsel and Chief Compliance Officer on October 30, 2006.

***Corporate Officers***

| Name | Present Position Held | Principal Occupation During the Five Preceding Years |
|---|---|---|
| Ronald L. Cook | Vice-President, Taxation | Prior to April 2002, Director, Taxation. |
| Donald J. DeGrandis | Corporate Secretary | Prior to June 2006, Associate General Counsel, Corporate. |
| Garry E. Lamb | Vice-President, Risk Management | Vice-President, Risk Management. |
| Donald R. Marchand | Vice-President, Finance and Treasurer | Vice-President, Finance and Treasurer. |
| G. Glenn Menuz | Vice President and Controller | Prior to June 2006, Assistant Controller. |

## CORPORATE GOVERNANCE

The Board and the members of TransCanada's management are committed to the highest standards of corporate governance. TransCanada's corporate governance practices comply with the governance rules of the Canadian Securities Administrators ("*CSA*"), those of the NYSE applicable to foreign issuers and of the U.S. Securities and Exchange Commission ("*SEC*"), and those mandated by the United States *Sarbanes-Oxley Act of 2002* ("*SOX*"). As a non-U.S. company, TransCanada is not required to comply with most of the NYSE corporate governance listing standards; however, except as summarized on its website at www.transcanada.com, the governance practices followed are in compliance with the NYSE standards for U.S. companies in all significant respects. TransCanada is in compliance with the CSA's Multilateral Instrument 52-110 pertaining to audit committees. TransCanada is also in compliance with the CSA's National Policy 58-201, Corporate Governance Guidelines, and National Instrument 58-101, Disclosure of Corporate Governance Practices (collectively, the "*Canadian Governance Guidelines*"). In 2005, the Canadian Governance Guidelines came into effect and for purposes of the TSX replaced the TSX Corporate Governance Guidelines. Further information about TransCanada's corporate governance can be found on TransCanada's website under the heading "Corporate Governance".

### 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 were Harry G. Schaefer (Chair), Kevin E. Benson, Derek H. Burney, Paule Gauthier, Paul L. Joskow and John A. MacNaughton. Mr. Jackson is a non-voting member of the Audit Committee.

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 serves on and 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 certain of those boards. Mr. Schaefer has also held several executive positions with public companies. He is currently Chair of the Audit Committee and of the audit committees of two other public companies.

Mr. Benson earned a Bachelor of Accounting from the University of Witwatersrand (South Africa) and was a member of the South African Society of Chartered Accountants. Mr. Benson is the President and Chief Executive Officer of Laidlaw International, Inc. In prior years, he has held several executive positions including one as President and Chief Executive Officer of Canadian Airlines International Ltd. and has served on other public company boards.

Mr. Burney earned a Bachelor of Arts (Honours) and Master of Arts from Queen's University. He is currently a senior strategic advisor at Ogilvy Renault LLP. Mr. Burney previously served as President and Chief Executive Officer of CAE Inc. and as Chairman and Chief Executive Officer of Bell Canada International Inc. Mr. Burney is the lead director at Shell Canada Limited and the Chairman of CanWest Global Communications Corp. He has served on one other organization's audit committee.

Mme. 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 certain of those boards.

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 is currently a Professor, Department of Economics, Massachusetts Institute of Technology. He has served on the boards of several public companies and other organizations and on the audit committees of certain of those boards.

Mr. MacNaughton earned a Bachelor of Arts in Economics from the University of Western Ontario. Mr. MacNaughton is currently the Chairman of Canadian Trading and Quotation System Inc. In prior years, he has held several executive positions including founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board and President of Nesbitt Burns Inc. He is currently the Chair of an audit committee of one other public company.

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. For engagements of $25,000 or less which are not within the annual pre-approved limit, approval by the Audit Committee is not required, 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 to arise 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 the External Auditor for the TransCanada group of companies for the 2006 and 2005 fiscal years, are shown in the table below:

| Fee Category | 2006 | 2005 | Description of Fee Category |
|---|---|---|---|
| | (millions of dollars) | | |
| Audit Fees | **4.94** | 3.15 | Aggregate fees for audit services rendered by TransCanada's External Auditor for the audit of TransCanada's annual financial statements or services provided in connection with statutory and regulatory filings or engagements, the review of interim consolidated financial statements and information contained in various prospectuses and other offering documents. |
| Audit Related Fees | **0.07** | 0.11 | 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 certain plans. |
| Tax Fees | **0.22** | 0.12 | Aggregate fees rendered by TransCanada's External Auditor for primarily tax compliance and tax advice. The nature of these services consisted of: tax compliance including the review of Canadian and U.S. income tax returns; and tax items and tax services related to domestic and international taxation including income tax, capital tax and Goods and Services Tax. |
| All Other Fees | **0.07** | 0.14 | 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 advice with respect to TransCanada's compliance with SOX. |
| Total | **5.30** | 3.52 | |

## 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. Mr. Jackson, the Chair of the Board, sits on each of Board's committees as a non-voting member. The voting members of each of these committees, as of Year End, are identified below:

**Governance Committee**

Chair: W.K. Dobson
Members: D.H. Burney
P.L. Joskow
D.P. O'Brien
H.G. Schaefer

**Health, Safety & Environment Committee**

Chair: E.L. Draper
Members: P. Gauthier
K.L. Hawkins
D.M.G. Stewart
J.A. MacNaughton

**Human Resources Committee**

Chair: K.L. Hawkins
Members: W.K. Dobson
E.L. Draper
D.P. O'Brien

The charters of the Governance Committee, the Health, Safety & Environment Committee and the Human Resources Committee 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 on TransCanada's website located at: http://www.transcanada.com/company/board_committees.html.

### Conflicts of Interest

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*. Although some of the directors sit on boards or may be otherwise associated with companies that ship natural gas on TransCanada's pipeline systems, TransCanada as a common carrier in Canada cannot, under its tariff, deny transportation service to a credit-worthy shipper. Further, due to the specialized nature of the industry, TransCanada believes that it is important for its Board to be composed of qualified and knowledgeable directors, so some of them must come from oil and gas producers and shippers; the Governance Committee closely monitors relationships among directors to ensure that business associations do not affect the Board's performance. In a circumstance where a director declares an interest in any material contract or material transaction being considered at a meeting, the director generally absents himself or herself from the meeting during the consideration of the matter, and does not vote on the matter.

## ADDITIONAL INFORMATION

1. Additional information in relation to TransCanada may be found under TransCanada's profile 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

| | |
|---|---|
| ACES | Accelerated Clean Energy Supply |
| AIF | Annual Information Form of TransCanada Corporation dated February 22, 2007 |
| 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, 2006 |
| ANR | American Natural Resources Company and ANR Storage Company |
| ANR Purchase and Sale Agreement | An agreement between TransCanada and El Paso Corporation, dated December 22, 2006, whereby TransCanada agreed to acquire ANR from El Paso Corporation |
| ANR System | A natural gas transmission system which extends approximately 17,000 km from producing fields in Louisiana, Oklahoma, Texas and the Gulf of Mexico to markets in Wisconsin, Michigan, Illinois, Ohio and Indiana |
| B.C. and Foothills Systems | A natural gas pipeline system in southeastern B.C., southern Alberta and southwestern Saskatchewan |
| Bcf | Billion cubic feet |
| Bécancour Plant | A power plant near Trois-Rivières, Québec |
| Board | TransCanada's Board of Directors |
| Bruce A | Bruce Power A L.P. |
| Bruce B | Bruce Power L.P. |
| Cacouna Energy Project | The Cacouna Energy LNG facility in Cacouna, Québec |
| 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 |
| Cartier Wind Energy Project | Six wind energy projects by Hydro-Québec Distribution representing a total of 740 MW in the Gaspé region of Québec |
| CSA | Canadian Securities Administrators |
| EUB | Alberta Energy and Utilities Board |
| External Auditor | KPMG LLP |
| FERC | Federal Energy Regulatory Commission (USA) |
| Gas Transmission Northwest System | A natural gas transmission system running from northwestern Idaho, through Washington and Oregon to the California border |
| Grandview Plant | A power plant in Saint John, New Brunswick |
| Great Lakes | Great Lakes Gas Transmission Limited Partnership |
| Great Lakes System | A natural gas pipeline system in the north central U.S., roughly parallel to the Canada-U.S. Border |
| GUA | Gas Utilities Act |
| HS&E | Health, Safety and Environment |
| Iroquois System | A natural gas pipeline system in New York and Connecticut |
| LNG | Liquefied Natural Gas |
| MD&A | TransCanada's Management's Discussion and Analysis dated February 22, 2007 |
| MW | Megawatts |
| NBPL | Northern Border Pipeline |
| NBPL System | A natural gas transmission system located in the upper midwestern portion of the United States |
| NEB | National Energy Board |
| Northern Border Pipeline | Northern Border Pipeline Company |
| North Baja System | A natural gas pipeline in southern California |
| NYSE | New York Stock Exchange |
| PEC | Portlands Energy Centre |
| Portland System | A natural gas pipeline that runs through Maine and New Hampshire into Massachusetts |
| Power LP | TransCanada Power, L.P. |
| PPA | Power Purchase Agreement |
| Proxy Circular | TransCanada's Management Proxy Circular dated February 22, 2007 |
| SEC | U.S. Securities and Exchange Commission |
| Shell | Shell US Gas & Power LLC |
| SOX | U.S. *Sarbanes-Oxley Act 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 |
| Tuscarora System | A natural gas pipeline that runs from Oregon through northeast California to Reno, Nevada |
| Year End | December 31, 2006 |

## SCHEDULE "A"

## 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

### 1. Purpose

The Audit Committee shall assist the Board of Directors (the "Board") in overseeing and monitoring, among other things, the:

- Company's financial accounting and reporting process;
- integrity of the financial statements;
- Company's internal control over financial reporting;
- external financial audit process;
- compliance by the Company with legal and regulatory requirements; and
- independence and performance of the Company's internal and external auditors.

To fulfill its purpose, the Audit Committee has been delegated certain authorities by the Board of Directors that it may exercise on behalf of the Board.

### 2. Roles and Responsibilities

***I. 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 Audit 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 Audit 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 Audit 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 Audit Committee.

The Audit 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 Audit Committee shall take appropriate action to satisfy itself of the independence of the external auditors.

***II. Oversight in Respect of Financial Disclosure***

The Audit 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 Audit Committee need not discuss in advance each instance in which the Company may provide earnings guidance or presentations to rating agencies;

(e) 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;

(f) 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;

(g) 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;

(h) 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;

(i) review disclosures made to the Audit 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;

(j) 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.

***III. 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.

***IV. 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 Audit 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.

***V. Insight 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;

(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.

***VI. 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 Audit Committee and approved prior to the completion of the audit by the Audit Committee or by one or more members of the Audit Committee to whom authority to grant such approvals has been delegated by the Audit Committee;

(b) approval by the Audit 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 Audit Committee may delegate to one or more designated members of the Audit 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 Audit Committee at its first scheduled meeting following such pre-approval;

(d) if the Audit 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.

***VII.* 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 Audit 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.

***VIII. Oversight in Respect of Financial Aspects of the Company's Pension Plans, specifically:***

(a) provide advice to the Human Resources Committee on any proposed changes in the Company's pension plans in respect of any significant effect such changes may have on pension financial matters;

(b) review and consider financial and investment reports and the funded status relating to the Company's pension plans and recommend to the Board on pension contributions;

(c) receive, review and report to the Board on the actuarial valuation and funding requirements for the Company's pension plans;

(d) review and approve annually the Statement of Investment Policies and Procedures ("SIP&P");

(e) approve the appointment or termination of auditors and investment managers.

***IX. 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.

***X. Oversight Function***

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit 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 Audit 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 Audit 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 Audit 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 Audit Committee and Board in the absence of such designation. Rather, the role of any audit committee financial expert, like the role of all Audit 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.

**3. Composition of Audit Committee**

The Audit Committee shall consist of three or more 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 for the purposes of applicable Canadian and United States securities law and applicable rules of any stock exchange on which the Company's shares are listed. Each member of the Audit 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).

**4. Appointment of Audit Committee Members**

The members of the Audit Committee shall be appointed by the Board from time to time, on the recommendation of the Governance Committee and shall hold office until the next annual meeting of shareholders or until their successors are earlier appointed or until they cease to be Directors of the Company.

**5. Vacancies**

Where a vacancy occurs at any time in the membership of the Audit Committee, it may be filled by the Board on the recommendation of the Governance Committee.

**6. Audit Committee Chair**

The Board shall appoint a Chair of the Audit Committee who shall:

(a) review and approve the agenda for each meeting of the Audit Committee and as appropriate, consult with members of management;

(b) preside over meetings of the Audit Committee;

(c) report to the Board on the activities of the Audit Committee relative to its recommendations, resolutions, actions and concerns; and

(d) meet as necessary with the internal and external auditors.

**7. Absence of Audit Committee Chair**

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

**8. Secretary of Audit Committee**

The Corporate Secretary shall act as Secretary to the Audit Committee.

**9. Meetings**

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

**10. Quorum**

A majority of the members of the Audit 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.

**11. 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 Audit 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.

**12. Attendance of Company Officers and Employees at Meeting**

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

**13. Procedure, Records and Reporting**

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

**14. Review of Charter and Evaluation of Audit Committee**

The Audit 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 Audit Committee shall annually review the Audit Committee's own performance.

**15. Outside Experts and Advisors**

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

**16. Reliance**

Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Audit 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 Audit 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.