

TRANSCANADA CORPORATION – SECOND QUARTER 2004

Quarterly Report to Shareholders

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TransCanada Delivers Solid Results in Second Quarter and Announces 163rd Consecutive Dividend

CALGARY, Alberta – July 23, 2004 -- (TSX: TRP) (NYSE: TRP)

Second Quarter 2004 Financial Highlights:

(All financial figures are in Canadian dollars unless noted otherwise)

- Second quarter net income of \$388 million or \$0.80 per share
- Six months ended June 30, 2004 net income of \$602 million or \$1.24 per share
- Second quarter funds generated from operations of \$390 million
- Six months ended June 30, 2004 funds generated from operations of \$813 million
- Board declares \$0.29 per share dividend on the company's common shares -- the 163rd consecutive quarterly dividend paid by TransCanada and its subsidiary

TransCanada Corporation today announced net income for second quarter 2004 of \$388 million or \$0.80 per share compared with \$202 million or \$0.42 per share for second quarter 2003. The increase was the result of an after-tax gain of \$15 million or \$0.03 per share from sale of the ManChief and Curtis Palmer power plants to TransCanada Power, L.P. In addition, other gains of \$172 million or \$0.36 per share were recognized as a result of the removal, in second quarter 2004, of TransCanada's obligation to fund the redemption of TransCanada Power, L.P. units in 2017, as well as a reduction in ownership interest in TransCanada Power, L.P. in the quarter. Of these gains, \$132 million were previously deferred and were being amortized into income to 2017. The year-over-year increase in net income for the six months ended June 30, 2004 was also attributable to these gains.

Net income for the six months ended June 30, 2004 was \$602 million or \$1.24 per share compared to \$410 million or \$0.85 for the same period in the prior year. Funds generated from operations for the three and six months ended June 30, 2004 were \$390 million and \$813 million, respectively, compared to \$434 million and \$891 million, respectively, for the same periods in 2003.

During 2004, TransCanada's capital expenditures are expected to total approximately \$2.9 billion. Approximately \$2.3 billion of that amount, including \$0.7 billion of assumed debt, will be used for the acquisition of Gas Transmission Northwest Corporation.

Hal Kvisle, TransCanada's chief executive officer, said, "Our commitment to long-term growth is demonstrated by initiatives such as TransCanada's agreement to acquire Gas Transmission Northwest, our recent receipt of final approvals needed to begin construction of a 550 megawatt natural gas-fired cogeneration power plant in Bécancour, Québec, and our ongoing effort to play a leading role in the development of the Alaska Highway Pipeline and a constructive role in the Mackenzie Gas Pipeline Project.

"North American energy demand has increased significantly during the last few decades, and we expect this trend to continue. To help meet the demand and add value for shareholders, we are focused on making strategic and disciplined investments while maintaining a strong balance sheet."

Teleconference

TransCanada will hold a teleconference today at 9:00 a.m. (Mountain) / 11:00 a.m. (Eastern) to discuss the second quarter 2004 financial results and general developments and issues concerning the company. Analysts, members of the media and other interested parties wanting to participate in the call should dial 1-877-211-7911 or 416-405-9310 (Toronto area) at least 10 minutes prior to the start of the call. No passcode is required. A live audio webcast of the teleconference will also be available on TransCanada's website at www.transcanada.com.

The conference will begin with a short address by members of TransCanada's executive management, followed by a question-and-answer period for investment analysts. A question-and-answer period for the news media will immediately follow.

A replay of the teleconference will be available two hours after the conclusion of the call until midnight Eastern time on Friday July 30, 2004 by dialing 1-800-408-3053 or 416-695-5800 (Toronto area) and entering passcode 3079363. The webcast will be archived and available for replay.

About TransCanada

TransCanada is a leading North American energy company. We are focused on natural gas transmission and power services with employees who are expert in these businesses. Our network of approximately 39,000 kilometres (24,200 miles) of wholly owned pipeline transports the majority of Western Canada's natural gas production to the fastest growing markets in Canada and the United States. TransCanada owns, controls or is constructing approximately 4,700 megawatts of power generation – an equal amount of power can meet the needs of about 4.7 million average households. Our common shares trade under the symbol TRP on the Toronto and New York stock exchanges. Visit us on the Internet at www.transcanada.com for more information.

Second Quarter 2004 Financial Highlights
(unaudited)

Operating Results (millions of dollars)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Revenues	1,256	1,311	2,489	2,647
Net Income	388	202	602	410
Cash Flows				
Funds generated from operations	390	434	813	891
Capital expenditures	93	107	194	183
Acquisitions, net of cash acquired	14	3	14	412
Common Share Statistics	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Net Income Per Share - Basic and Diluted	\$0.80	\$0.42	\$1.24	\$0.85
Dividends Declared Per Share	\$0.29	\$0.27	\$0.58	\$0.54
Common Shares Outstanding (millions)				
Average for the period	484.0	481.1	483.7	480.6
End of period	484.2	481.8	484.2	481.8

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) dated July 22, 2004 should be read in conjunction with the accompanying unaudited consolidated financial statements of TransCanada Corporation (TransCanada or the company) for the six months ended June 30, 2004 and should also be read in conjunction with the audited consolidated financial statements and MD&A contained in TransCanada's 2003 Annual Report for the year ended December 31, 2003. Additional information relating to TransCanada, including the company's Annual Information Form and continuous disclosure documents, is available on SEDAR at www.sedar.com under TransCanada Corporation.

Consolidated Results-at-a-Glance

(unaudited) (millions of dollars except per share amounts)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Net Income	388	202	602	410
Net Income Per Share - Basic and Diluted	\$0.80	\$0.42	\$1.24	\$0.85

Results of Operations

Consolidated

TransCanada's net income for second quarter 2004 was \$388 million or \$0.80 per share compared to \$202 million or \$0.42 per share for the same period in 2003. The increase of \$186 million or \$0.38 per share was primarily due to significantly higher net earnings from the Power business resulting from TransCanada's proportionate gain of \$15 million after tax (gain of \$25 million pre tax) or \$0.03 per share on the sale of the ManChief and Curtis Palmer assets to TransCanada Power, L.P. (Power LP) and the recognition of \$172 million or \$0.36 per share of dilution and other gains resulting from a reduction in TransCanada's ownership interest in Power LP and the removal of the obligation, in 2017, of Power LP to redeem units not owned by TransCanada. TransCanada was required to fund this redemption, thus the removal of Power LP's obligation eliminates this requirement. Higher net earnings of \$2 million in the Gas Transmission business for second quarter 2004 compared to the same period in the prior year were primarily due to a \$7 million gain on sale of the company's equity interest in the Millennium Pipeline project (Millennium) offset by lower net earnings from the Canadian Mainline and Alberta System. Net expenses in the Corporate segment for second quarter 2004 were comparable to the same period in the prior year.

TransCanada's net income for the six months ended June 30, 2004 was \$602 million or \$1.24 per share compared to \$410 million or \$0.85 per share for the comparable period in 2003. The increase of \$192 million or \$0.39 per share in the first six months of 2004 compared to the same period in 2003 was primarily due to significantly higher net earnings in the Power business mainly as a result of gains related to Power LP and lower net expenses in the Corporate segment, partially offset by lower net earnings from the Gas Transmission business.

Excluding the above-mentioned \$187 million of combined gains included in net income related to Power LP, Power business' net earnings for the six months ended June 30, 2004 were consistent with the same period in 2003. Higher net earnings from TransCanada's investment in Bruce Power L.P. (Bruce Power) were primarily offset by lower contributions from Eastern Operations and

Western Operations and the recognition in second quarter 2003 of the \$19 million after-tax settlement with a former counterparty.

The decrease in net expenses of \$11 million in the Corporate segment for the six months ended June 30, 2004 relates primarily to income tax refunds received in first quarter 2004.

The lower net earnings of \$7 million in the Gas Transmission business for the six months ended June 30, 2004 compared to the same period in 2003 were primarily due to lower earnings from the Canadian Mainline and Alberta System, partially offset by the gain on sale of Millennium in 2004.

Segment Results-at-a-Glance

(unaudited) (millions of dollars)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Gas Transmission	146	144	295	302
Power	249	63	314	126
Corporate	(7)	(5)	(7)	(18)
Net Income	388	202	602	410

Funds generated from continuing operations of \$390 million for the second quarter decreased \$44 million compared to second quarter 2003. Funds generated from operations of \$813 million for the six months ended June 30, 2004 decreased \$78 million compared to the same period in 2003.

Gas Transmission

The Gas Transmission business generated net earnings of \$146 million and \$295 million for the quarter and six months ended June 30, 2004, respectively, compared to \$144 million and \$302 million for the same periods in 2003.

Gas Transmission Results-at-a-Glance

(unaudited)	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2004	2003	2004	2003
Wholly-Owned Pipelines				
Alberta System	39	44	79	86
Canadian Mainline	66	71	130	142
Foothills*	5	5	11	9
BC System	1	2	3	4
	111	122	223	241
Other Gas Transmission				
Great Lakes	14	11	31	28
Iroquois	3	4	11	11
TC PipeLines, LP	5	4	9	7
Portland**	-	-	6	7
Ventures LP	4	2	7	4
Trans Québec & Maritimes	2	2	4	4
CrossAlta	1	1	2	4
TransGas de Occidente	3	3	6	7
Northern Development	(1)	-	(2)	(1)
General, administrative, support costs and other	4	(5)	(2)	(10)
	35	22	72	61
Net earnings	146	144	295	302

* The remaining ownership interests in Foothills, previously not held by TransCanada, were acquired on August 15, 2003.

** TransCanada increased its ownership interest in Portland to 43.4 per cent from 33.3 per cent on September 29, 2003 and to 61.7 per cent from 43.4 per cent on December 3, 2003.

Wholly-Owned Pipelines

The Alberta System's net earnings of \$39 million in second quarter 2004 decreased \$5 million compared to \$44 million in the same quarter of 2003. Net earnings for the six months ended June 30, 2004 decreased \$7 million compared to the same period in 2003. The decrease was primarily due to lower earnings resulting from the recently approved rate of return on deemed common equity in 2004 compared to earnings implicit in the 2003 negotiated settlement which included a fixed revenue requirement component. Earnings in 2004 reflect a return of 9.60 per cent on deemed common equity of 35 per cent as approved by the Alberta Energy and Utilities Board (EUB) in its Generic Cost of Capital (GCOC) decision released July 2, 2004.

The Canadian Mainline's net earnings decreased \$5 million and \$12 million for the three and six months ended June 30, 2004, respectively, when compared to the corresponding periods in 2003. The decrease was primarily due to a lower rate of return on common equity of 9.56 per cent in 2004 compared to 9.79 per cent in 2003, and a lower average investment base. The common equity

return of 9.56 per cent is implicit in the interim tolls for 2004 which were approved by the National Energy Board (NEB) in December 2003.

Foothills' net earnings of \$11 million for the six months ended June 30, 2004 were \$2 million higher than the same period in 2003 reflecting TransCanada's August 2003 acquisition of the remaining ownership interests in Foothills not previously held.

Operating Statistics

Six months ended June 30 (unaudited)	Alberta System*		Canadian Mainline**		Foothills***		BC System	
	2004	2003	2004	2003	2004	2003	2004	2003
Average investment base (\$ millions)	4,719	4,938	8,274	8,659	722	746	230	238
Delivery volumes (Bcf)								
Total	1,925	1,971	1,355	1,419	552	522	162	126
Average per day	10.6	10.9	7.4	7.8	3.0	2.9	0.9	0.7

* Field receipt volumes for the Alberta System for the six months ended June 30, 2004 were 1,958 Bcf (2003 - 1,937 Bcf); average per day was 10.8 Bcf (2003 - 10.7 Bcf).

** Canadian Mainline deliveries originating at the Alberta border and in Saskatchewan for the six months ended June 30, 2004 were 1,016 Bcf (2003 - 1,093 Bcf); average per day was 5.6 Bcf (2003 - 6.0 Bcf).

*** The remaining interests in Foothills were acquired in August 2003. The delivery volumes in the table represent 100 per cent of Foothills.

Other Gas Transmission

TransCanada's proportionate share of net earnings from its Other Gas Transmission businesses was \$35 million for the three months ended June 30, 2004 compared to \$22 million for the same period in 2003. The 2004 results included a \$7 million gain on sale of Millennium which is reflected in general, administrative, support costs and other. Excluding this gain, earnings for the quarter increased \$6 million compared to the same period in 2003. The increase was primarily due to higher earnings from Great Lakes as a result of successful marketing of short-term services and higher earnings from Ventures LP as a result of the expansion completed in 2003.

Net earnings for the six months ended June 30, 2004 were \$72 million compared to \$61 million for the same period in 2003. Excluding the \$7 million gain on sale of Millennium recognized in second quarter 2004, year-to-date earnings were \$4 million higher compared to the same period in 2003. The increase was due to higher earnings from Great Lakes as a result of successful marketing of short-term services and increased earnings from TC PipeLines, LP and Ventures LP. These increases were partially offset by the impact of a weaker U.S. dollar and lower earnings from CrossAlta as a result of less favourable market conditions.

Power

Power Results-at-a-Glance

(unaudited)	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2004	2003	2004	2003
Western operations	35	60	70	103
Eastern operations	22	36	56	61
Bruce Power investment	48	16	96	54
Power LP investment	6	7	16	18
General, administrative, support costs and other	(24)	(22)	(49)	(43)
Operating and other income	87	97	189	193
Financial charges	(3)	(4)	(5)	(6)
Income taxes	(22)	(30)	(57)	(61)
	62	63	127	126
Gains related to Power LP (after tax)	187	-	187	-
Net earnings	249	63	314	126

Power's net earnings in second quarter 2004 of \$249 million increased \$186 million compared to \$63 million in second quarter 2003 primarily due to \$187 million of gains related to Power LP. During second quarter 2004, TransCanada completed the sale of the ManChief and Curtis Palmer power facilities to Power LP for US\$402.6 million, before closing adjustments, resulting in an after-tax gain on sale of \$15 million (pre-tax gain of \$25 million). At a meeting in April 2004, Power LP unitholders approved these acquisitions and the removal of Power LP's obligation to redeem all units not owned by TransCanada in 2017. TransCanada was required to fund this redemption, thus the removal of Power LP's obligation eliminates this requirement. In addition, in second quarter 2004, Power LP issued 8.1 million subscription receipts which were subsequently converted into partnership units and TransCanada invested \$20 million of the net proceeds of \$286.8 million realized from this issue. The net impact of this issue reduced TransCanada's ownership interest in Power LP from 35.6 per cent to 30.6 per cent. As a result of these events, TransCanada recognized dilution and other gains of \$172 million in second quarter 2004, \$132 million of which were previously deferred and were being amortized into income to 2017. Dilution gains arose when TransCanada's ownership interest in Power LP was decreased as a result of the Power LP issuing partnership units and the units were issued at a market price in excess of TransCanada's carrying value per unit of the investment. Excluding these one-time gains, Power's net earnings in second quarter 2004 of \$62 million decreased \$1 million compared to \$63 million in second quarter 2003. Higher earnings from Bruce Power were more than offset by lower contributions from Eastern Operations and Western Operations, reflecting the sale of ManChief and Curtis Palmer to Power LP, and the recognition in second quarter 2003 in Western Operations of a \$31 million pre-tax (\$19 after-tax) settlement with a former counterparty.

Net earnings for the six months ended June 30, 2004 of \$314 million increased \$188 million compared to \$126 million in the same period in 2003 primarily due to the \$187 million of gains recorded related to Power LP. Excluding the Power LP-related gains, Power's net earnings for the six months ended June 30, 2004 of \$127 million increased \$1 million compared to \$126 million in the same period in 2003. Higher earnings from Bruce Power were offset by lower contributions from Eastern Operations and Western Operations, reflecting the impacts of selling ManChief and Curtis Palmer to Power LP, the recognition in second quarter 2003 in Western Operations of the

\$31 million pre-tax settlement with a former counterparty and higher general, administrative, support costs and other.

Western Operations

Operating and other income from Western Operations of \$35 million and \$70 million for the three and six months ended June 30, 2004 was \$25 million and \$33 million lower, respectively, compared to the same periods in 2003. The decrease was mainly due to recognition in second quarter 2003 of a \$31 million (\$19 after-tax) settlement with a former counterparty which defaulted in 2001 under power forward contracts and lower ManChief income in second quarter 2004 as a result of the sale of the plant to Power LP in April 2004. Partially offsetting these decreases were fee revenues with respect to the sale of ManChief and Curtis Palmer to Power LP and the impact of higher net margins achieved on the overall portfolio of power in second quarter 2004.

Eastern Operations

Operating and other income from Eastern Operations of \$22 million and \$56 million for the three and six months ended June 30, 2004 was \$14 million and \$5 million lower, respectively, compared to the same periods in 2003. These decreases were mainly due to reduced contributions from the Curtis Palmer hydroelectric facilities as a result of the sale of these assets to Power LP in April 2004 and the unfavourable impact of a weaker U.S. dollar in 2004.

Bruce Power Investment

Bruce Power Results-at-a-Glance

(unaudited) (millions of dollars)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Bruce Power (100 per cent basis)				
Revenues	434	244	833	642
Operating expenses	(286)	(210)	(536)	(403)
Operating income	148	34	297	239
Financial charges	(15)	(15)	(33)	(32)
Income before income taxes	133	19	264	207
TransCanada's interest in Bruce Power income before income taxes*	42	6	83	40
Adjustments	6	10	13	14
TransCanada's income from Bruce Power before income taxes	48	16	96	54

* TransCanada acquired its interest in Bruce Power on February 14, 2003. Bruce Power's 100 per cent income before income taxes from February 14, 2003 to June 30, 2003 was \$126 million.

Bruce Power contributed \$48 million of pre-tax equity income in second quarter 2004 compared to \$16 million in second quarter 2003. TransCanada's share of power output for second quarter 2004 was 2,962 gigawatt hours (GWh) compared to 1,681 GWh in second quarter 2003. This increase primarily reflects higher output in 2004 as a result of the restart of Units 3 and 4 which have expanded capacity by approximately 1,500 megawatts (MW) from second quarter 2003 and correspondingly increased Bruce Power's operating expenses. Overall prices achieved during second quarter 2004 were approximately \$46 per megawatt hour (MWh) compared to an average realized price of \$45 per MWh in second quarter 2003. Approximately 55 per cent of the output was sold into Ontario's wholesale spot market in second quarter 2004 with the remainder being sold

under longer term contracts. On a per unit basis, the Bruce operating cost decreased to \$30 per MWh in second quarter 2004 from \$40 per MWh in second quarter 2003. This decrease was primarily due to increased output in 2004 plus lower costs as a result of fewer planned maintenance outages in 2004 as compared to 2003.

Pre-tax equity income for the six months ended June 30, 2004 was \$96 million compared to \$54 million for the same period in 2003. This increase was primarily due to higher output in 2004 as a result of the return to service of the Bruce A units as well as a full six months of earnings in 2004 compared to earnings from February 14 to June 30 in 2003, reflecting TransCanada's period of ownership in 2003. Operating costs for the six months ended June 30, 2004 were \$31 per MWh compared to \$36 per MWh for the period February 14 to June 30, 2003. Average realized prices in the six months ended June 30, 2004 were \$47 per MWh compared to \$52 per MWh during TransCanada's period of ownership ended June 30, 2003.

The Bruce units ran at an average availability of 92 per cent in second quarter 2004, whereas average availability during second quarter 2003 was 77 per cent reflecting higher planned maintenance outage hours in second quarter 2003. Availability for the six months ended June 30, 2004 was 86 per cent compared to 84 per cent for the period from February 14 to June 30, 2003. A scheduled maintenance outage on Unit 4 began on May 22, 2004 and the unit was returned to service on July 2, 2004.

Equity income from Bruce Power is directly impacted by fluctuations in wholesale spot market prices for electricity as well as overall plant availability, which in turn, is impacted by scheduled and unscheduled maintenance. To reduce its exposure to spot market prices, Bruce Power has entered into fixed price sales contracts. Approximately 43 per cent of planned output for the remainder of 2004 is under fixed price sales contracts. There is a planned maintenance outage of approximately two to three months at one of the Bruce B units commencing at the same time as a planned Bruce B vacuum building outage where all four Bruce B units will be out of operation for approximately one month, both beginning in third quarter 2004.

Power LP Investment

Operating and other income of \$6 million and \$16 million for the three and six months ended June 30, 2004 was \$1 million and \$2 million lower, respectively, compared to the same periods in 2003. The decrease was primarily due to Power's reduced ownership interest in Power LP in 2004 and the recognition of previously deferred gains resulting from the removal of the Power LP redemption obligation. Additional earnings from Power LP's acquisition of ManChief and Curtis Palmer partially offset these decreases.

General, Administrative, Support Costs and Other

General, administrative, support costs and other increased \$2 million and \$6 million for the three and six months ended June 30, 2004 compared to the same periods in 2003, mainly reflecting higher support costs as part of the company's increased investment in the Power business. Partially offsetting these higher support costs were lower business development expenditures.

Power Sales Volumes

(unaudited) (GWh)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Western operations ⁽¹⁾⁽³⁾	2,929	3,150	5,805	6,241
Eastern operations ⁽³⁾	1,474	1,724	3,085	3,409
Bruce Power investment ⁽²⁾	2,962	1,681	5,492	2,768
Power LP investment ⁽³⁾	536	459	1,108	1,022
Total	7,901	7,014	15,490	13,440

⁽¹⁾ Sales volumes include TransCanada's share of the Sundance B power purchase arrangement (50 per cent).

⁽²⁾ Acquired on February 14, 2003. Sales volumes reflect TransCanada's 31.6 per cent share of Bruce Power output from the date of acquisition.

⁽³⁾ ManChief and Curtis Palmer volumes are included in Power LP investment effective April 30, 2004.

Weighted Average Plant Availability ⁽¹⁾

(unaudited)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Western operations ⁽³⁾	93%	92%	96%	94%
Eastern operations ⁽³⁾	95%	92%	97%	88%
Bruce Power investment ⁽²⁾	92%	77%	86%	84%
Power LP investment ⁽³⁾	96%	90%	97%	94%
All plants	94%	86%	92%	89%

⁽¹⁾ Plant availability represents the percentage of time in the year that the plant is available to generate power, whether actually running or not and is reduced by planned and unplanned outages.

⁽²⁾ Comparative 2003 percentage is calculated from the February 14, 2003 date of acquisition. Bruce A Unit 3 is included effective March 1, 2004.

⁽³⁾ ManChief and Curtis Palmer are included in Power LP investment effective April 30, 2004.

Corporate

Net expenses were \$7 million and \$5 million for the three months ended June 30, 2004 and 2003, respectively. Net expenses were \$7 million for the six months ended June 30, 2004 compared to \$18 million for the same period in 2003. This \$11 million decrease was primarily due to income tax refunds and refund interest received in first quarter 2004.

Liquidity and Capital Resources**Funds Generated from Operations**

Funds generated from continuing operations were \$390 million and \$813 million for the three and six months ended June 30, 2004, respectively, compared with \$434 million and \$891 million for the same periods in 2003.

TransCanada expects that its ability to generate sufficient amounts of cash in the short term and the long term, when needed, and to maintain financial capacity and flexibility to provide for planned growth is adequate and remains substantially unchanged since December 31, 2003.

Investing Activities

In the three and six months ended June 30, 2004, capital expenditures, excluding acquisitions, totalled \$93 million (2003 - \$107 million) and \$194 million (2003 - \$183 million), respectively, and related primarily to construction of new power plants, and maintenance and capacity capital in the Gas Transmission business.

In the three and six months ended June 30, 2004, disposition of assets totalled \$408 million (2003 - nil) and related primarily to the sale of ManChief and Curtis Palmer to Power LP.

Acquisitions for the three and six months ended June 30, 2004 were \$14 million (2003 - \$3 million) and \$14 million (2003 - \$412 million), respectively.

Financing Activities

TransCanada retired long-term debt of \$25 million and \$501 million in the three and six months ended June 30, 2004, respectively. In February 2004, the company issued \$200 million of five year medium-term notes bearing interest at 4.1 per cent. In March 2004, the company issued US\$350 million of 30 year senior unsecured notes bearing interest at 5.6 per cent. For the six months ended June 30, 2004, outstanding notes payable decreased by \$301 million, while cash and short-term investments increased by \$657 million. The increase in cash and short-term investments and decrease in outstanding notes payable positions TransCanada for the acquisition of Gas Transmission Northwest Corporation (GTN) (see Other Recent Developments - Gas Transmission - Gas Transmission Northwest Corporation).

Dividends

On July 22, 2004, TransCanada's Board of Directors declared a quarterly dividend of \$0.29 per share for the quarter ending September 30, 2004 on the outstanding common shares. This is the 163rd consecutive quarterly dividend paid by TransCanada and its subsidiary on the common shares. It is payable on October 29, 2004 to shareholders of record at the close of business on September 30, 2004.

Contractual Obligations

At June 30, 2004, TransCanada held a 30.6 per cent interest in Power LP which is a publicly-held limited partnership. Until April 29, 2004, Power LP was required to redeem all units outstanding at June 30, 2017, not held directly or indirectly by TransCanada and TransCanada was required to fund the redemption in accordance with the terms of the Power LP Partnership Agreement. At a special meeting held on April 29, 2004, Power LP's unitholders approved the amendment of the terms of the Power LP Partnership Agreement to remove Power LP's obligation to redeem all units not owned by TransCanada in 2017.

Excluding the removal of the Power LP obligation, there have been no material changes to TransCanada's contractual obligations, including payments due for each of the next five years and thereafter, since December 31, 2003. For further information on these contractual obligations, refer to the MD&A in TransCanada's 2003 Annual Report.

Financial and Other Instruments

The following represents the material changes to the company's risk management and financial instruments since December 31, 2003 and reflects the impacts of the hedge accounting changes adopted prospectively, effective January 1, 2004, as further discussed under Accounting Changes - Hedging Relationships.

Foreign Exchange and Interest Rate Management Activity

The company manages certain foreign exchange risks of U.S. dollar debt and interest rate exposures of the Alberta System, the Canadian Mainline and the Foothills System through the use of foreign currency and interest rate derivatives. These derivatives are comprised of contracts for periods up to eight years. Certain of the realized gains and losses on interest rate derivatives are shared with shippers on predetermined terms.

Asset/(Liability) (millions of dollars)	June 30, 2004 (unaudited)		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Foreign Exchange				
Cross-currency swaps	(12)	(12)	(26)	(26)
Interest Rate				
Interest rate swaps				
Canadian dollars	18	18	2	15
U.S. dollars	7	7	-	8

At June 30, 2004, the principal amount of cross-currency swaps was US\$282 million (December 31, 2003 - US\$282 million). Notional principal amounts for interest rate swaps were \$669 million (December 31, 2003 - \$964 million) and US\$100 million (December 31, 2003 - US\$100 million).

The company manages the foreign exchange risk and interest rate exposures of its other U.S. dollar debt through the use of foreign currency and interest rate derivatives. These derivatives are comprised of contracts for periods up to nine years. The fair values of the interest rate derivatives are shown in the table below.

Asset/(Liability) (millions of dollars)	June 30, 2004 (unaudited)		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest Rate				
Interest rate swaps				
Canadian dollars	(6)	(6)	1	(3)
U.S. dollars	28	28	2	37
Forward Foreign Exchange Contracts				
U.S. dollars	(2)	(2)	-	1

At June 30, 2004, the notional principal amount for interest rate swaps was \$200 million (December 31, 2003 - \$150 million) and US\$550 million (December 31, 2003 - US\$500 million). The principal amount of forward foreign exchange contracts was US\$200 million (December 31, 2003 - US\$19 million).

Risk Management

With respect to continuing operations, TransCanada's market, financial and counterparty risks remain substantially unchanged since December 31, 2003. For further information on risks, refer to the MD&A in TransCanada's 2003 Annual Report.

Controls and Procedures

As of the end of the period covered by this quarterly report, TransCanada's management, together with TransCanada's President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer of TransCanada have concluded that the disclosure controls and procedures are effective.

There were no changes in TransCanada's internal control over financial reporting during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect TransCanada's internal control over financial reporting.

Critical Accounting Policy

TransCanada's critical accounting policy, which remains unchanged since December 31, 2003, is the use of regulatory accounting for its regulated operations. For further information on this critical accounting policy, refer to the MD&A in TransCanada's 2003 Annual Report.

Critical Accounting Estimates

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the company's consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. TransCanada's critical accounting estimates from December 31, 2003 continue to be depreciation expense and certain deferred after-tax gains and remaining obligations related to the Gas Marketing business. For further information on these critical accounting estimates, refer to the MD&A in TransCanada's 2003 Annual Report.

Accounting Changes

Asset Retirement Obligations

Effective January 1, 2004, the company adopted the new standard of the Canadian Institute of Chartered Accountants (CICA) Handbook Section "Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with asset retirement costs. This section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. The liability is accreted at the end of each period through charges to operating expenses. This accounting change was applied retroactively with restatement of prior periods.

The plant, property and equipment of the regulated natural gas transmission operations consist primarily of underground pipelines and above ground compression equipment and other facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the asset retirements. Management believes it is reasonable to assume that all retirement costs associated with the regulated pipelines will be recovered through tolls in future periods.

The impact of this accounting change resulted in an increase of \$2 million in the estimated fair value of the liability for TransCanada's Other Gas Transmission assets as at January 1, 2003 and December 31, 2003. The estimated fair value of this liability as at June 30, 2004 was \$11 million.

The plant, property and equipment in the Power business consists primarily of power plants in Canada and the United States. The impact of this accounting change resulted in an increase of \$6 million and \$7 million in the estimated fair value of the liability for the power plants and associated assets as at January 1, 2003 and December 31, 2003, respectively. The asset retirement cost, net of accumulated depreciation that would have been recorded if the cost had been recorded in the period in which it arose, is recorded as an additional cost of the assets as at January 1, 2003. The estimated fair value of the liability as at June 30, 2004 was \$23 million. The company has no legal liability for asset retirement obligations with respect to its investment in Bruce Power and the Sundance A and B power purchase arrangements.

The impact of this change on TransCanada's net income in prior periods was nil while the impact of this change in the three and six months ended June 30, 2004 was \$1 million.

Hedging Relationships

Effective January 1, 2004, the company adopted the provisions of the CICA's new Accounting Guideline "Hedging Relationships" that specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges, and the discontinuance of hedge accounting. In accordance with the provisions of this new guideline, TransCanada has recorded all derivatives on the Consolidated Balance Sheet at fair value.

This new guideline was applied prospectively and resulted in an increase in net income of \$4 million and \$2 million for the three and six months ended June 30, 2004, respectively. The significant impact of the accounting change on the Consolidated Balance Sheet as at January 1, 2004 is as follows.

(unaudited - millions of dollars)	Increase/(Decrease)
Current Assets	
Other	8
Other Assets	123
Total Assets	131
Current Liabilities	
Accounts Payable	8
Deferred Amounts	132
Long-Term Debt	(7)
Future Income Taxes	(1)
Total Liabilities	132

Generally Accepted Accounting Principles

Effective January 1, 2004, the company adopted the new standard of the CICA Handbook Section "Generally Accepted Accounting Principles" that defines primary sources of generally accepted accounting principles (GAAP) and the other sources that need to be considered in the application of GAAP. The new standard eliminates the ability to rely on industry practice to support a particular accounting policy.

This accounting change was applied prospectively and there was no impact on net income in the three and six months ended June 30, 2004. In prior periods, in accordance with industry practice, certain assets and liabilities related to the company's regulated activities, and offsetting deferral accounts, were not recognized on the balance sheet. The impact of the change on the consolidated balance sheet as at January 1, 2004 is as follows.

(unaudited - millions of dollars)	Increase/(Decrease)
Other Assets	153
Deferred Amounts	80
Long-Term Debt	76
Preferred Securities	(3)
Total Liabilities	153

Outlook

In 2004, the closing of the proposed acquisition of GTN and the gain on sale of Millennium will have a positive impact, and the EUB's decision received in July 2004 on the GCOC decision for Alberta utilities will have a negative impact, on the expected results of the Gas Transmission segment. For further information on the proposed acquisition of GTN and the EUB's decision, please refer to Other Recent Developments. In addition, the company expects higher Power net earnings in 2004 than originally anticipated as a result of the gains recognized on the sale of ManChief and Curtis Palmer to Power LP. Power earnings for the remainder of 2004 will be negatively impacted due to the recognition of previously deferred gains related to Power LP in second quarter 2004. Excluding these impacts and the receipts of income tax refunds and refund interest in first quarter 2004, the company's outlook is relatively unchanged since December 31, 2003. For further information on outlook, refer to the MD&A in TransCanada's 2003 Annual Report.

The company's net earnings and cash flow combined with a strong balance sheet continue to provide the financial flexibility for TransCanada to make disciplined investments in its core businesses of Gas Transmission and Power. Credit ratings on TransCanada PipeLines Limited's senior unsecured debt assigned by Dominion Bond Rating Service Limited (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's are currently A, A2 and A-, respectively. DBRS and Moody's both maintain a 'stable' outlook on their ratings and Standard & Poor's maintains a 'negative' outlook on its rating.

Other Recent Developments

Gas Transmission

Wholly-Owned Pipelines

Alberta System

In July 2003, TransCanada, along with other utilities, filed evidence in the GCOC Proceeding with the EUB. In July 2004, the company received the EUB's decision on GCOC for Alberta utilities. The decision establishes a generic rate of return on equity (ROE) of 9.60 per cent and a deemed common equity of 35 per cent for 2004 on the Alberta System. This is less than the applied for ROE of 11 per cent on deemed common equity of 40 per cent, which the company considers a fair return. Excluding the potential financial impact from the outcome of the Phase I General Rate Application (GRA) currently before the EUB, TransCanada estimates this will result in 2004 net earnings from the Alberta System of approximately \$155 million compared to net earnings of \$190 million in 2003.

The EUB's decision on GCOC sets a generic ROE for 2004 at 9.60 per cent for all Alberta utilities. Beginning in 2005, the EUB will adjust the ROE from year to year by 75 per cent of the change in long-term Canada bonds, consistent with the approach used by the NEB. The EUB has indicated that a review of the ROE adjustment mechanism will not occur prior to 2009, unless the ROE resulting from the adjustment mechanism is less than 7.6 per cent or greater than 11.6 per cent.

In September 2003, TransCanada filed Phase I of the 2004 GRA with the EUB, consisting of evidence in support of the applied for rate base and revenue requirement. The company applied for a composite depreciation rate of 4.13 per cent compared to the current depreciation rate of 4.00 per cent. The EUB hearing to consider the GRA Phase I took place in Calgary in April 2004 with final arguments and replies filed in May 2004. A decision is expected in third quarter 2004.

Phase II of the 2004 GRA, dealing primarily with rate design and services, was filed in December 2003. The oral portion of the Phase II hearing began in Calgary on June 9, 2004, with final argument filed on July 8, 2004 and reply argument to be filed on July 29, 2004. An EUB decision is expected in fourth quarter 2004.

In December 2003, the EUB approved TransCanada's application to charge interim tolls for transportation service, effective January 1, 2004. Final tolls for 2004 will be determined based on the EUB decision on the 2004 GRA and will incorporate the outcome from the EUB decisions in the GCOC proceeding.

Canadian Mainline

In April 2004, the Federal Court of Appeal dismissed TransCanada's appeal of the NEB's decision to deny TransCanada's Fair Return Review and Variance Application, while endorsing TransCanada's view of the law relating to the determination of a fair return by the NEB. The judgment has no impact on reported earnings for 2001, 2002 and 2003.

In December 2003, the NEB approved interim tolls effective January 1, 2004 for the Canadian Mainline. The 2004 Tolls and Tariff Application for the Canadian Mainline was filed in January 2004, and included a request for an 11 per cent return on a 40 per cent deemed common equity

component. In light of the Federal Court of Appeal decision, TransCanada informed the NEB that it will not contest the ROE formula in its 2004 Tolls and Tariff Application and has revised the Application to reflect the ROE formula of 9.56 per cent on 40 per cent deemed common equity. Phase I of the hearing which considers all issues raised by the application, with the exception of cost of capital, concluded June 25, 2004. A decision is expected in the latter part of third quarter 2004. The proceedings for Phase II of the hearing, which will address cost of capital, will take place in fourth quarter 2004.

Other Gas Transmission

Northern Development

TransCanada has been engaged in renewed discussions with Alaska North Slope producers and the State of Alaska (the State) relating to the Alaskan portion of the Alaska Highway Pipeline Project. In April 2004, TransCanada announced that it had signed a memorandum of understanding (MOU) with the State. In the MOU, TransCanada committed to file an application under the State's Stranded Gas Development Act, and the State will resume processing of TransCanada's long-pending application for a right-of-way lease on State lands. TransCanada holds the complementary rights-of-way on federal lands in the State. In the MOU, the State and TransCanada recognize the critical importance of upstream fiscal negotiations between the State and the North Slope producers.

In June 2004, TransCanada filed an application under the Alaska Stranded Gas Development Act. TransCanada anticipates that fiscal negotiations between the State of Alaska and the North Slope producers will continue at the same time as right-of-way activities and review of TransCanada's Stranded Gas Development Act application are taking place. Discussion on each of these will help advance the project.

Once the right-of-way lease application is approved, TransCanada would be prepared to convey the lease to another corporation or partnership if appropriate commercial agreements are in place. The lease conveyance would also require an interconnection agreement with TransCanada at the Yukon/Alaska border. In the meantime, TransCanada will continue to play a leadership role in both Canada and Alaska to advance the Alaska Highway pipeline project.

Gas Transmission Northwest Corporation

As described in the MD&A in TransCanada's 2003 Annual Report, TransCanada executed a Stock Purchase Agreement with National Energy & Gas Transmission, Inc., (NEGT) and certain of its subsidiaries to acquire GTN for US\$1.7 billion, including US\$0.5 billion of assumed debt, subject to closing adjustments. GTN owns and operates two pipeline systems – the Gas Transmission Northwest Pipeline System and the North Baja Pipeline System (North Baja). The acquisition of North Baja was subject to a right of first refusal in favour of a third party. That third party has now agreed to waive its right of first refusal in respect of the sale of North Baja to TransCanada and accordingly, TransCanada now expects to close on the Gas Transmission Northwest Pipeline System and North Baja at the same time.

In second quarter 2004, NEGТ's bankruptcy court approved both its Chapter 11 plan of reorganization and the sale of GTN to TransCanada. TransCanada has satisfied its pre-closing conditions under the purchase agreement and is awaiting the implementation of NEGТ's Chapter 11 plan of reorganization, which is the only remaining material closing condition in the transaction. NEGТ has informed TransCanada that, prior to implementing its Chapter 11 plan of

reorganization, it is diligently pursuing the resolution of other issues in the reorganization that are unrelated to GTN or the GTN transaction but nonetheless they believe are in the best interests of the estate and its creditors. NEGT has further stated that it believes that its plan will become effective no later than late third quarter or early fourth quarter of this year. The parties expect to close the GTN transaction promptly thereafter.

Power

MacKay River

The MacKay River 165 MW cogeneration plant, situated at Petro-Canada's MacKay River oilsands development, was declared contractually in-service on February 1, 2004. Unresolved integration issues with the host site prevented normal operations in first quarter and into second quarter 2004. Integration issues with the host site still continue, however, the plant operated on a more sustained basis late in second quarter 2004.

Bécancour

The Bécancour contract to develop a 550 MW natural gas-fired cogeneration power plant in Bécancour, Québec was approved by the Régie de l'Énergie in August 2003. The Bureau d'Audience Publique sur l'Environnement reviewed the Bécancour project and in April 2004 concluded the proposed cogeneration facility meets or exceeds all environmental regulations in Québec. In July 2004, TransCanada received final approval for this project from the Québec Government. Construction activities began at the site in July 2004 and the construction cost of the project is estimated at approximately \$500 million.

Share Information

As at June 30, 2004, TransCanada had 484,168,564 issued and outstanding common shares. In addition, there were 10,707,986 outstanding options to purchase common shares, of which 7,967,581 were exercisable as at June 30, 2004.

Selected Quarterly Consolidated Financial Data ⁽¹⁾

(unaudited) (millions of dollars except per share amounts)	2004		2003				2002	
	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenues	1,256	1,233	1,319	1,391	1,311	1,336	1,338	1,285
Net Income								
Continuing operations	388	214	193	198	202	208	180	175
Discontinued operations	-	-	-	50	-	-	-	-
	388	214	193	248	202	208	180	175
Share Statistics								
Net income per share - Basic								
Continuing operations	\$ 0.80	\$ 0.44	\$ 0.40	\$ 0.41	\$ 0.42	\$ 0.43	\$ 0.37	\$ 0.37
Discontinued operations	-	-	-	0.10	-	-	-	-
	\$ 0.80	\$ 0.44	\$ 0.40	\$ 0.51	\$ 0.42	\$ 0.43	\$ 0.37	\$ 0.37
Net income per share - Diluted	\$ 0.80	\$ 0.44	\$ 0.40	\$ 0.51	\$ 0.42	\$ 0.43	\$ 0.37	\$ 0.36
Dividend declared per common share	\$ 0.29	\$ 0.29	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.25	\$ 0.25

⁽¹⁾ The selected quarterly consolidated financial data has been prepared in accordance with Canadian GAAP.

Certain comparative figures have been reclassified to conform with the current year's presentation. For a discussion on the factors affecting the comparability of the financial data, including discontinued operations, refer to Note 1 and Note 17 of TransCanada's 2003 audited consolidated financial statements included in TransCanada's 2003 Annual Report.

Factors Impacting Quarterly Financial Information

In the Gas Transmission business, which consists primarily of the company's investments in regulated pipelines, annual revenues and net earnings fluctuate over the long term based on regulators' decisions and negotiated settlements with shippers. Generally, quarter over quarter revenues and earnings during any particular fiscal year remain fairly stable with fluctuations arising as a result of adjustments being recorded due to regulatory decisions and negotiated settlements with shippers and due to items outside of the normal course of operations.

In the Power business, which consists primarily of the company's investments in electrical power generation plants, quarter over quarter revenues and net earnings are affected by seasonal weather conditions, customer demand, market prices, planned and unplanned plant outages as well as items outside of the normal course of operations.

Significant items which impacted the last eight quarters' net earnings are as follows.

- In first quarter 2003, TransCanada completed the acquisition of a 31.6 per cent interest in Bruce Power, resulting in increased earnings in the Power business in 2004 and 2003 compared to 2002.
- In first quarter 2003, TransCanada reached a one-year Alberta System Revenue Requirement Settlement for 2003 which included a fixed revenue requirement component of \$1.277 billion compared to \$1.347 billion in 2002, resulting in lower earnings in the Transmission business in 2003 compared to 2002.
- Second quarter 2003 net earnings included a \$19 million positive after-tax earnings impact of a June 2003 settlement with a former counterparty that had previously defaulted under power forward contracts.

- Third quarter 2003 net earnings included TransCanada's \$11 million share of a future income tax benefit adjustment recognized by TransGas de Occidente S.A.
- First quarter 2004 net earnings included approximately \$12 million of income tax refunds and refund interest.
- Second quarter 2004 net earnings included gains related to Power LP of \$187 million.

Forward-Looking Information

Certain information in this quarterly report is forward-looking and is subject to important risks and uncertainties. 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, competitive factors in the pipeline and power industry sectors, and the prevailing economic conditions in North America. For additional information on these and other factors, see the reports filed by TransCanada with Canadian securities regulators and with the United States Securities and Exchange Commission. TransCanada disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated Income

(unaudited) (millions of dollars except per share amounts)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Revenues	1,256	1,311	2,489	2,647
Operating Expenses				
Cost of sales	152	189	279	369
Other costs and expenses	400	382	774	809
Depreciation	232	217	464	432
	784	788	1,517	1,610
Operating Income	472	523	972	1,037
Other Expenses/(Income)				
Financial charges	198	205	393	409
Financial charges of joint ventures	16	23	30	45
Equity income	(59)	(26)	(117)	(84)
Interest and other income	(16)	(22)	(31)	(35)
Gains related to Power LP	(197)	-	(197)	-
	(58)	180	78	335
Income from Continuing Operations before Income Taxes and Non-Controlling Interests	530	343	894	702
Income Taxes				
Current	131	74	238	136
Future	(2)	53	21	127
Non-Controlling Interests				
Preferred securities charges	8	9	16	18
Preferred share dividends	5	5	11	11
Other	-	-	6	-
Net Income	388	202	602	410
Net Income Per Share - Basic and Diluted	\$0.80	\$0.42	\$1.24	\$0.85
Average Shares Outstanding - Basic (millions)	484.0	481.1	483.7	480.6
Average Shares Outstanding - Diluted (millions)	486.6	482.9	486.3	482.5

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Cash Flows

(unaudited) (millions of dollars)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Cash Generated From Operations				
Net income	388	202	602	410
Depreciation	232	217	464	432
Future income taxes	(2)	53	21	127
Gains related to Power LP	(197)	-	(197)	-
Equity income in excess of distributions received	(39)	(8)	(90)	(59)
Non-controlling interests	13	14	33	29
Other	(5)	(44)	(20)	(48)
Funds generated from operations	390	434	813	891
(Increase)/Decrease in operating working capital	(30)	24	(72)	16
Net cash provided by continuing operations	360	458	741	907
Net cash used in discontinued operations	(8)	(88)	(10)	(84)
	352	370	731	823
Investing Activities				
Capital expenditures	(93)	(107)	(194)	(183)
Acquisitions, net of cash acquired	(14)	(3)	(14)	(412)
Disposition of assets	408	-	408	-
Deferred amounts and other	32	(47)	(11)	(65)
Net cash provided by/(used in) investing activities	333	(157)	189	(660)
Financing Activities				
Dividends and preferred securities charges	(158)	(149)	(306)	(288)
Notes payable repaid, net	(72)	(291)	(301)	(82)
Long-term debt issued	-	475	665	475
Reduction of long-term debt	(25)	(50)	(501)	(59)
Non-recourse debt of joint ventures issued	81	29	87	46
Reduction of non-recourse debt of joint ventures	(3)	(32)	(12)	(48)
Partnership units of joint ventures issued	88	-	88	-
Common shares issued	4	22	17	38
Net cash (used in)/provided by financing activities	(85)	4	(263)	82
Increase in Cash and Short-Term Investments	600	217	657	245
Cash and Short-Term Investments				
Beginning of period	395	240	338	212
Cash and Short-Term Investments				
End of period	995	457	995	457
Supplementary Cash Flow Information				
Income taxes paid	91	69	252	124
Interest paid	221	238	393	428

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheet

(millions of dollars)	June 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Current Assets		
Cash and short-term investments	995	338
Accounts receivable	587	605
Inventories	161	165
Other	143	88
	<u>1,886</u>	<u>1,196</u>
Long-Term Investments	827	733
Plant, Property and Equipment	17,005	17,460
Other Assets	1,361	1,164
	<u>21,079</u>	<u>20,553</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable	66	367
Accounts payable	941	1,025
Accrued interest	215	208
Current portion of long-term debt	597	550
Current portion of non-recourse debt of joint ventures	25	19
	<u>1,844</u>	<u>2,169</u>
Deferred Amounts	540	475
Long-Term Debt	9,807	9,465
Future Income Taxes	436	427
Non-Recourse Debt of Joint Ventures	853	761
Preferred Securities	20	22
	<u>13,500</u>	<u>13,319</u>
Non-Controlling Interests		
Preferred securities of subsidiary	671	672
Preferred shares of subsidiary	389	389
Other	81	82
	<u>1,141</u>	<u>1,143</u>
Shareholders' Equity		
Common shares	4,696	4,679
Contributed surplus	269	267
Retained earnings	1,506	1,185
Foreign exchange adjustment	(33)	(40)
	<u>6,438</u>	<u>6,091</u>
	<u>21,079</u>	<u>20,553</u>

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Retained Earnings

(unaudited) (millions of dollars)	Six months ended June 30	
	2004	2003
Balance at beginning of period	1,185	854
Net income	602	410
Common share dividends	(281)	(259)
	1,506	1,005

See accompanying Notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

The consolidated financial statements of TransCanada Corporation (TransCanada or the company) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The accounting policies applied are consistent with those outlined in TransCanada's annual financial statements for the year ended December 31, 2003 except as stated below. These consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. These consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements included in TransCanada's 2003 Annual Report. Amounts are stated in Canadian dollars unless otherwise indicated. Certain comparative figures have been reclassified to conform with the current period's presentation.

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions. In the opinion of Management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the company's significant accounting policies.

2. Accounting Changes

Asset Retirement Obligations

Effective January 1, 2004, the company adopted the new standard of the Canadian Institute of Chartered Accountants (CICA) Handbook Section "Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with asset retirement costs. This section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. The liability is accreted at the end of each period through charges to operating expenses. This accounting change was applied retroactively with restatement of prior periods.

The plant, property and equipment of the regulated natural gas transmission operations consist primarily of underground pipelines and above ground compression equipment and other facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the asset retirements. Management believes it is reasonable to assume that all retirement costs associated with the regulated pipelines will be recovered through tolls in future periods.

The impact of this accounting change resulted in an increase of \$2 million in the estimated fair value of the liability for TransCanada's Other Gas Transmission assets as at January 1, 2003 and December 31, 2003. The estimated fair value of this liability as at June 30, 2004 was \$11 million.

The plant, property and equipment in the Power business consists primarily of power plants in Canada and the United States. The impact of this accounting change resulted in an increase of \$6 million and \$7 million in the estimated fair value of the liability for the power plants and associated assets as at January 1, 2003 and December 31, 2003, respectively. The asset retirement cost, net of accumulated depreciation that would have been recorded if the cost had been recorded in the period in which it arose, is recorded as an additional cost of the assets as at January 1, 2003. The estimated fair value of the liability as at June 30, 2004 was \$23 million. The company has no legal liability for asset retirement obligations with respect to its investment in Bruce Power and the Sundance A and B power purchase arrangements.

The impact of this change on TransCanada's net income in prior periods was nil while the impact of this change in the three and six months ended June 30, 2004 was \$1 million.

Hedging Relationships

Effective January 1, 2004, the company adopted the provisions of the CICA's new Accounting Guideline "Hedging Relationships" that specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges, and the discontinuance of hedge accounting. In accordance with the provisions of this new guideline, TransCanada has recorded all derivatives on the Consolidated Balance Sheet at fair value.

This new guideline was applied prospectively and resulted in an increase in net income of \$4 million and \$2 million for the three and six months ended June 30, 2004, respectively. The significant impact of the accounting change on the Consolidated Balance Sheet as at January 1, 2004 is as follows.

(unaudited - millions of dollars)	Increase/(Decrease)
Current Assets	
Other	8
Other Assets	123
Total Assets	131
Current Liabilities	
Accounts Payable	8
Deferred Amounts	132
Long-Term Debt	(7)
Future Income Taxes	(1)
Total Liabilities	132

Generally Accepted Accounting Principles

Effective January 1, 2004, the company adopted the new standard of the CICA Handbook Section "Generally Accepted Accounting Principles" that defines primary sources of GAAP and the other sources that need to be considered in the application of GAAP. The new standard eliminates the ability to rely on industry practice to support a particular accounting policy.

This accounting change was applied prospectively and there was no impact on net income in the three and six months ended June 30, 2004. In prior periods, in accordance with industry practice, certain assets and liabilities related to the company's regulated activities, and offsetting deferral accounts, were

not recognized on the balance sheet. The impact of the change on the consolidated balance sheet as at January 1, 2004 is as follows.

(unaudited - millions of dollars)	Increase/(Decrease)
Other Assets	153
Deferred Amounts	80
Long-Term Debt	76
Preferred Securities	(3)
Total Liabilities	153

3. Segmented Information

	Gas Transmission		Power		Corporate		Total	
Three months ended June 30 (unaudited - millions of dollars)	2004	2003	2004	2003	2004	2003	2004	2003
Revenues	948	944	308	367	-	-	1,256	1,311
Cost of sales	-	-	(152)	(189)	-	-	(152)	(189)
Other costs and expenses	(298)	(301)	(101)	(79)	(1)	(2)	(400)	(382)
Depreciation	(215)	(195)	(17)	(22)	-	-	(232)	(217)
Operating income/(loss)	435	448	38	77	(1)	(2)	472	523
Financial charges and non-controlling interests	(189)	(194)	(2)	(3)	(20)	(22)	(211)	(219)
Financial charges of joint ventures	(15)	(22)	(1)	(1)	-	-	(16)	(23)
Equity income	11	10	48	16	-	-	59	26
Interest and other income	9	3	1	4	6	15	16	22
Gains related to Power LP	-	-	197	-	-	-	197	-
Income taxes	(105)	(101)	(32)	(30)	8	4	(129)	(127)
Net Income	146	144	249	63	(7)	(5)	388	202

	Gas Transmission		Power		Corporate		Total	
Six months ended June 30 (unaudited - millions of dollars)	2004	2003	2004	2003	2004	2003	2004	2003
Revenues	1,897	1,904	592	743	-	-	2,489	2,647
Cost of sales	-	-	(279)	(369)	-	-	(279)	(369)
Other costs and expenses	(583)	(605)	(188)	(200)	(3)	(4)	(774)	(809)
Depreciation	(427)	(389)	(37)	(43)	-	-	(464)	(432)
Operating income/(loss)	887	910	88	131	(3)	(4)	972	1,037
Financial charges and non-controlling interests	(381)	(390)	(4)	(5)	(41)	(43)	(426)	(438)
Financial charges of joint ventures	(29)	(44)	(1)	(1)	-	-	(30)	(45)
Equity income	21	30	96	54	-	-	117	84
Interest and other income	12	8	5	8	14	19	31	35
Gains related to Power LP	-	-	197	-	-	-	197	-
Income taxes	(215)	(212)	(67)	(61)	23	10	(259)	(263)
Net Income	295	302	314	126	(7)	(18)	602	410

Total Assets

(millions of dollars)	June 30, 2004 (unaudited)	December 31, 2003
Gas Transmission	16,814	16,974
Power	2,602	2,753
Corporate	1,658	815
Continuing Operations	21,074	20,542
Discontinued Operations	5	11
	21,079	20,553

4. Risk Management and Financial Instruments

The following represents the material changes to the company's risk management and financial instruments since December 31, 2003 and reflects the impacts of the hedge accounting changes adopted prospectively, effective January 1, 2004, as further discussed under Note 2, Accounting Changes - Hedging Relationships.

Foreign Exchange and Interest Rate Management Activity

The company manages certain foreign exchange risks of U.S. dollar debt and interest rate exposures of the Alberta System, the Canadian Mainline and the Foothills System through the use of foreign currency and interest rate derivatives. These derivatives are comprised of contracts for periods up to eight years. Certain of the realized gains and losses on interest rate derivatives are shared with shippers on predetermined terms.

Asset/(Liability) (millions of dollars)	June 30, 2004 (unaudited)		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Foreign Exchange				
Cross-currency swaps	(12)	(12)	(26)	(26)
Interest Rate				
Interest rate swaps				
Canadian dollars	18	18	2	15
U.S. dollars	7	7	-	8

At June 30, 2004, the principal amounts of cross-currency swaps was US\$282 million (December 31, 2003 - US\$282 million). Notional principal amounts for interest rate swaps were \$669 million (December 31, 2003 - \$964 million) and US\$100 million (December 31, 2003 - US\$100 million).

The company manages the foreign exchange risk and interest rate exposures of its other U.S. dollar debt through the use of foreign currency and interest rate derivatives. These derivatives are comprised of contracts for periods up to nine years. The fair values of the interest rate derivatives are shown in the table below.

Asset/(Liability) (millions of dollars)	June 30, 2004 (unaudited)		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest Rate				
Interest rate swaps				
Canadian dollars	(6)	(6)	1	(3)
U.S. dollars	28	28	2	37
Forward Foreign Exchange Contracts				
U.S. dollars	(2)	(2)	-	1

At June 30, 2004, the notional principal amount for interest rate swaps was \$200 million (December 31, 2003 - \$150 million) and US\$550 million (December 31, 2003 - US\$500 million). The principal amount of forward foreign exchange contracts was US\$200 million (December 31, 2003 - US\$19 million).

5. Power LP

On April 30, 2004, TransCanada sold the ManChief and Curtis Palmer power facilities for US\$402.6 million, before closing adjustments, to TransCanada Power, L.P. (Power LP) and recognized a gain of \$15 million after tax. Power LP funded the purchase through an issue of 8.1 million subscription receipts, which closed April 15, 2004, and third party debt. As part of the subscription receipts offering, TransCanada purchased 540,000 subscription receipts for an aggregate purchase price of approximately \$20 million. The subscription receipts were subsequently converted into partnership units. The net impact of this issue reduced TransCanada's ownership interest in Power LP from 35.6 per cent to 30.6 per cent.

At a special meeting held on April 29, 2004, Power LP's unitholders approved an amendment to the terms of the Power LP Partnership Agreement to remove Power LP's obligation to redeem all units not owned by TransCanada at June 30, 2017. TransCanada was required to fund this redemption, thus the removal of Power LP's obligation eliminates this requirement. The removal of the obligation and the reduction in TransCanada's ownership interest in Power LP resulted in a gain of \$172 million. This amount primarily reflects the recognition of unamortized gains on previous Power LP transactions.

6. Employee Future Benefits

The net benefit plan expense for the company's defined benefit pension plans and other post-employment benefit plans for the three and six months ended June 30 is as follows.

Three months ended June 30 (unaudited - millions of dollars)	Pension Benefit Plans		Other Benefit Plans	
	2004	2003	2004	2003
Current service cost	7	7	1	1
Interest cost	14	13	2	2
Expected return on plan assets	(13)	(13)	-	-
Amortization of net actuarial loss	3	2	-	-
Net benefit cost recognized	11	9	3	3

Six months ended June 30 (unaudited - millions of dollars)	Pension Benefit Plans		Other Benefit Plans	
	2004	2003	2004	2003
Current service cost	14	13	1	1
Interest cost	28	26	3	3
Expected return on plan assets	(27)	(26)	-	-
Amortization of transitional obligation related to regulated business	-	-	1	1
Amortization of net actuarial loss	6	4	1	1
Amortization of past service costs	1	1	-	-
Net benefit cost recognized	22	18	6	6

7. Acquisition of Gas Transmission Northwest Corporation

On February 24, 2004, TransCanada announced an agreement to acquire Gas Transmission Northwest Corporation (GTN) from National Energy & Gas Transmission Inc. (NEGT) for approximately US\$1.7 billion, including US\$0.5 billion of assumed debt and subject to closing adjustments. GTN is a natural gas pipeline company that owns and operates two pipeline systems. TransCanada has satisfied its pre-closing conditions under the purchase agreement and is awaiting the implementation of NEG's plan of reorganization, which is the only remaining material closing condition in the transaction. The purchase is expected to close late in third quarter or early in fourth quarter of this year.

TransCanada welcomes questions from shareholders and potential investors. Please telephone:

Investor Relations, at 1-800-361-6522 (Canada and U.S. Mainland) or direct dial David Moneta/Debbie Stein at (403) 920-7911. The investor fax line is (403) 920-2457. Media Relations: Hejdi Feick/Kurt Kadatz at (403) 920-7859

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