



**TRANSCANADA CORPORATION**

**ANNUAL INFORMATION FORM**

**February 23, 2009**

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## PRESENTATION OF INFORMATION

Unless the context indicates otherwise, a reference in this Annual Information Form ("*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 legal entities controlled by, TransCanada or TCPL, as applicable.

Unless otherwise noted, the information contained in this AIF is given at or for the year ended December 31, 2008 ("*Year End*"). Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles.

Certain portions of TransCanada's Management's Discussion and Analysis dated February 23, 2009 ("*MD&A*") are incorporated by reference into this AIF as stated below. The MD&A can be found on SEDAR at [www.sedar.com](http://www.sedar.com) under TransCanada's profile.

The Accounting Standards Board ("*AcSB*") of the Canadian Institute of Chartered Accountants has announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards ("*IFRS*"), as issued by the International Accounting Standards Board, effective January 1, 2011. In June 2008, the Canadian Securities Administrators proposed that Canadian public companies that are United States Securities and Exchange Commission ("*SEC*") registrants, such as TransCanada, retain the option to prepare their financial statements under generally accepted accounting principles in the United States ("*US GAAP*") instead of IFRS. In November 2008, the SEC issued for public comment a recommendation that, beginning in 2014, United States issuers be required to adopt IFRS using a phased-in approach based on market capitalization. TransCanada is currently considering the impact a conversion to IFRS or US GAAP would have on its accounting systems and financial statements. For more information on TransCanada's conversion project, see TransCanada's MD&A under "Accounting Changes – International Financial Reporting Standards".

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 may contain certain information that is forward-looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward-looking information. Forward-looking statements in this document are intended to provide TransCanada shareholders and potential investors with information regarding TransCanada and its subsidiaries, including management's assessment of TransCanada's and its subsidiaries' future financial and operational plans and outlook. Forward-looking statements in this document may include, among others, statements regarding the anticipated business prospects and financial performance of TransCanada and its subsidiaries, expectations or projections about the future, strategies and goals for growth and expansion, expected and future cash flows, costs, schedules, operating and financial results and expected impact of future commitments and contingent liabilities. All forward-looking statements reflect TransCanada's beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of TransCanada to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of the Company's pipeline and energy assets, the availability and price of energy commodities, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and the current economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, including those material risks discussed in this AIF under "Risk Factors", which could cause TransCanada's actual results and experience to differ materially from the anticipated results or expectations expressed. Additional information on these and other factors is available in the reports filed by TransCanada with Canadian securities regulators and with the SEC. Readers are cautioned to not place undue reliance on this forward-looking information, which is given as of the date it is expressed in this AIF or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. 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.

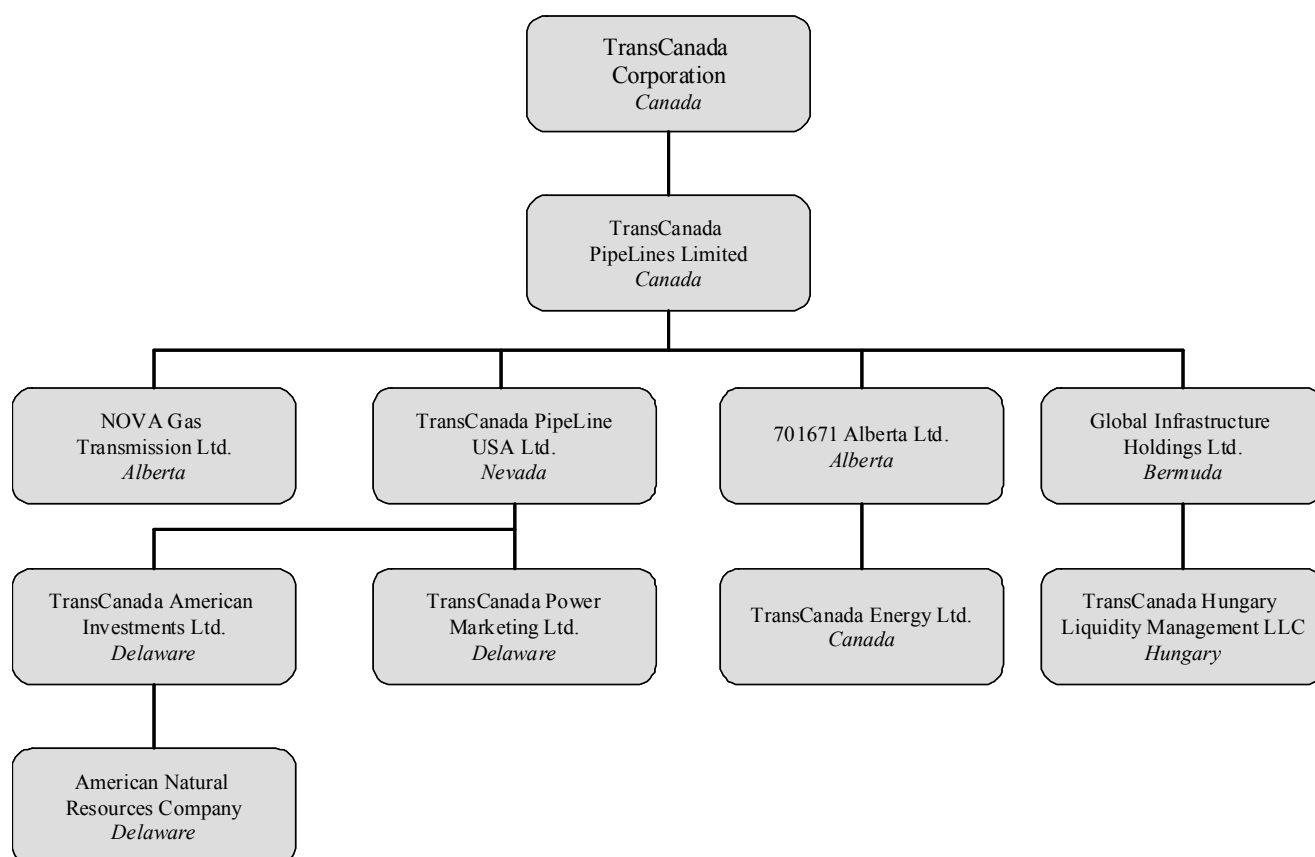
## TRANSCANADA CORPORATION

### Corporate Structure

TransCanada's head office and registered office are located at 450 - First Street S.W., Calgary, Alberta, T2P 5H1. TransCanada was incorporated pursuant to the provisions of the *Canada Business Corporations 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.

### Intercorporate Relationships

The following diagram presents the name and jurisdiction of incorporation, continuance or formation of TransCanada's principal subsidiaries as at December 31, 2008. Each of these subsidiaries has total assets that exceeded 10% of the total consolidated assets of TransCanada or revenues that exceeded 10% of the total consolidated revenues of TransCanada as at and for the year ended December 31, 2008. TransCanada owns, directly or indirectly, 100 per cent of the voting shares of each of these subsidiaries.



The above diagram does not include all of the subsidiaries of TransCanada. The assets and revenues of excluded subsidiaries in the aggregate did not exceed 20% of the total consolidated assets or total consolidated revenues of TransCanada as at and for the year ended December 31, 2008.

## 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 are principally comprised of the Company's pipelines in Canada, the U.S. and Mexico and its regulated natural gas storage operations in the U.S. Energy includes the Company's power operations, the non-regulated natural gas storage business, and liquefied natural gas ("LNG") projects.

### 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.

#### 2008

##### *Pipeline Developments*

- January 4, 2008. The State of Alaska announced that TransCanada had submitted a complete *Alaska Gasline Inducement Act* ("AGIA") application for a license to construct the Alaska Pipeline Project and would be advancing to the public comment stage.
- February 2008. In 2005, certain subsidiaries of Calpine Corporation ("Calpine") filed for bankruptcy protection in both Canada and the U.S. The Portland Natural Gas Transmission System (the "*Portland System*") and GTNC reached agreement with Calpine for allowed unsecured claims in the Calpine bankruptcy of US\$125 million and US\$192.5 million, respectively. Creditors were to receive shares in the re-organized Calpine and these shares would be subject to market price fluctuations as the new Calpine shares began to trade. In February 2008, the Portland System and GTNC received partial distributions of 6.1 million shares and 9.4 million shares, respectively. Subsequently, these shareholdings were sold into the market. Claims of Nova Gas Transmission Limited ("NGTL") and Foothills Pipe Lines (South B.C.) Ltd., both wholly-owned subsidiaries of TransCanada, for \$31.6 million and \$44.4 million, respectively, were received in cash in January 2008 and were passed on to shippers on these systems.
- March 14, 2008. TransCanada Keystone Pipeline, LP ("*Keystone U.S.*") received a Presidential Permit authorizing the construction, maintenance and operation of facilities at the United States and Canada border for the transportation of crude oil between the two countries. The Presidential Permit was a significant regulatory approval required to begin construction of the 3,456 kilometre ("*km*") pipeline project that will transport crude oil from Alberta to markets in the United States (the "*Keystone Oil Pipeline*"). The Presidential Permit was issued following the issuance by the U.S. Department of State of the Final Environmental Impact Statement ("*FEIS*") on January 11, 2008 for the construction of the Keystone U.S. pipeline and its Cushing extension. The FEIS stated the pipeline would result in limited adverse environmental impacts. Construction of the Keystone Oil Pipeline began in May 2008 in both Canada and the United States. Commissioning of the segment to Wood River and Patoka is expected to commence in late 2009 with commercial operations to follow in early 2010. Commissioning of the segment providing service to Cushing is expected to commence in late 2010.
- April 2008. An expansion to TransCanada's natural gas transmission system in the province of Alberta (the "*Alberta System*") in the Fort McMurray area, comprising a total of approximately 150 km, was placed in service on its projected on-stream date.
- July 16, 2008. TransCanada announced plans to expand and extend the Keystone Oil Pipeline system and provide additional capacity in 2012 of 500,000 barrels per day ("*Bbl/d*") from Western Canada to the United States Gulf Coast, near existing terminals in Port Arthur, Texas. The expansion, when completed, is expected to increase the Keystone Oil Pipeline system from 590,000 Bbl/d to approximately 1.1 million Bbl/d. Construction of the expansion facilities is expected to commence in 2010 subject to the receipt of the necessary regulatory approvals.
- September 3, 2008. TransCanada acquired Bison Pipeline LLC from Northern Border Pipeline Company ("NBPL") for US\$20 million. The assets of Bison Pipeline LLC included executed precedent agreements as well

as regulatory, environmental and engineering work on the Bison Pipeline Project ("*Bison*"), a proposed 480 km (298 mile) pipeline from the Powder River Basin in Wyoming to the Northern Border Pipeline system in Morton County, North Dakota.

- September 8, 2008. TransCanada reached a proposed agreement with Canadian Utilities Limited ("*ATCO Pipelines*") to provide integrated natural gas transmission service to customers. If approved by the regulatory authorities, the two companies will combine physical assets under a single rates and services structure with a single commercial interface with customers but with each company separately managing assets within distinct operating territories in the province. TransCanada continues to work with all stakeholders to finalize this agreement.
- October 29, 2008. TransCanada announced that the Keystone Oil Pipeline system successfully conducted the open season for expansion and extension to the United States Gulf Coast by securing additional firm, long-term contracts totaling 380,000 Bbl/d for an average term of approximately 17 years. With these shipper commitments the Keystone Oil Pipeline system has long-term commitments for 910,000 Bbl/d for an average term of approximately 18 years. This includes commitments made by shippers to sign transportation service agreements for 35,000 Bbl/d capacity in an open season to be held in 2009. The commitments represent approximately 83 per cent of the 1.1 million Bbl/d commercial design of the system.
- December 5, 2008. The Alaska Commissioner of Revenue and Natural Resources issued the AGIA license to TransCanada to advance the Alaska Pipeline Project, following on the approval by the Alaska Senate on August 1, 2008 of TransCanada's application for the license. TransCanada has committed under the AGIA to advance the Alaska Pipeline Project through an open season and subsequent United States Federal Energy Regulatory Commission ("*FERC*") certification. TransCanada has commenced the engineering, environmental, field and commercial work, and expects to conclude an open season by July 31, 2010. Under AGIA, the State of Alaska has agreed to reimburse a share of the eligible pre-construction costs to TransCanada to a maximum of US\$500 million.
- TransCanada agreed to increase its equity ownership in Keystone U.S. and TransCanada Keystone Pipeline Limited Partnership ("*Keystone Canada*") up to 79.99 per cent from 50 per cent with ConocoPhillips' equity ownership being reduced concurrently to 20.01 per cent.
- TransCanada continued funding of the Mackenzie Valley Aboriginal Pipeline Limited Partnership for its participation in the Mackenzie Gas Pipeline Project, a proposed 1,200 km (746 mile) natural gas pipeline to be constructed from a point near Inuvik, Northwest Territories to the northern border of Alberta, where it is expected to connect to the Alberta System.

### ***Regulatory Matters***

- January 2008. Gas Transmission Northwest Corporation ("*GTNC*"), a wholly-owned subsidiary of TransCanada, filed a Stipulation and Agreement with the FERC on October 31, 2007 comprised of an uncontested settlement of all aspects of its 2006 General Rate Case. On January 7, 2008, the FERC issued an order approving the settlement. The settlement rates were effective retroactive to January 1, 2007.
- March 18, 2008. TransCanada filed an application with the National Energy Board ("*NEB*") to increase the interim tolls on its Canadian gas pipeline system (the "*Canadian Mainline*") previously approved in December 2007. This toll increase was a result of a significant decrease in forecasted flows on the Canadian Mainline and was intended to allow TransCanada to more accurately meet its 2008 revenue requirement. On March 28, 2008, the NEB approved the amended interim tolls for transportation service effective April 1, 2008.
- June 17, 2008. TransCanada filed an application with the NEB to establish federal regulation for TransCanada's Alberta System. The application for a certificate of public convenience and necessity and related approvals was made to recognize that TransCanada's Alberta System was subject to Canadian federal jurisdiction and its operations to regulation by the NEB. An oral hearing to discuss this matter began on November 18, 2008 and concluded on November 28, 2008. A decision on the matter is expected to be issued by the end of February 2009. Currently, the provincial regulation of the Alberta System precludes TransCanada from acquiring, constructing or operating facilities that transport natural gas across Alberta provincial borders. Federal regulation would enable the Alberta System to extend across provincial borders, thereby providing integrated service to Alberta and British Columbia customers, and northern natural gas producers.
- June, 2008. The NEB approved TransCanada's application for additional pumping facilities required to expand the Canadian portion of the Keystone Oil Pipeline project from a nominal capacity of approximately 435,000

Bbl/d to 590,000 Bbl/d to accommodate volumes to be delivered to the Cushing markets, after holding an oral hearing on April 8, 2008. The hearing and decision followed on an application filed by Keystone Canada with the NEB in November 2007.

- October 10, 2008. The Alberta Utilities Commission ("AUC") approved TransCanada's application for a permit to construct the North Central Corridor expansion, at a cost of approximately \$925 million. The expansion comprises a 42-inch, 300 km (186 mile) natural gas pipeline and associated compression facilities on the northern section of the Alberta System. Construction on the project began in October 2008. The decision followed on a non-routine application filed with the Alberta Energy and Utilities Board ("EUB") on November 20, 2007.
- December 17, 2008. The AUC approved NGTL's 2008-2009 Revenue Requirement Settlement Application as filed, in its entirety. As part of the settlement, fixed costs were established for operation, maintenance and administration costs, return on equity and income taxes. Any variances between actual costs and those agreed to in the settlement accrue to TransCanada, subject to a return on equity and income tax adjustment mechanism, which accounts for variances between actual and settlement rate base and income tax assumptions. The other cost elements of the settlement are treated on a flow-through basis. The AUC also approved the 2008 Interim Rates of NGTL on a final basis for the period January 1, 2008 to December 31, 2008.

Further information about these developments can be found in the MD&A under the headings "TransCanada's Strategy", "Pipelines – Highlights", and "Pipelines – Opportunities and Developments".

## 2007

### *Pipeline Developments*

- February 9, 2007. TransCanada received approval from the NEB to transfer a section of its Canadian Mainline transmission facilities to the Keystone Oil Pipeline project to transport crude oil from Alberta to refining centres in the U.S. Midwest and to construct and operate new oil pipeline facilities in Canada. 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 was to obtain binding commitments to support the expansion of the proposed Keystone Oil Pipeline from approximately 435,000 Bbl/d to 590,000 Bbl/d and the construction of a 468 kilometre extension of the U.S. portion of the pipeline.
- February 22, 2007. TransCanada closed its acquisitions of American Natural Resources Company and ANR Storage Company (collectively, "ANR") and acquired an additional 3.6 per cent interest in Great Lakes Gas Transmission Partnership ("Great Lakes") from El Paso Corporation for a total of US\$3.4 billion, subject to certain post-closing adjustments, including approximately US\$491 million of assumed long-term debt. Additionally, TransCanada increased its ownership in TC PipeLines, LP to 32.1 per cent in conjunction with the TC PipeLines, LP acquisition of a 46.4 per cent interest in Great Lakes. TransCanada subsequently became the operator of NBPL and now operates all three TC PipeLines, LP investments. The acquisition was financed partly through an offering of 39,470,000 subscription receipts at \$38.00 per subscription receipt, which resulted in gross proceeds to TransCanada of approximately \$1.725 billion including the exercise of an over-allotment option granted to the underwriters. Upon closing of the acquisition of ANR, the subscription receipts were automatically exchanged, without the payment of any additional consideration by the subscribers, on a one-to-one basis for common shares of TransCanada ("Common Shares").
- December 2007. ConocoPhillips contributed \$207 million to acquire a 50 per cent ownership interest in the Keystone Oil Pipeline. Affiliates of TransCanada will be responsible for constructing and operating the Keystone Oil Pipeline.

### *Regulatory Matters*

- February 2007. TransCanada received approval from the NEB to integrate its natural gas pipeline system in southern British Columbia with its natural gas pipeline systems in southern Alberta and southwestern Saskatchewan (collectively, the "Foothills System") effective April 1, 2007.
- May 2007. TransCanada's five-year settlement with interested stakeholders for the years 2007 to 2011 on its Canadian Mainline was approved by the NEB. The settlement reflects, among other things, a deemed common equity ratio of 40 per cent.

**2006*****Pipeline Developments***

- April 2006. TC PipeLines, LP, an affiliate of TransCanada, acquired an additional 20 per cent general partnership interest in NBPL for approximately US\$307 million which brought its total general partnership interest in NBPL owned by TC Pipelines, LP to 50 per cent. TC PipeLines, LP also indirectly assumed approximately US\$122 million of the debt of NBPL. 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 proceeds of \$35 million, net of current taxes.
- December 2006. The 130 km Tamazunchale natural gas pipeline in east-central Mexico went into commercial service.
- December 2006. TC PipeLines, LP acquired an additional 49 per cent ownership interest in Tuscarora Gas Transmission Company ("*Tuscarora*"). TransCanada became the operator of Tuscarora.

***Regulatory Matters***

- February 2006. TransCanada filed an application with the FERC for a certificate for a two-phase expansion of its existing natural gas pipeline in southern California, the North Baja system ("*North Baja*") and the construction of a new lateral pipeline in California's Imperial Valley.
- April 2006. The NEB approved a negotiated settlement of the 2006 Canadian Mainline tolls which included an increase in the deemed common equity ratio to 36 per cent from 33 per cent and incentives for managing costs 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 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.

**Developments in the Energy Business**

TransCanada has built a substantial energy business over the past decade and has achieved a significant presence in power generation in selected regions of Canada and U.S. More recently, TransCanada has also developed a significant non-regulated natural gas storage business in Alberta. Summarized below are significant developments that have occurred in TransCanada's energy business over the last three years.

**2009**

- February 19, 2009. The FERC approved two separate applications filed by TransCanada on December 19, 2008 requesting approval to charge negotiated rates and to proceed with an open season in the spring of 2009 for each of the Zephyr ("*Zephyr*") and Chinook ("*Chinook*") transmission line projects. Both projects are proposed 500 kilovolt high voltage direct current transmission projects. Zephyr is a proposed 1,760 km (1,100 mile) transmission line that would originate in Wyoming, and Chinook is a proposed 1,600 km (1,000 mile) project that would originate in Montana. Both projects would terminate in Nevada, and it is anticipated that each would deliver 3,000 MW of primarily wind generation resources to markets in the southwestern United States. Pending successful completion of the open seasons, regulatory work could commence later in 2009.

**2008*****Energy Developments***

- January 2008. A milestone in the Bruce Power A L.P. ("*Bruce A*") Units 1 and 2 refurbishment and restart project was completed when the sixteenth and final new steam generator was installed. With the completion of this stage of the project, the authorized funding for Units 1 and 2 was increased from \$2.75 billion to approximately \$3.0 billion. This process was expected to result in a further increase in the total project cost to complete the Unit 1 and 2 restart. Project cost increases are subject to the capital cost-risk and reward-sharing mechanism under the agreement with the Ontario Power Authority. Bruce A Units 1 and 2 are expected to produce an additional 1,500 megawatts ("*MW*") when completed in 2010.



- February 2008. The potential anchor LNG supplier for the Cacouna LNG project ("*Cacouna*") terminal in Québec announced it would no longer be pursuing the development of its LNG supply as originally planned. Although Cacouna received its primary regulatory approvals, project development has been suspended until alternate LNG supply is acquired and the North American market for LNG grows.
- April 2008. The comprehensive review of costs to complete the Bruce A Units 1 and 2 refurbishment and restart project was completed. Based on this assessment, the capital cost for the restart and refurbishment of Bruce A Units 1 and 2 is expected to be approximately \$3.4 billion, up from an original 2005 cost estimate of \$2.75 billion. TransCanada's share is expected to be approximately \$1.7 billion compared to an original estimate of \$1.4 billion.
- May 12, 2008. TransCanada announced that the Phoenix, Arizona based utility, Salt River Project, signed a 20 year power purchase agreement to secure 100 per cent of the output from the Coolidge Generating Station ("*Coolidge*"), a 575 MW simple-cycle natural gas-fired peaking power generation station currently in development to be located 72 km (45 miles) southeast of Phoenix in Coolidge, Arizona. In December 2008, the Arizona Corporation Commission granted a Certificate of Environmental Compatibility approving Coolidge. Construction is scheduled to begin in the summer of 2009, and the facility is expected to be commissioned in 2011.
- May 30, 2008. Portlands Energy Centre, a natural gas-fired combined-cycle power plant near downtown Toronto, Ontario ("*Portlands Energy Centre*") went into service in simple-cycle mode, capable of delivering 340 MW of power during the summer of 2008. Portlands Energy Centre, which is 50 per cent owned by TransCanada, is currently under construction and is expected to be fully commissioned in combined-cycle mode in first quarter 2009 with delivery capabilities of 550 MW of power.
- July 4, 2008. Hydro-Québec Distribution notified the Régie de l'énergie that it would exercise its option to extend the suspension of all electricity generation from TransCanada's 550 MW Bécancour cogeneration power plant near Trois-Rivières, Québec ("*Bécancour*") throughout 2009. This followed on TransCanada's agreement with Hydro-Québec Distribution to temporarily suspend all electricity generation from Bécancour during 2008. TransCanada will continue to receive payments under the agreement similar to those that would have been received under the normal course of operation.
- July 9, 2008. TransCanada announced that the Kibby Wind Power Project received unanimous final development plan approval from Maine's Land Use Regulation Commission. Construction on the project began in July 2008. The capital cost of the project is expected to be approximately US\$320 million with commissioning of the first phase expected to begin in fourth quarter 2009.
- August 26, 2008. TransCanada completed its acquisition of the 2,480 MW Ravenswood Generating Station ("*Ravenswood*") located at Queen's, New York for US\$2.9 billion, subject to certain post-closing adjustments. The acquisition was completed pursuant to a membership interest and stock purchase agreement between KeySpan Corporation, KeySpan Energy Corporation and TransCanada Facility USA, Inc. dated March 31, 2008 (the "*Ravenswood Agreement*") whereby TransCanada Facility USA, Inc. agreed to acquire all of the outstanding membership interests of KeySpan-Ravenswood, LLC and all of the outstanding shares of KeySpan Ravenswood Services Corp. from National Grid plc. KeySpan-Ravenswood, LLC directly or indirectly owned or controlled Ravenswood. The acquisition was financed through a combination of equity and term debt offerings, funds drawn on a newly established bridge loan facility and cash on hand (see "Financing Activities" below).
- November 22, 2008. The Carleton wind farm, the third of six phases of a wind energy project contracted by Hydro-Québec Distribution in the Gaspé Region of Québec (the "*Cartier Wind Energy Project*"), went into service and is capable of generating 109 MW of power.
- In fourth quarter 2008, Bruce Power completed a review of the end of life estimates for Units 3 and 4. Unit 3 is now expected to be in commercial service until 2011, which provides the benefit of nearly two additional years of generation before the unit commences an expected 36-month refurbishment period. After the refurbishment period, the end of life estimate for Unit 3 is expected to increase from the originally expected date of 2037 to 2038. In addition, Unit 4 is now expected to be in commercial service until 2016, providing nearly seven years of generation before the unit commences a similar refurbishment period, after which, the end of life estimate for Unit 4 is expected to increase from the originally expected date of 2036 to 2042.

***Regulatory Matters***

- January 11, 2008. The FERC issued its FEIS for the Broadwater LNG project ("*Broadwater*"). A joint venture with Shell US Gas & Power LLC, Broadwater is a proposed offshore LNG facility in Long Island Sound, New York. The FEIS confirmed project need, supported the location of the project with acknowledgement of its target market and delivery goals, and found safety and security risks to be limited and acceptable. The FEIS concluded that with adherence to federal and state permit requirements and regulations, Broadwater's proposed mitigation measures and the FERC's recommendations, the project will not result in a significant impact on the environment.
- March 24, 2008. FERC authorized the construction and operation of Broadwater, subject to the conditions reflected in the authorization. On April 10, 2008, the New York State Department of State ("*NYSDOS*") determined that construction and operation of the project would not be consistent with the state's coastal zone policies. As a result of this unfavourable decision, TransCanada wrote down \$27 million after tax of costs for Broadwater that had been capitalized to March 31, 2008. On June 6, 2008, Broadwater Energy, LLC filed an appeal with the United States Secretary of Commerce on the decision of the NYSDOS asking the Secretary of Commerce to override the NYSDOS decision on the basis that the project meets the criteria for approval under the *Coastal Zone Management Act* and applicable regulations. A decision is expected in early 2009.

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

**2007*****Energy Developments***

- June 2007. Following public hearings in 2006, the Québec government granted a provincial decree approving Cacouna. Cacouna also received federal approvals pursuant to the Canadian Environmental Assessment Act.
- September 2007. Cacouna announced that it was delaying the planned in-service date for the regasification terminal from 2010 to 2012. This delay resulted from a need to assess impacts of permit conditions, to review the facility design in light of escalating costs and to align the schedule with potential LNG supply facilities.
- November 2007. The second phase of the Cartier Wind Energy Project, the 101 MW Anse-à-Valleau wind farm, was placed into service. In addition, the Cartier Wind Energy Project began construction of a third project, the 109 MW Carleton wind farm.

**2006*****Energy Developments***

- TransCanada continued construction of the Cartier Wind Energy Project, of which 62 per cent is owned by TransCanada. The first of six proposed wind farm projects, Baie-des-Sables, went into commercial service in late 2006.
- September 2006. Portlands Energy Centre L.P., 50 per cent owned by TransCanada, signed a 20-year Accelerated Clean Energy Supply contract with the Ontario Power Authority for Portlands Energy Centre.
- September 2006. Construction of Bécancour was completed and placed into 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.
- December 2006. The Edson gas storage facility was placed in service.

***Regulatory Matters***

- January 2006. TransCanada, on behalf of Broadwater, filed an application with the FERC for approval of the LNG regasification project to be located in Long Island Sound, New York. Coincident with the FERC process, Broadwater applied to the NYSDOS for a determination that the project is consistent with New York's coastal zone policies.
- December 2006. A public hearing on Cacouna 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 Cacouna.

## Financing Activities

### 2009

- January 9, 2009. TransCanada completed an issuance of US\$750 million and US\$1.25 billion of Senior Unsecured Notes maturing on January 15, 2019 and January 15, 2039, respectively, and bearing interest at 7.125 per cent and 7.625 per cent, respectively. The proceeds from these notes are expected to be used to partially fund TransCanada's capital projects, retire maturing debt obligations and for general corporate purposes. These notes were issued under a US\$3.0 billion debt shelf prospectus filed on January 2, 2009.
- February 17, 2009. TransCanada completed the issuance of \$300 million and \$400 million of Medium-Term Notes maturing on February 14, 2014 and February 17, 2039, respectively, and bearing interest at 5.05 per cent and 8.05 per cent, respectively. The proceeds from these notes are expected to be used to fund the Alberta System and Canadian Mainline rate bases. These notes were issued under a \$1.5 billion debt shelf prospectus filed in March, 2007.

### 2008

- May 5, 2008. TransCanada entered into an underwriting agreement with a syndicate of underwriters led by BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., and TD Securities Inc. under which the underwriters agreed to purchase from TransCanada 30,200,000 Common Shares and sell the Common Shares to the public at a purchase price of \$36.50 per Common Share. The underwriters were also granted an over-allotment option to purchase an additional 4,530,000 Common Shares at the same price. The offering was completed on May 13, 2008 and, together with the full exercise of the over-allotment option by the underwriters, 34,730,000 Common Shares were issued and resulted in gross proceeds to TransCanada of approximately \$1.27 billion to be used by TransCanada to partially fund acquisitions and capital projects of TransCanada including, amongst others, the acquisition of Ravenswood, the construction of the Keystone Oil Pipeline, and for general corporate purposes. These Common Shares were issued under the base shelf prospectus filed in January, 2007.
- June 27, 2008. TransCanada executed an agreement with a syndicate of banks for a US\$1.5 billion, committed, unsecured, one-year bridge loan facility, at a floating interest rate based on the London Interbank Offered Rate ("*LIBOR*") plus 30 basis points. The facility is extendible at the option of TransCanada for an additional six month term at LIBOR plus 35 basis points. On August 25, 2008, TransCanada utilized US\$255 million from this facility to fund a portion of the Ravenswood acquisition and cancelled the remainder of the commitment. At December 31, 2008, the US\$255 million remained outstanding on the facility.
- August 11, 2008. TransCanada completed an issuance of US\$850 million and US\$650 million of Senior Unsecured Notes maturing on August 15, 2018 and August 15, 2038, respectively, and bearing interest at 6.50 per cent and 7.25 per cent, respectively. The proceeds from these notes were used to partially fund the Ravenswood acquisition and for general corporate purposes. These notes were issued under a US\$2.5 billion debt shelf prospectus filed in September, 2007.
- August 20, 2008. TransCanada completed an issuance of \$500 million of Medium-Term Notes maturing in August 2013 and bearing interest at 5.05 per cent. The proceeds from these notes were used to partially fund the Alberta System's capital program and for general corporate purposes. These notes were issued under the debt shelf prospectus filed in March, 2007.
- November 17, 2008. TransCanada entered into an underwriting agreement with a syndicate of underwriters led by RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., and TD Securities Inc. under which the underwriters agreed to purchase from TransCanada 30,500,000 Common Shares and sell the Common Shares to the public at a purchase price of \$33.00 per Common Share. The underwriters were also granted an over-allotment option to purchase an additional 4,575,000 Common Shares at the same price. The offering was completed on November 25, 2008 and resulted in gross proceeds to TransCanada of approximately \$1 billion to be used by TransCanada to partially fund its capital projects, including the Keystone Oil Pipeline, for general corporate purposes and to repay short-term indebtedness. The syndicate of underwriters fully exercised the over-allotment option on December 5, 2008 for additional gross proceeds to TransCanada of \$151 million. The Common Shares were issued under the base shelf prospectus filed in July, 2008.
- In November 2008, TransCanada established a US\$1.0 billion committed, unsecured bank facility with a syndicate of banks. The facility bears interest at a floating rate plus a margin. The facility has an initial term of 364 days with a one-year renewal at the option of the borrower and will support a new commercial paper program dedicated

to funding a portion of expenditures for the Keystone Oil Pipeline and for general partnership purposes. As at December 31, 2008, no draws had been made on this facility.

Further information about financing activities can be found in the MD&A under the headings "Short-Term Debt Financing Activities", "2009 and 2008 Long-Term Debt Financing Activities", "2007 Long-Term Debt Financing Activities", "2006 Long-Term Debt Financing Activities", "2008 Equity Financing Activities" and "2007 Equity Financing Activities".

## BUSINESS OF TRANSCANADA

TransCanada is a leading North American energy infrastructure company focused on pipelines and energy. At Year End, Pipelines accounted for approximately 54 per cent of revenues and 64 per cent of TransCanada's total assets and Energy accounted for approximately 46 per cent of revenues and 30 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, 2008 and 2007.

| <b>Revenues From Operations</b> ( <i>millions of dollars</i> ) | <b>2008</b>    | <b>2007</b>    |
|--|----------------|----------------|
| <b>Pipelines</b>   |                |                |
| Canada - Domestic  | \$2,005        | \$2,227        |
| Canada - Export <sup>(1)</sup>                                 | 1,123          | 1,003          |
| United States  | 1,522          | 1,482          |
|  | 4,650          | 4,712          |
| <b>Energy<sup>(2)</sup></b>                                    |                |                |
| Canada – Domestic  | 2,594          | 2,792          |
| Canada - Export <sup>(1)</sup>                                 | 2              | 3              |
| United States  | 1,373          | 1,321          |
|  | 3,969          | 4,116          |
| <b>Total Revenues<sup>(3)</sup></b>                            | <b>\$8,619</b> | <b>\$8,828</b> |

<sup>(1)</sup> Exports include pipeline revenues attributable to deliveries to U.S. pipelines and power deliveries to U.S. markets.

<sup>(2)</sup> Revenues include sales of natural gas.

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

## Pipelines Business

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas pipelines, regulated gas storage facilities and projects related to oil pipelines. TransCanada's network of wholly owned pipelines extends more than 59,000 km (36,661 miles), tapping into virtually all major gas supply basins in North America.

TransCanada has substantial Canadian and U.S. natural gas pipeline and related holdings, and one oil pipeline project, including those listed below.

### Canada

- TransCanada's Canadian Mainline is a 100 per cent owned 14,101 km (8,762 mile) natural gas transmission system in Canada that extends from the Alberta/Saskatchewan border east to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S.
- TransCanada's Alberta System is a 100 per cent owned natural gas transmission system in Alberta which gathers natural gas for use within the province and delivers it to provincial boundary points for connection with the Canadian Mainline and the Foothills System and with the natural gas pipelines of other companies. The 23,705 km (14,730 mile) system is one of the largest carriers of natural gas in North America.
- Keystone Oil Pipeline is a 3,456 km (2,147 mile) oil pipeline project currently under construction that will initially transport crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma. In addition, an expansion to the United States Gulf Coast is under development, which is expected to add approximately 2,720 km (1,690 miles) of pipe to the system. Commissioning of the segment to Wood River and Patoka is expected to begin in late 2009. Commissioning of the segment to Cushing is expected to begin in

late 2010. The expansion to the United States Gulf Coast is expected to be commissioned in 2012, subject to regulatory approvals. Keystone Oil Pipeline was 62 per cent owned by TransCanada as at December 31, 2008 and TransCanada has agreed to increase its equity ownership in Keystone U.S. and Keystone Canada up to 79.99 per cent. In accordance with this agreement, TransCanada will fund 100 per cent of the construction expenditures until the participants' project capital contributions are aligned with the revised ownership interests. Certain parties that have made volume commitments to the Keystone Oil Pipeline expansion have an option to acquire up to a combined 15 per cent equity ownership in Keystone U.S. and Keystone Canada by end of first quarter 2009. If all of the options are exercised, TransCanada's equity ownership would be reduced to 64.99 per cent.

- TransCanada's Foothills System is a 100 per cent owned, 1,241 km (771 mile) natural gas transmission system in Western Canada which carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada. Effective April 1, 2007, the B.C. System was integrated into the Foothills System.
- TransCanada Pipeline Ventures LP, which is 100 per cent owned by TransCanada, owns a 161 km (100 mile) pipeline and related facilities that supply natural gas to the oil sands region of northern Alberta as well as a 27 km (17 mile) pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.
- TransCanada Québec & Maritimes Pipeline Inc. ("*TQM*") is 50 per cent owned by TransCanada. TQM is a 572 km (355 mile) pipeline system that connects with the Canadian Mainline and transports natural gas from Montréal to Québec City in Québec, and connects with the Portland System. TQM is operated by TransCanada.

#### ***United States***

- TransCanada's ANR System ("*ANR System*") is a 100 per cent owned 17,000 km (10,563 mile) natural gas transmission system which transports natural gas from producing fields located primarily in Texas and Oklahoma on its southwest leg, and in the Gulf of Mexico and Louisiana on its southeast leg. The system extends to markets located mainly in Wisconsin, Michigan, Illinois, Ohio and Indiana. ANR's natural gas pipeline also connects with other natural gas pipelines, providing access to diverse sources of North American supply, including Western Canada, and the mid-continent and Rocky Mountain supply regions, and a variety of markets in the Midwestern and northeastern U.S.
- Underground gas storage facilities owned and operated by ANR provide regulated gas storage services to customers on the ANR System and the Great Lakes Gas Transmission System ("*Great Lakes System*") in upper Michigan. In 2008, ANR completed its storage enhancement project and added 14 billion cubic feet ("*Bcf*") of storage. In total, the ANR business unit operates sixteen underground natural gas storage facilities throughout the State of Michigan with total natural gas storage capacity of 250 Bcf.
- The GTN System ("*GTN System*") is TransCanada's 100 per cent owned natural gas transmission system which extends 2,174 km (1,351 miles) and links the Foothills System with Pacific Gas and Electric Company's California Gas Transmission System, with Williams Companies, Inc.'s Northwest Pipeline in Washington and Oregon, and with Tuscarora.
- Bison pipeline is a proposed 480 km (298 mile) pipeline from the Powder River Basin in Wyoming to the Northern Border Pipeline System in North Dakota. The Bison pipeline has shipping commitments for approximately 405 mmcf/d and is expected to be in-service in fourth quarter 2010. TransCanada is continuing to work with prospective Bison shippers to advance this project.
- North Baja is TransCanada's 100 per cent owned natural gas transmission system which extends 129 km (80 miles) from Ehrenberg in southwestern Arizona to a point near Ogilby, California on the California/Mexico border and connects with the Gasoducto Bajanorte natural gas pipeline system in Mexico.
- The Great Lakes System is owned 53.6 per cent by TransCanada and 46.4 per cent by TC Pipelines, LP. The 3,404 km (2,115 mile) Great Lakes System connects with the Canadian Mainline at Emerson, Manitoba, and serves markets primarily in Central Canada and the Midwestern U.S. TransCanada operates the Great Lakes System and effectively owns 68.5 per cent of the system through its 53.6 per cent ownership interest and its indirect ownership, which it has through its 32.1 per cent interest in TC Pipelines, LP.
- The Northern Border Pipeline System ("*NBPL System*") is 50 per cent owned by TC PipeLines, LP and is a 2,250 km (1,398 mile) natural gas transmission system, which serves the U.S. Midwest from a connection with the Foothills System near Monchy, Saskatchewan. TransCanada operates and effectively owns 16.1 per cent of the NBPL System through its 32.1 per cent interest in TC PipeLines, LP.

- Tuscarora is 100 per cent owned by TC PipeLines, LP and has a 491 km (305 mile) pipeline system transporting natural gas from the GTN System at Malin, Oregon to Wadsworth, Nevada (the "*Tuscarora System*") with delivery points in northeastern California and northwestern Nevada. TransCanada operates the Tuscarora System and effectively owns 32.1 per cent of the system through its 32.1 per cent interest in TC PipeLines, LP.
- The Iroquois Gas Transmission System ("*Iroquois System*") connects with the Canadian Mainline near Waddington, New York and delivers natural gas to customers in the northeastern U.S. TransCanada has a 44.5 per cent ownership interest in this 666 km (414 mile) pipeline system.
- The Portland System is a 474 km (295 mile) pipeline that connects with TQM near East Hereford, Québec and delivers natural gas to customers in the northeastern U.S. TransCanada has a 61.7 per cent ownership interest in the Portland System and operates this pipeline.
- 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. TC PipeLines, LP owns a 50 per cent interest in the NBPL System, the remaining 46.4 per cent in the Great Lakes System and 100 per cent of Tuscarora.
- The Palomar pipeline project is a proposed 349 km (217 mile) pipeline extending from the GTN System to the Columbia River northwest of Portland. In December 2008, Palomar Gas Transmission LLC filed with the FERC for a certificate to build this pipeline, which is a 50/50 joint venture of GTNC and Northwest Natural Gas Co.

### ***International***

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

- TransGas is a 344 km (214 mile) natural gas pipeline system which runs from Mariquita in the central region of Colombia to Cali in the southwest of Colombia. TransCanada holds a 46.5 per cent ownership interest in this pipeline.
- Gas Pacifico is a 540 km (336 mile) natural gas pipeline extending from Loma de la Lata, Argentina to Concepción, Chile. INNERGY is an industrial natural gas marketing company based in Concepción that markets natural gas transported on Gas Pacifico. TransCanada holds a 30 per cent ownership interest both in Gas Pacifico and INNERGY.
- Tamazunchale is a 100 per cent owned, 130 km (81 mile) natural gas pipeline in east-central Mexico which extends from the facilities of Pemex Gas near Naranjos, Veracruz to an electricity generating station near Tamazunchale, San Luis Potosi. This pipeline went into service on December 1, 2006.

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", "Pipelines – Opportunities and Developments" and "Pipelines – Financial Analysis".

## **Regulation of the Pipeline Business**

### ***Canada***

#### **CANADIAN MAINLINE, TQM AND FOOTHILLS SYSTEM**

Under the terms of the *National Energy Board Act* (Canada), the Canadian Mainline, TQM and the 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, TQM and Foothills Systems' 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, TQM and Foothills Systems. Net earnings of the Canadian Mainline, TQM 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**

Effective January 1, 2008, the EUB was reorganized into the Energy Resources Conservation Board and the AUC. The AUC regulates all the physical and economic aspects of the Alberta System which were previously regulated by the 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 AUC. Under the provisions of the *Pipeline Act*, the AUC 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*.

In June 2008, TransCanada filed an application with the NEB seeking a determination that the Alberta System is within Canadian federal jurisdiction and subject to regulation by the NEB. TransCanada also requested approvals to operate the Alberta System under NEB regulation. A hearing on the application was held in November 2008 and a decision is expected by the end of February 2009.

### KEYSTONE OIL PIPELINE

TransCanada is presently constructing the Canadian and U.S. sections of the Keystone Oil Pipeline and expects to place the base facilities into service in late 2009. The NEB regulates the terms and conditions of service, including rates, and the physical operation of the Canadian portion of the pipeline. NEB approval is also required for facility additions, such as the Canadian portion of the proposed Gulf Coast expansion project.

### **United States**

TransCanada's wholly owned and partially owned U.S. pipelines, including the ANR System, the GTN System, the Great Lakes System, the Iroquois System, the Portland System, the NBPL System, North Baja and the 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.

The FERC also regulates the terms and conditions of service, including rates, on the U.S. portion of the Keystone Oil Pipeline. However, primary approvals for any facility additions to the Keystone Oil Pipeline are obtained from state agencies.

### **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, the development, construction, ownership and operation of non-regulated natural gas storage in Alberta, and LNG facilities in Canada and the U.S.

The electrical power generation plants and power supply that TransCanada has an interest in, including those under development, in the aggregate, represent approximately 10,900 MW of power generation capacity. Power plants and power supply in Canada account for approximately 60 per cent of this total, and power plants in the U.S. account for the balance, being approximately 40 per cent.

TransCanada owns and operates the following facilities:

- Ravenswood, located in Queen's, New York, is a 2,480 MW power plant that consists of multiple units employing steam turbine, combined cycle and combustion turbine technology. Ravenswood has the capacity to serve approximately 21 per cent of New York City's peak load.
- TC Hydro, TransCanada's hydroelectric facilities located in New Hampshire, Vermont and Massachusetts on the Connecticut and Deerfield Rivers consist of 13 stations and associated dams and reservoirs with a total generating capacity of 583 MW.
- Ocean State Power, a 560 MW natural gas-fired, combined-cycle facility in Burrillville, Rhode Island.
- Bécancour, a 550 MW natural gas-fired cogeneration power plant located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec Distribution under a 20-year power purchase contract. Steam is also sold to an industrial customer for use in commercial processes.
- Natural gas-fired cogeneration plants in Alberta at Carseland (80 MW), Redwater (40 MW), Bear Creek (80 MW) and MacKay River (165 MW).
- Grandview, a 90 MW natural gas-fired cogeneration power plant located in Saint John, New Brunswick. Under a 20-year operating lease for tolls, Irving Oil Limited receives 100 per cent of the plant's heat and electricity output.

- Cancarb, a 27 MW facility at Medicine Hat, Alberta fuelled by waste heat from TransCanada's adjacent thermal carbon black facility.
- Edson, an underground natural gas storage facility connected to the Alberta System near Edson, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 725 million cubic feet per day ("mmcf/d") of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.

TransCanada has the following long-term power purchase arrangements in place:

- TransCanada has the rights to 100 per cent of the generating capacity of the 560 MW Sundance A coal-fired power generation facility under a Power Purchase Agreement ("PPA"), which expires in 2017. TransCanada also has the rights to 50 per cent of the generating capacity of the 706 MW Sundance B facility under a PPA, which expires in 2020 ("Sundance"). The Sundance facilities are located in south-central Alberta.
- The Sheerness facility, which consists of two 390 MW coal-fired thermal power generating units, is located in southeastern Alberta. TransCanada has the rights to 756 MW of generating capacity from the Sheerness PPA, which expires in 2020 ("Sheerness").

TransCanada has interests in the following:

- Two generating stations, Bruce A which currently generates 1,500 MW and is expected to produce an additional 1,500 MW of power when restart of Units 1 and 2 is completed in 2010, and Bruce Power L.P. ("Bruce B") with approximately 3,200 MW of generating capacity. Bruce Power is a partnership with generating facilities and offices located on 2,300 acres northwest of Toronto, Ontario on which are housed Bruce A and Bruce B. TransCanada owns 48.9 per cent of Bruce A which has four 750 MW reactors, two of which are currently being refurbished and are expected to restart in 2010. TransCanada owns 31.6 per cent of Bruce B, which has four operating reactors.
- A 60 per cent ownership in CrossAlta, which is an underground natural gas storage facility connected to the Alberta System located near Crossfield, Alberta. CrossAlta has a working natural gas capacity of 54 Bcf with a maximum deliverability capability of 480 mmcf/d.
- A 62 per cent interest in the Carleton (109 MW), Anse-à-Valleau (101 MW), and Baie-des-Sables (110 MW) wind farms, the first three phases of the Cartier Wind Energy Project, which commenced commercial operation in November 2008, November 2007 and November 2006, respectively.

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

- The Cartier Wind Energy Project consists of six wind projects in the Gaspé region of Québec contracted by Hydro-Québec Distribution representing a total of 740 MW when all six wind projects are complete. Three of the wind farms are constructed and in service as noted above and the remaining three projects are under planning and development and are expected to be constructed through 2012, subject to the necessary approvals. Cartier Wind is 62 per cent owned by TransCanada.
- The Portlands Energy Centre, a 550 MW high efficiency, combined-cycle natural gas generation power plant located in Toronto, Ontario is 50 per cent owned by TransCanada and is under construction. The plant went into service in simple-cycle mode, capable of delivering 340 MW of electricity in the summer of 2008. It is anticipated to be fully commissioned in its combined-cycle mode, with delivery capabilities of 550 MW of power in the first quarter of 2009.
- A 683 MW natural gas-fired power plant near the town of Halton Hills, Ontario is under construction and is expected to be placed in service in the third quarter of 2010.
- The Coolidge generating station is a simple-cycle, natural gas-fired peaking power generation station under development in Coolidge, Arizona. Based on optimal operating conditions, TransCanada predicts an electrical output of approximately 575 MW from this facility, designed to provide a quick response to peak power demands. The project has received its required permits, and construction is expected to commence in the third quarter of 2009 with commissioning expected in 2011. When constructed, the power output will be supplied to Salt River Project Agricultural Improvement and Power District under a 20-year power purchase contract.
- The proposed 132 MW Kibby wind power project is under construction and is expected to include 44 turbines located in Kibby and Skinner townships in Maine. Construction began in July 2008 and commissioning of the first phase is expected to begin in fourth quarter 2009.

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", "Energy – Financial Analysis" and "Energy – Opportunities and Developments".



**GENERAL****Employees**

At Year End, TransCanada's principal operating subsidiary, TCPL, had approximately 3,987 employees, substantially all of whom were employed in Canada and the U.S., as set forth in the following table.

|                           |              |
|---------------------------|--------------|
| Western Canada            | 454          |
| Calgary                   | 1,697        |
| Eastern Canada            | 242          |
| U.S. West Coast           | 146          |
| U.S. Mid West             | 478          |
| U.S. Northeast            | 379          |
| U.S. Southeast/Gulf Coast | 246          |
| Houston                   | 342          |
| Mexico and Chile          | 3            |
| <b>Total</b>              | <b>3,987</b> |

**Social and Environmental Policies**

Health, safety and environment ("*HS&E*") is a priority in all of TransCanada's operations and is guided by its HS&E Commitment Statement. The HS&E Commitment Statement outlines guiding principles for a safe and healthy environment for TransCanada's employees, contractors and the public, and for the protection of the environment. All employees are held responsible and accountable for HS&E performance. Roles and responsibilities of employees are clearly defined to ensure appropriate financial, human and organizational resources are available to plan, implement and sustain the HS&E management system, and to ensure that each employee understands his or her role in HS&E management system implementation, success and continuous improvement. TransCanada is committed to being an industry leader in conducting its business so that it meets or exceeds all applicable laws and regulations, and minimizes risk to people and the environment. TransCanada is committed to tracking and improving its HS&E performance, and to promoting safety on and off the job, in the belief that all occupational injuries and illnesses are preventable. TransCanada endeavors to do business with companies and contractors that share its perspective on HS&E performance, and to influence them to improve TransCanada's collective performance. TransCanada is committed to respecting the diverse environments and cultures in which it operates, and to supporting open communication with the public, policy makers, scientists and public interest groups with whom we share stewardship of the world we inhabit.

TransCanada is committed to ensuring conformance with its internal policies and regulated requirements. The HS&E Committee of TransCanada's board of directors (the "*Board*") monitors conformance with the Company's HS&E corporate policy through regular reporting. TransCanada's HS&E management system is modeled on the International Organization of Standardization's ("*ISO*") standard for environmental management systems, ISO 14001, and focuses resources on the areas of significant risk to the organization's HS&E business activities. Management is informed regularly of all important HS&E operational issues and initiatives through formal reporting processes. TransCanada's HS&E management system and performance are assessed by an independent outside firm every three years. The most recent assessment occurred in November 2006. The HS&E management system also is subject to ongoing internal review to ensure that it remains effective as circumstances change.

In 2008, employee and contractor health and safety performance continued to be a top priority. Overall safety rates continue to perform significantly better than most industry benchmarks. TransCanada's assets were highly reliable in 2008 and there were no incidents that were material to TransCanada's operations.

The safety of the public and integrity of our pipelines is a top priority of TransCanada. The Company expects to spend approximately \$185 million in 2009 for pipeline integrity on its wholly owned pipelines, which is higher than the amount spent in 2008 primarily due to increased levels of in-line pipeline inspection on all systems. Under the approved regulatory models in Canada, pipeline integrity expenditures on NEB and AUC regulated pipelines are treated on a flow-through basis and, as a result, have no impact on TransCanada's earnings. Expenditures on the GTN System are also recovered through a cost recovery mechanism in its rates. Pipeline safety in 2008 continued to be very good. TransCanada experienced one small-diameter pipeline failure in a remote part of east central Alberta. The line break resulted in minimal impact with no injuries or property damage. Spending associated with public safety on the Energy assets is focused primarily on hydro dams and associated equipment, and is consistent with previous years.

## Environmental Protection

TransCanada's facilities are subject to various federal, provincial, state and local statutes and regulations regarding environmental quality and pollution control. Environmental risks from TransCanada's operating facilities typically include: air emissions, such as nitrogen oxides ("NO<sub>x</sub>"), particulate matter and greenhouse gases; potential impacts on land, including land reclamation or restoration following construction; the use, storage or release of chemicals or hydrocarbons; the generation, handling and disposal of wastes and hazardous wastes; and water impacts such as uncontrolled water discharge. Environmental controls including physical design, programs, procedures and processes are in place to effectively manage these risks. TransCanada has ongoing inspection programs designed to keep all of our facilities in compliance with environmental requirements and we are confident that our systems are in material compliance with the applicable requirements.

TransCanada is not aware of any material outstanding orders, material claims or lawsuits against the Company in relation to the release or discharge of any material into the environment or in connection with environmental protection.

In 2008, TransCanada conducted various environmental risk assessments and remediation work, resulting in total costs of approximately \$7.0 million for work conducted on TransCanada's Canadian facilities and US\$5.5 million for work conducted on our U.S. facilities. TransCanada also conducted various retirement, reclamation and restoration work in 2008. Total costs were approximately \$7.3 million.

In North America, climate change policy continues to evolve at regional and national levels. In 2008, policies related to industrial greenhouse gas ("GHG") emissions were in effect in Alberta, British Columbia and Québec and affected TransCanada's assets located in those jurisdictions as discussed below.

In Alberta, the Specified Gas Emitters Regulation ("SGER"), which came into effect in 2007, requires industrial facilities to reduce GHG emissions intensities on an annual basis by 12 per cent from the baseline period, which has been established as the average emissions intensities in 2003, 2004 and 2005. A number of compliance mechanisms are available for those facilities unable to meet this target. TransCanada's Alberta-based pipe and power facilities are subject to this regulation, as are the Sundance and Sheerness coal-fired power facilities with which TransCanada has commercial arrangements. The cost of compliance incurred by TransCanada's Alberta-based facilities related to SGER was approximately \$12 million covering the period from July 1, 2007, the date of implementation of the SGER, to December 31, 2007. Costs for 2008 compliance are estimated to be \$28 million and will be finalized when compliance reports are submitted at the end of March 2009. Compliance costs of the Alberta System pipeline network are recovered through tolls paid by customers. Compliance costs for the Company's power generation facilities and interests in Alberta are partially recovered through contracts and the impact of increased operating costs on Alberta power market prices.

The hydrocarbon royalty in Québec is collected by the natural gas distributor on behalf of the Québec Government via a green fund contribution charge on gas consumed. In 2008, the cost to Bécancour was less than \$1.0 million as a result of an agreement between TransCanada and Hydro-Québec Distribution to temporarily suspend the facility's power generation. The financial charges are expected to increase substantially in 2010 when the plant returns to service.

British Columbia's carbon tax, which came into effect in 2008, applies to carbon dioxide emissions arising from fossil fuel combustion. Compliance costs for fuel combustion at the Company's compressor and meter stations in British Columbia are recovered through tolls paid by customers. Costs related to the carbon tax for 2008 are approximately \$1 million. This cost is expected to increase over the next four years as the tax rate (charge per tonne carbon dioxide) increases by \$5 per tonne annually from the initial tax rate of \$10 per tonne carbon dioxide.

## RISK FACTORS

### Environmental Risk Factors

As indicated above, there are multiple environmental risks associated with TransCanada's operating facilities and, as a consequence, TransCanada's operations are subject to various environmental laws and regulations that establish compliance and remediation obligations. Compliance obligations can result in significant costs associated with installing and maintaining pollution controls, fines and penalties resulting from any failure to comply, and potential limitations on operations. Remediation obligations can result in significant costs associated with the investigation and remediation of contaminated properties, some of which have been designated as Superfund sites by the United States Environmental Protection Agency under the *Comprehensive Environmental Response, Compensation and Liability Act*, and with damage claims arising out of

the contamination of properties or impact on natural resources. It is not possible for us to estimate exactly the amount and timing of all future expenditures related to environmental matters due to:

- uncertainties in estimating pollution control and clean up costs, including sites where only preliminary site investigation or agreements have been completed;
- the potential discovery of new sites or additional information at existing sites;
- the uncertainty in quantifying liability under environmental laws that impose joint and several liability on all potentially responsible parties;
- the evolving nature of environmental laws and regulations, including the interpretation and enforcement thereof; and
- the potential for litigation on existing or discontinued assets.

At December 31, 2008, TransCanada had accrued approximately \$86 million for compliance and remediation obligations. TransCanada believes that it has considered all necessary contingencies and has established appropriate reserves for environmental liabilities; however there is the risk that unforeseen matters may arise requiring us to set aside additional monies.

In addition to those climate change policies already in force and which are described above under the heading "Environmental Protection", there are also several federal (Canada and U.S.), regional and provincial initiatives currently in development. While recent political and economic events may significantly impact the scope and timing of new measures that are put in place, TransCanada anticipates that most of the Company's facilities in Canada and the United States will be captured under future regional and/or federal climate change regulations to manage industrial GHG emissions. Certain of these initiatives are outlined below.

TransCanada expects a number of its facilities will be affected by future Canadian federal climate change regulations. In April 2007, the Government of Canada released the Regulatory Framework for Air Emissions ("*Framework*"). The Framework outlines short-, medium- and long-term objectives for managing both GHG emissions and air pollutants in Canada. It is not known at this time whether the impacts from the pending regulations will be material as draft regulations have not been released. The Canadian government has also recently expressed interest in pursuing the development of a North American cap and trade system for GHG emissions. It is uncertain how the Framework will fit within a North American cap and trade system and what the specific requirements for industrial emitters will be. In the U.S., climate change is a strategic issue for the new administration and federal policy to manage domestic GHG emissions will be a priority.

At a regional level, seven western states and four Canadian provinces (British Columbia, Manitoba, Ontario and Québec) are focused on the implementation of a cap and trade program under the Western Climate Initiative ("*WCI*"). In the northeastern U.S., states that are members of the Regional Greenhouse Gas Initiative ("*RGGI*") implemented a CO<sub>2</sub> cap and trade program for electricity generators effective January 1, 2009. Participants in the Midwestern Greenhouse Gas Reduction Accord, which involves six states and one province (Manitoba), are developing a regional strategy for reducing members' GHG emissions that will include a multi sector cap and trade mechanism.

At a provincial level, TransCanada has assets located in Ontario and Manitoba, where the provincial governments have announced climate change strategies that will impact industrial sources of GHG emissions (as mentioned above, British Columbia, Alberta and Québec already have policies in place). Details of these programs and information about how provincial programs will align with the Canadian government's climate change policies are still not available.

The Company expects a number of its facilities will be affected by new legislative initiatives in the United States. Under RGGI, both Ravenswood and Ocean State Power generation facilities will be required to submit allowances shortly after December 31, 2011. It is expected that the costs will be recovered from the market and the net impact to TransCanada will be minimal. Company assets located in WCI and Midwestern Greenhouse Gas Reduction Accord member states and in California will be covered by measures put in place in these states; however, the level of impact is not known at this time as key policy details remain outstanding.

TransCanada monitors climate change policy developments and, when warranted, participates in policy discussions in jurisdictions where the Company has operations. TransCanada is also continuing its programs to manage GHG emissions from its facilities and to evaluate new processes and technologies that result in improved efficiencies and lower GHG emission rates.

## Other Risk Factors

A discussion of the Company's risk factors can be found in the MD&A under the headings "Pipelines - Opportunities and Developments", "Pipelines - Business Risks", "Pipelines – Outlook", "Energy - Opportunities and Developments", "Energy - Business Risks", "Energy – Outlook", "Corporate – Outlook" and "Risk Management and Financial Instruments".

## DIVIDENDS

The Board 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 primarily 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's 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:

|                                     | 2008   | 2007   | 2006   |
|-------------------------------------|--------|--------|--------|
| Dividends declared on Common Shares | \$1.44 | \$1.36 | \$1.28 |

## DESCRIPTION OF CAPITAL STRUCTURE

### Share Capital

TransCanada's authorized share capital consists of an unlimited number of Common Shares, of which 616,471,522 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.

TransCanada has a Shareholder Rights Plan (the "*Plan*") that is designed to ensure, to the extent possible, that all shareholders of TransCanada are treated fairly in connection with any take-over bid for the Company. The Plan creates a right attaching to each Common Share outstanding and to each Common Share subsequently issued. Each right becomes exercisable ten trading days after a person has acquired, or commences a take-over bid to acquire, 20 per cent or more of the Common Shares, other than by an acquisition pursuant to a take-over bid permitted under the terms of the Plan. Each right permits registered holders to receive Common Shares of TransCanada at 50 per cent of the market price of such shares as determined as at the end of the day prior to the exercise date. The Plan was reconfirmed at the 2007 annual and special meeting of shareholders and must be reconfirmed every third annual meeting thereafter.

TransCanada has a Dividend Reinvestment and Share Purchase Plan which permits common shareholders of TransCanada to elect to reinvest their cash dividends in additional Common Shares of TransCanada, and preferred shareholders of TCPL to elect, until such time as their participation is no longer permitted under securities law, to reinvest their cash dividends in Common Shares of TransCanada. These Common Shares may be provided to the participants at a discount to the average market price in the five days before dividend payment. The discount was set at 2 per cent commencing with the dividend payable in April 2007 and was increased to 3 per cent for the dividend payable in January 2009. Participants may also make additional cash payments of up to \$10,000 per quarter to purchase additional Common Shares, which optional purchases are not

eligible for any discount on the price of Common Shares. Participants are not responsible for payment of brokerage commissions or other transaction expenses for purchases made pursuant to the Dividend Reinvestment and Share Purchase Plan.

TransCanada also has stock-based compensation plans that allow some employees to purchase Common Shares of TransCanada. Option exercise prices approximate the market price for the Common Shares on the date the options were issued. Options granted under the plan are generally fully exercisable after three years and expire seven years after the date of grant.

### ***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 rank on a parity with the first preferred shares of every other series, and are 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  $66\frac{2}{3}$  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, Inc. ("*Moody's*") of Baa1 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 by DBRS Limited ("*DBRS*"), Moody's and Standard and Poor's ("*S&P*"):

|                           | <b>DBRS</b> | <b>Moody's</b> | <b>S&amp;P</b> |
|---------------------------|-------------|----------------|----------------|
| Senior Unsecured Debt     | A           | A3             | A-             |
| <i>Debentures</i>         | A           | A3             | A-             |
| <i>Medium-term Notes</i>  |             |                |                |
| Junior Subordinated Notes | BBB (high)  | Baa1           | BBB            |
| Preferred Shares          | Pfd-2 (low) | Baa2           | BBB            |
| Commercial Paper          | R-1 (low)   | -              | -              |
| Trend/Rating Outlook      | Stable      | Stable         | Stable         |

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.

**DBRS Limited (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 rating assigned to TCPL's senior unsecured debt is 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 securities. 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 BBB (high) rating assigned to junior subordinated notes is the fourth highest of the ten categories for long-term debt. Long-term debt rated BBB is of adequate credit quality. Protection of interest and principal is considered acceptable but there may be other adverse conditions present which reduce the strength of the entity and its rated securities. The Pfd-2 (low) rating assigned to TCPL's preferred shares is the second highest of six rating categories for preferred shares. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial; however, earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies.

**Moody's Investors Service, Inc. (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 A3 rating assigned to TCPL's senior unsecured debt is 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 Baa rating assigned to TCPL's junior subordinated debt and preferred shares is the fifth highest of nine rating categories for long-term obligations, with the junior subordinated debt ranking slightly higher within the Baa rating category with a modifier of 1 as opposed to the modifier of 2 on the preferred shares. 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- rating assigned to TCPL's senior unsecured debt is 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 slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. The BBB ratings assigned to TCPL's Junior Subordinated Notes 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, low, and month-end closing trading prices and monthly trading volumes of the Common Shares of TransCanada on the TSX and the NYSE for the period indicated:

**Common Shares**

| Month          | TSX (TRP) |          |            |               | NYSE (TRP)  |            |              |               |
|----------------|-----------|----------|------------|---------------|-------------|------------|--------------|---------------|
|                | High (\$) | Low (\$) | Close (\$) | Volume Traded | High (US\$) | Low (US\$) | Close (US\$) | Volume Traded |
| December 2008  | 34.50     | 31.53    | 33.17      | 43,677,420    | 27.82       | 24.97      | 27.14        | 5,101,834     |
| November 2008  | 37.45     | 30.29    | 32.70      | 46,435,859    | 32.59       | 23.52      | 26.37        | 5,418,243     |
| October 2008   | 39.26     | 29.42    | 36.42      | 69,562,035    | 36.33       | 24.45      | 30.30        | 6,675,763     |
| September 2008 | 40.60     | 35.95    | 38.17      | 49,809,072    | 37.96       | 34.01      | 36.15        | 3,557,196     |
| August 2008    | 40.65     | 38.50    | 40.27      | 28,550,772    | 39.18       | 35.99      | 37.97        | 2,467,304     |
| July 2008      | 39.99     | 36.47    | 39.70      | 35,668,563    | 39.29       | 35.72      | 38.74        | 3,765,973     |
| June 2008      | 40.71     | 37.79    | 39.50      | 34,833,031    | 40.08       | 37.39      | 38.77        | 2,381,500     |
| May 2008       | 40.04     | 36.77    | 39.16      | 44,457,100    | 40.64       | 35.94      | 39.38        | 2,978,200     |
| April 2008     | 38.90     | 35.98    | 36.90      | 54,718,260    | 37.70       | 35.33      | 36.74        | 3,467,500     |
| March 2008     | 40.60     | 36.97    | 39.55      | 28,273,379    | 41.25       | 36.38      | 38.53        | 2,852,100     |
| February 2008  | 40.50     | 38.70    | 39.54      | 27,480,832    | 41.53       | 38.54      | 40.09        | 2,390,000     |
| January 2008   | 40.97     | 36.21    | 39.57      | 30,366,638    | 41.31       | 35.60      | 39.23        | 3,438,700     |

In addition, TransCanada's subsidiary, TCPL, has Cumulative Redeemable First Preferred Shares, Series U and Series Y listed on the TSX.

**DIRECTORS AND OFFICERS**

As of February 23, 2009, the directors and officers of TransCanada as a group beneficially owned, or exercised control or direction, directly or indirectly, over an aggregate of 1,401,751 Common Shares of TransCanada. This constitutes less than one per cent of TransCanada's Common Shares. In addition, officers held exercisable options to acquire an aggregate of 1,777,523 additional Common Shares. TransCanada collects this information from its directors and officers but otherwise has no direct knowledge of individual holdings of its securities.

**Directors**

Set forth below are the names of the thirteen directors who served on the 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. Each director holds office until the next annual meeting or until his or her successor is earlier elected or appointed.

| Name and Place of Residence  | Principal Occupation During the Five Preceding Years   | Director Since |
|--|--|----------------|
| Kevin E. Benson <sup>(1)</sup><br>Wheaton, Illinois<br>United States | President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) from June 2003 to October 2007, and Laidlaw, Inc. from September 2002 to June 2003.   | 2005           |
| Derek H. Burney, O.C.<br>Ottawa, Ontario<br>Canada                   | Senior strategic advisor at Ogilvy Renault LLP (law firm), Chair, Canwest Global Communications Corp. (communications) and Chair, International Advisory Board for Garda World Consulting & Investigation, a division of Garda World Security Corporation. Lead director at Shell Canada Limited (oil and gas) from April 2001 to May 2007. President and Chief Executive Officer, CAE Inc. (technology) from October 1999 to August 2004. | 2005           |

| <b>Name and Place of Residence</b>   | <b>Principal Occupation During the Five Preceding Years</b>   | <b>Director Since</b> |
|--|---|-----------------------|
| Wendy K. Dobson<br>Uxbridge, Ontario<br>Canada                                 | Professor, Rotman School of Management and Director, Institute for International Business, University of Toronto. Vice Chair and Chair of the audit committee, Canadian Public Accountability Board from 2003 to 2009. Director, Toronto-Dominion Bank. Member of the Advisory Committees of the Peterson Institute of International Economics and the Canada Institute at the Woodrow Wilson International Centre. Member of the International Advisory Committee of the Asia Society and a director of the Stephen Leacock Foundation for Children.   | 1992                  |
| E. Linn Draper<br>Lampasas, Texas<br>United States                             | Director, Alliance Data Systems Corporation (data processing and services), Lead Director, Alpha Natural Resources, Inc. (mining), NorthWestern Corporation (conducting business as NorthWestern Energy) (oil and gas) and Lead Director of Temple-Inland Inc. (materials). Chair, President and Chief Executive Officer of Columbus, Ohio-based American Electric Power Co., Inc. from April 1993 to April 2004.   | 2005                  |
| The Hon. Paule Gauthier,<br>P.C., O.C., O.Q., Q.C.<br>Québec, Québec<br>Canada | Senior Partner, Stein Monast LLP (law firm). Director, Cossette Communication Group Inc., Institut Québécois des Hautes Études Internationales, Laval University, Metro Inc., RBC Dexia Investor Services Trust and Royal Bank of Canada.   | 2002                  |
| Kerry L. Hawkins<br>Winnipeg, Manitoba<br>Canada                               | Director, NOVA Chemicals Corporation. President, Cargill Limited (agricultural) from September 1982 to December 2005.   | 1996                  |
| S. Barry Jackson<br>Calgary, Alberta<br>Canada                                 | Chair of the Board, TransCanada since April 2005. Director, Nexen Inc. (oil and gas). Director, WestJet Airlines Ltd. 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.   | 2002                  |
| Paul L. Joskow<br>New York, New York<br>United States                          | Economist and President of the Alfred P. Sloan Foundation. On leave from his position as Professor of Economics and Management, Massachusetts Institute of Technology ("MIT") where he has been on the faculty since 1972. Trustee of Yale University since July 1, 2008 and member of the Board of Overseers of the Boston Symphony Orchestra since September 2005. Director of the MIT Center for Energy and Environmental Policy Research from 1999 to 2007 and Director of National Grid plc from 2000 to 2007. Director of Exelon Corporation (energy) since July 2007. Trustee of Putnam Mutual Funds. President of the Yale University Council until July 1, 2006 and was on the Board of Directors of the Whitehead Institute of Biological Research until February 2005. | 2004                  |
| Harold N. Kvisle<br>Calgary, Alberta<br>Canada                                 | President and Chief Executive Officer of TransCanada since May 2003 and TCPL since May 2001. Director, Bank of Montreal.  | 2001                  |
| John A. MacNaughton <sup>(2)</sup> ,<br>C.M.<br>Toronto, Ontario<br>Canada     | Chair of the Business Development Bank of Canada and of CNSX Markets Inc. (formerly the Canadian Trading and Quotation System Inc.) (stock exchange). Director, Nortel Networks Corporation and Nortel Networks Limited (the principal operating subsidiary of Nortel Networks Corporation) (technology). Appointed by the Minister of Human Resources and Social Development as Nominating Committee Chair for the new Canada Employment Insurance Financing Board in 2008. Founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board from 1999 to 2005.  | 2006                  |
| David P. O'Brien <sup>(3)</sup><br>Calgary, Alberta<br>Canada                  | Chair, EnCana Corporation (oil and gas) since April 2002 and Chair, Royal Bank of Canada since February 2004. Director, Molson Coors Brewing Company, Enerplus Resources Fund and C.D. Howe Institute. Chancellor, Concordia University and a member of the Science, Technology and Innovation Council of Canada.   | 2001                  |



| <b>Name and Place of Residence</b>                                    | <b>Principal Occupation During the Five Preceding Years</b>   | <b>Director Since</b> |
|---|---|-----------------------|
| W. Thomas Stephens<br>Greenwood Village,<br>Colorado<br>United States | Chair and Chief Executive Officer of Boise Cascade, LLC from November 2004 to November 30, 2008. Director, Boise Inc.   | 2007 <sup>(4)</sup>   |
| D. Michael G. Stewart<br>Calgary, Alberta<br>Canada                   | Director, Canadian Energy Services Inc., Pengrowth Corporation and Orleans Energy Ltd. Director of Esprit Exploration Ltd. (oil and gas) from May 2002 to September 2004; a director of Canada Southern Petroleum Ltd. from June 2003 to August 2004; Chairman and a trustee of Esprit Energy Trust (oil and gas) from August 2004 to October 2006; and a director of Creststreet Power & Income General Partner Limited, the General Partner of Creststreet Power & Income Fund L.P. (wind power) from December 2003 to February 2006. | 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 U.S. on March 24, 2000.
- (2) Mr. MacNaughton was a director of Nortel Networks Corporation and Nortel Networks Limited (either, "Nortel") when they and certain other subsidiaries filed for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) and applicable bankruptcy protection statutes in the U.S. and the United Kingdom on January 14, 2009. Mr. MacNaughton became a director of Nortel on June 29, 2005. Nortel was subject to a management cease trade order on April 10, 2006 issued by the Ontario Securities Commission ("OSC") and other provincial securities regulators. The cease trade order related to a delay in filing certain of Nortel's 2005 financial statements. The order was revoked by the OSC on June 8, 2006 and by the other provincial securities regulators very shortly thereafter.
- (3) Mr. O'Brien was a director of Air Canada in April 2003 when Air Canada filed for protection under the *Companies' Creditors Arrangement Act* (Canada) and applicable bankruptcy protection statutes in the U.S.
- (4) Mr. Stephens previously served on the Board from 2000 to 2005.

## Board Committees

TransCanada has four committees of the Board: the Audit Committee, the Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee. Mr. Jackson, the Chair of the Board, is a non-voting member of the Human Resources Committee and the Governance Committee. The voting members of each of these committees, as of Year End, are identified below:

| <b>Audit Committee</b> | <b>Governance Committee</b> | <b>Health, Safety &amp; Environment Committee</b> | <b>Human Resources Committee</b> |
|------------------------|-----------------------------|---|----------------------------------|
| Chair: K.E. Benson     | Chair: W.K. Dobson          | Chair: E.L. Draper                                | Chair: W.T. Stephens             |
| Members: D.H. Burney   | Members: D.H. Burney        | Members: P. Gauthier                              | Members: W.K. Dobson             |
| P. Gauthier            | P.L. Joskow                 | K.L. Hawkins                                      | E.L. Draper                      |
| P.L. Joskow            | J.A. MacNaughton            | W.T. Stephens                                     | K.L. Hawkins                     |
| J.A. MacNaughton       | D.P. O'Brien                | D.M.G. Stewart                                    | D.P. O'Brien                     |
| D.M.G. Stewart         |                             |   |                                  |

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 located at [www.transcanada.com](http://www.transcanada.com). Information about the audit committee can be found in this AIF under the heading "Audit Committee".

Further information about the Board committees and corporate governance can also be found on TransCanada's website.

## 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**

| <b>Name</b>           | <b>Present Position Held</b>   | <b>Principal Occupation During the Five Preceding Years</b>   |
|-----------------------|--|---|
| Harold N. Kvisle      | President and Chief Executive Officer  | President and Chief Executive Officer   |
| Russell K. Girling    | President, Pipelines   | Prior to June 2006, Executive Vice-President, Corporate Development 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         | Executive Vice-President, Corporate and General Counsel and Chief Compliance Officer | Prior to October 2006, General Counsel and Chief Compliance Officer. Prior thereto, General Counsel since June 2006. Prior to June 2006, Vice-President, Transactions, Power Division, TCPL and concurrently, prior to August 2005, President TransCanada Power Services Ltd., general partner of TransCanada Power, L.P. |
| Alexander J. Pourbaix | President, Energy  | Prior to June 2006, Executive Vice-President, Power   |
| Sarah E. Raiss        | Executive Vice-President, Corporate Services   | Executive Vice-President, Corporate Services  |
| Donald M. Wishart     | Executive Vice-President, Operations and Engineering                                 | Executive Vice-President, Operations and Engineering  |

**Corporate Officers**

| <b>Name</b>         | <b>Present Position Held</b>          | <b>Principal Occupation During the Five Preceding Years</b> |
|---------------------|---------------------------------------|---|
| Ronald L. Cook      | Vice-President, Taxation              | Vice-President, 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                    |

**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.

## 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 SEC, and those mandated by the U.S. *Sarbanes-Oxley Act of 2002*. 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 our website at [www.transcanada.com](http://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; National Policy 58-201, Corporate Governance Guidelines; and National Instrument 58-101, Disclosure of Corporate Governance Practices. Further information about TransCanada's corporate governance can be found on TransCanada's website at [www.transcanada.com](http://www.transcanada.com) under the heading "Corporate Governance" or at Schedule "A" to TransCanada's management proxy circular.

## 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 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 [www.transcanada.com](http://www.transcanada.com).

### Relevant Education and Experience of Members

The members of the Audit Committee at Year End were Kevin E. Benson (Chair), Derek H. Burney, Paule Gauthier, Paul L. Joskow, John A. MacNaughton and D. Michael G. Stewart.

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. Benson 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:

#### ***Kevin E. Benson***

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 was the President and Chief Executive Officer of Laidlaw International, Inc. until October, 2007. 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.

#### ***Derek H. Burney***

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 was the lead director at Shell Canada Limited until May 2007 and is the Chairman of Canwest Global Communications Corp. He has served on one other organization's audit committee.

#### ***Paule Gauthier***

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.

***Paul L. Joskow***

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 the President of the Alfred P. Sloan Foundation and on leave from his position as a Professor of Economics and Management, MIT. He has served on the boards of several public companies and other organizations and on the audit committees of certain of those boards.

***John A. MacNaughton***

Mr. MacNaughton earned a Bachelor of Arts in Economics from the University of Western Ontario. Mr. MacNaughton is currently the Chairman of the Business Development Bank of Canada and 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.

***D. Michael G. Stewart***

Mr. Stewart earned a Bachelor of Science (Honours) in Geological Science from Queen's University. Mr. Stewart has served and continues to serve on the boards of several public companies and other organizations and on the audit committees of certain of those boards. He has been active in the Canadian energy industry for over 35 years.

**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 following table provides information about the fees paid by the Company to KPMG LLP, the external auditor of the TransCanada group of companies, for professional services rendered for the 2008 and 2007 fiscal years.

| Fee Category       | 2008                  | 2007   | Description of Fee Category   |
|--------------------|-----------------------|--------|---|
|                    | (millions of dollars) |        |   |
| Audit Fees         | \$6.69                | \$6.27 | Aggregate fees for audit services rendered for the audit of the annual consolidated 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 | 0.08                  | 0.07   | Aggregate fees for assurance and related services that are reasonably related to performance of the audit or review of the consolidated 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 certain pension plans.                  |
| Tax Fees           | 0.14                  | 0.06   | Aggregate fees rendered for primarily tax compliance and tax advice. The nature of these services consisted of: tax compliance including the review of 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     | 0.37                  | 0.00   | Aggregate fees for products and services other than those reported elsewhere in this table. The nature of these services consisted primarily of advice and training primarily related to compliance with IFRS.  |
| Total              | \$7.28                | \$6.40 |   |

### 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 a pipeline pursuant to Section 112 of the *National Energy Board Act*. On November 20, 2006, TransCanada and Enbridge Inc. were granted a dismissal of the case but CAPLA appealed that decision. The appeal was heard on December 18, 2007. On April 3, 2008, the Ontario Court of Appeal dismissed CAPLA's appeal. The decision of the Ontario Court of Appeal is final and binding as CAPLA did not seek any further appeal within the time frame allowed.

TransCanada and its subsidiaries are subject to various other legal proceedings and regulatory actions arising in the normal course of business. While the final outcome of such legal proceedings and regulatory actions cannot be predicted with certainty and there can be no assurance that such matters will be resolved in TransCanada's favour, it is the opinion of TransCanada's management that the resolution of such proceedings and regulatory actions will not have a material impact on TransCanada's consolidated financial position, results of operations or liquidity.

### MATERIAL CONTRACTS

The Ravenswood Agreement as described in this AIF under the heading "General Development of the Business – Developments in the Energy Business" is available on SEDAR at [www.sedar.com](http://www.sedar.com) under TransCanada's profile.

The underwriting agreement between TransCanada Corporation and BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., UBS Securities Canada Inc., Canaccord Capital Corporation and FirstEnergy Capital Corp., as underwriters, dated May 5, 2008 as described in this AIF under the heading "General Development of the Business – Financing Activities" is available on SEDAR at [www.sedar.com](http://www.sedar.com) under TransCanada's profile.

The underwriting agreement between TransCanada Corporation and RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., TD Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc. and UBS Securities Canada Inc., as underwriters, dated November 17, 2008 as described in this AIF under the heading "General Development of the Business – Financing Activities" is available on SEDAR at [www.sedar.com](http://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**

TransCanada's 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.

**ADDITIONAL INFORMATION**

1. Additional information in relation to TransCanada may be found under TransCanada's profile on SEDAR at [www.sedar.com](http://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 management 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

|                             |  |                            |   |
|-----------------------------|--|----------------------------|---|
| AcSB                        | Accounting Standards Board   | IFRS                       | International Financial Reporting Standards   |
| AGIA                        | <i>Alaska Gasline Inducement Act</i>   | Iroquois System            | A natural gas pipeline system in New York and Connecticut   |
| AIF                         | Annual Information Form of TransCanada Corporation dated February 23, 2009   | ISO                        | International Organization of Standardization   |
| Alberta System              | A natural gas transmission system throughout the province of Alberta   | Keystone Canada            | TransCanada Keystone Pipeline Limited Partnership   |
| ANR                         | American Natural Resources Company and ANR Storage Company   | Keystone Oil Pipeline      | A 3,456 km (2,147 mile) oil pipeline project currently under construction that will initially transport crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma |
| 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 | Keystone U.S. LNG          | TransCanada Keystone Pipeline, LP<br>Liquefied Natural Gas  |
| ATCO Pipelines              | Canadian Utilities Limited   | MD&A                       | TransCanada's Management's Discussion and Analysis dated February 23, 2009  |
| AUC                         | Alberta Utilities Commission   | mmcf/d                     | Million cubic feet per day  |
| Bbl/d                       | Barrels per day  | Moody's                    | Moody's Investors Service, Inc.   |
| Bcf                         | Billion cubic feet   | MW                         | Megawatts   |
| Bécancour                   | A power plant near Trois-Rivières, Québec  | NBPL                       | Northern Border Pipeline Company  |
| Bison                       | The Bison Pipeline Project, a proposed 298-mile pipeline from the Powder River Basin in Wyoming to the NBPL System   | NBPL System                | A natural gas transmission system located in the upper Midwestern portion of the U.S.   |
| Board                       | TransCanada's Board of Directors   | NEB                        | National Energy Board   |
| Broadwater                  | A proposed offshore LNG facility in Long Island Sound, New York  | NGTL                       | Nova Gas Transmission Limited   |
| Bruce A                     | Bruce Power A L.P.   | North Baja                 | A natural gas pipeline in southern California   |
| Bruce B                     | Bruce Power L.P.   | NOx                        | Nitrogen oxides   |
| Cacouna                     | The proposed Cacouna Energy LNG facility in Cacouna, Québec  | NYSDOS                     | New York Department of State  |
| Calpine                     | Calpine Corporation  | NYSE                       | New York Stock Exchange   |
| 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  | Portland System            | A natural gas pipeline that runs through Maine and New Hampshire into Massachusetts   |
| CAPLA                       | Canadian Alliance of Pipeline Landowner's Association  | Portlands Energy Centre    | A natural gas-fired combined-cycle power plant near downtown Toronto, Ontario   |
| Cartier Wind Energy Project | Six wind energy projects contracted by Hydro-Québec Distribution representing a total of 740 MW in the Gaspé region of Québec  | PPA                        | Power Purchase Arrangement  |
| CO <sub>2</sub>             | Carbon dioxide   | Ravenswood                 | Ravenswood Generating Station   |
| Common Shares               | Common shares of TransCanada   | Ravenswood Agreement       | The membership interest and stock purchase agreement between KeySpan Corporation and TransCanada Facility USA Inc. dated March 31, 2008   |
| Coolidge                    | Coolidge Generating Station  | RGGI                       | Regional Greenhouse Gas Initiative  |
| CSA                         | Canadian Securities Administrators   | S&P                        | Standard and Poor's   |
| DBRS                        | DBRS Limited   | SEC                        | United States Securities and Exchange Commission  |
| EUB                         | Alberta Energy and Utilities Board   | SGER                       | Specified Gas Emitters Regulation   |
| FEIS                        | Final Environment Impact Statement   | Sheerness                  | A power plant consisting of two 390 MW coal-fired thermal powered generating units  |
| FERC                        | Federal Energy Regulatory Commission (USA)   | Sundance                   | Two coal fired electrical generating facilities which produce 560 MW and 706 MW, respectively   |
| Framework                   | The Regulatory Framework for Air Emissions   | TCPL                       | TransCanada PipeLines Limited   |
| Foothills System            | A natural gas pipeline system in southeastern B.C., southern Alberta and southwestern Saskatchewan   | TQM                        | Trans Québec & Maritimes Pipeline Inc.  |
| GHG                         | Greenhouse gas   | TransCanada or the Company | TransCanada Corporation   |
| GTNC                        | Gas Transmission Northwest Corporation   | TSX                        | Toronto Stock Exchange  |
| GTN System                  | A natural gas transmission system running from northwestern Idaho, through Washington and Oregon to the California border  | Tuscarora                  | Tuscarora Gas Transmission Company  |
| Great Lakes                 | Great Lakes Gas Transmission Limited Partnership   | Tuscarora System           | A natural gas pipeline that runs from Oregon through northeast California to Reno, Nevada   |
| Great Lakes System          | A natural gas pipeline system in the north central U.S., roughly parallel to the Canada-U.S. Border  | U.S.                       | United States   |
| GUA                         | <i>Gas Utilities Act</i> (Alberta)   | WCI                        | Western Climate Initiative  |
| HS&E                        | Health, Safety and Environment   | Year End                   | December 31, 2008   |

**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.

| <b>Metric</b>   | <b>Imperial</b>               | <b>Factor</b>  |
|-----------------|-------------------------------|--|
| Kilometres (km) | 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,<br>then add 32 degrees; to convert to Celsius<br>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, but at least every five years;

***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 partners, employees and former partners and employees of the present and former 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 partners, employees and former partners and 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) ensure the Committee has sufficient information to permit it to properly discharge its duties and responsibilities;
- (d) report to the Board on the activities of the Audit Committee relative to its recommendations, resolutions, actions and concerns; and
- (e) 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 and set and pay the compensation for 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.