



TRANSCANADA CORPORATION

ANNUAL INFORMATION FORM

February 14, 2011

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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, 2010 ("Year End"). Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Certain portions of TransCanada's Management's Discussion and Analysis dated February 14, 2011 ("MD&A") are incorporated by reference into this AIF as stated below. The MD&A can be found on SEDAR at www.sedar.com under TransCanada's profile.

The Canadian Institute of Chartered Accountants' ("CICA") Accounting Standards Board ("AcSB") previously announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), effective January 1, 2011. As a United States ("U.S.") Securities and Exchange Commission ("SEC") registrant, TransCanada prepares and files a "Reconciliation to United States GAAP" and has the option to prepare and file its consolidated financial statements using U.S. generally accepted accounting principles ("U.S. GAAP"). Previously, TransCanada disclosed that effective January 1, 2011, the Company expected to begin reporting under IFRS. As a result of the developments noted below, management expects that the Company will adopt U.S. GAAP effective January 1, 2012. The Company's IFRS conversion project was proceeding as planned to meet the conversion date of January 1, 2011, prior to these developments. In accordance with Canadian GAAP, TransCanada follows specific accounting policies unique to a rate-regulated business. These rate-regulated accounting ("RRA") standards allow the timing of recognition of certain expenses and revenues to differ from the timing that may otherwise be expected in a non-rate-regulated business under Canadian GAAP, in order to appropriately reflect the economic impact of regulators' decisions regarding the Company's revenues and tolls. In October 2010, the AcSB and the Canadian Securities Administrators ("CSA") amended their policies applicable to Canadian publicly accountable enterprises that use RRA in order to permit these entities to defer the adoption of IFRS for one year. Due to the continued uncertainty around the timing, scope and eventual adoption of an RRA standard under IFRS, TransCanada will defer its adoption of IFRS accordingly and continue preparing its consolidated financial statements in 2011 in accordance with Canadian GAAP, as defined by Part V of the CICA Handbook, in order to continue using RRA. TransCanada will continue to actively monitor IASB developments with respect to RRA and other IFRS. The impact of adopting U.S. GAAP is consistent with that currently reported in the Company's publicly filed "Reconciliation to United States GAAP". Significant changes to existing systems and processes are not required to implement U.S. GAAP as the Company's primary accounting standard. For more information on TransCanada's conversion project, see TransCanada's MD&A under the headings "Accounting Changes – Future Accounting Changes – International Financial Reporting Standards" and "Accounting Changes – Future Accounting Changes – U.S. GAAP Conversion Project".

Information in relation to metric conversion can be found at Schedule "A" to this AIF. Terms defined throughout this AIF are listed in the Glossary found at the end of 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 securityholders 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 (including anticipated construction and completion dates), 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, capacity payments, 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 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 the heading "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 not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this AIF or otherwise, and not to 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.

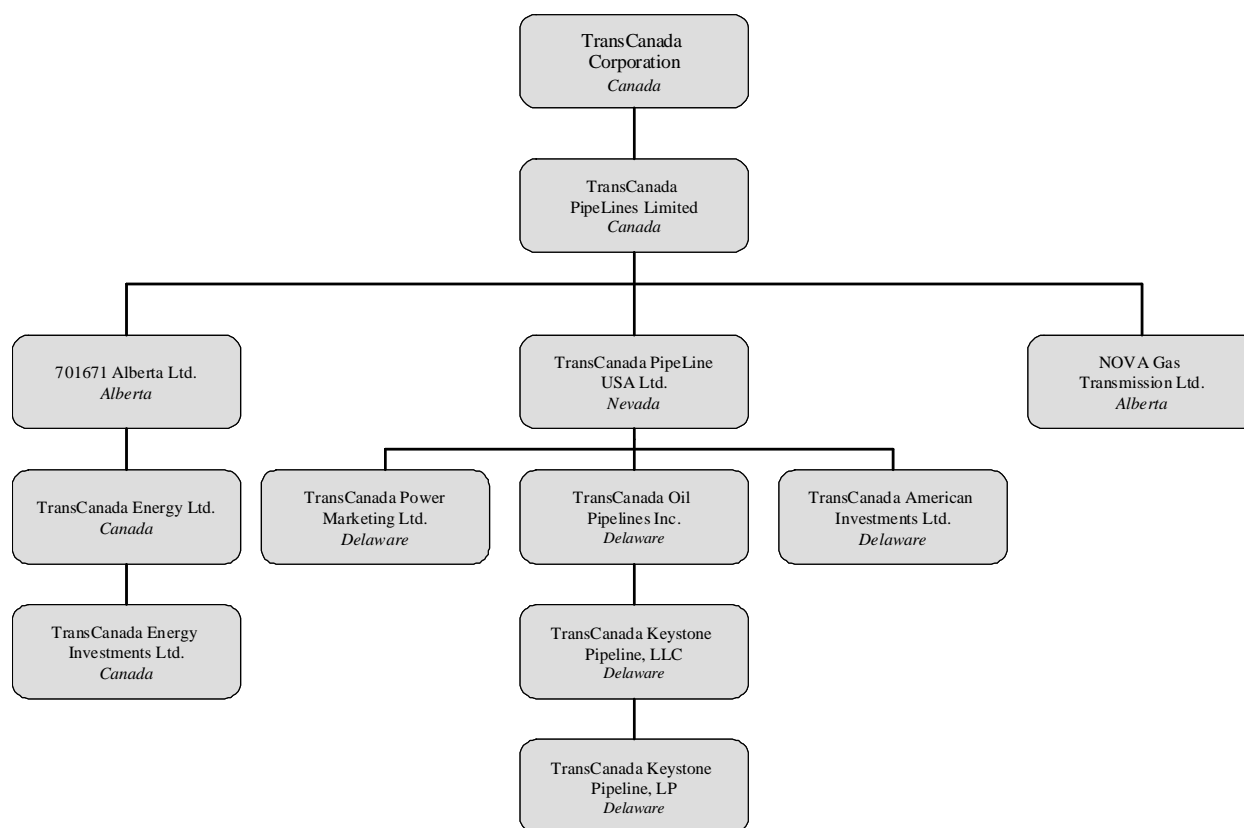
TRANSCANADA CORPORATION

Corporate Structure

TransCanada's head office and registered office are located at 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1. TransCanada was incorporated pursuant to the provisions of the *Canada Business Corporations Act* ("CBCA") 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 ("Common Share(s)"). 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, 2010. Each of the subsidiaries shown has total assets that exceeded 10 per cent of the total consolidated assets of TransCanada or revenues that exceeded 10 per cent of the total consolidated revenues of TransCanada as at and for the year ended December 31, 2010. TransCanada owns, directly or indirectly, 100 per cent of the voting shares in each of each of these subsidiaries, with exception to TransCanada Keystone Pipeline, LP which TransCanada indirectly holds 100 per cent of the partnership interests thereof.



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 per cent of the total consolidated assets or total consolidated revenues of TransCanada as at and for the year ended December 31, 2010.

GENERAL DEVELOPMENT OF THE BUSINESS

Commencing in 2011, TransCanada's reportable business segments are "Natural Gas Pipelines", "Energy" and "Oil Pipelines". Natural Gas and Oil Pipelines are principally comprised of the Company's respective natural gas and oil 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 and the non-regulated natural gas storage business in Canada.

TransCanada's strategy in Natural Gas and Oil Pipelines is focused on growing its North American natural gas and crude oil transmission network and maximizing the long-term value of its existing pipeline assets. The Company has built a substantial energy business over the past decade and has achieved a major presence in power generation in selected regions of Canada and the U.S. More recently, TransCanada has also developed a substantial non-regulated natural gas storage business in Alberta.

Summarized below are significant developments that have occurred in TransCanada's Natural Gas Pipelines, Oil Pipelines and Energy businesses, respectively, and the significant acquisitions, dispositions, events or conditions which have had an influence on that development, during the last three financial years.

Developments in the Natural Gas Pipelines Business

Date	Description of Development
CANADIAN MAINLINE ("Canadian Mainline")	
March 2008	The National Energy Board ("NEB") approved the amended interim tolls for Canadian Mainline effective April 1, 2008. TransCanada had filed an application with the NEB to increase the interim tolls previously approved in December 2007. This toll increase was a result of a significant decrease in forecasted flows on the system and was intended to allow TransCanada to meet its 2008 revenue requirement.
December 2009	The NEB approved TransCanada's application for 2010 final tolls for Canadian Mainline, effective January 1, 2010. The 2010 calculated return on equity was 8.52 per cent. Reduced throughput and greater use of shorter distance transportation contracts resulted in an increase in its tolls for 2010 compared to 2009.
August 2010	TransCanada's open season to transport Marcellus volumes on the Canadian Mainline closed. The open season was initiated at the request of prospective shippers.
December 2010	TransCanada filed an application with the NEB for approval of the interim 2011 tolls for the Canadian Mainline which contained certain changes to the tolling mechanism to reduce long haul tolls. The NEB decided not to approve the tolls as requested in the interim tolls application and set the current 2010 tolls as interim commencing January 1, 2011.
January 2011	TransCanada filed for revised interim tolls effective March 1, 2011 based on the existing 2007–2011 settlement with customers. If approved, the revised interim tolls will allow for collection of revenues that will more closely reflect TransCanada's costs and forecast throughput in 2011. TransCanada is continuing its discussions with stakeholders with the intent of increasing the level of support for a potential settlement and expects to file a subsequent application for final 2011 tolls for the Canadian Mainline later in 2011.
ALBERTA SYSTEM ("Alberta System")	
April 2008	An expansion of the Alberta System in the Fort McMurray area was placed in service on its projected on-stream date.
February 2009	The NEB approved TransCanada's June 2008 application for federal regulation of the Alberta System effective April 29, 2009.
June 2010	TransCanada reached a three year settlement agreement with the Alberta System shippers and other interested parties and filed a 2010-2012 Revenue Requirement Settlement Application with the NEB.
August 2010	The NEB approved TransCanada's November 2009 application for the Alberta System's Rate Design Settlement and the commercial integration of the ATCO Pipeline system with the Alberta System.
September 2010	The NEB approved the Alberta System's 2010-2012 Revenue Requirement Settlement Application.
October 2010	The NEB approved final 2010 rates for the Alberta System, which reflect the Alberta System 2010-2012 Revenue Requirement Settlement and Rate Design Settlement.
December 2010	The NEB approved the interim 2011 tolls for the Alberta System reflecting the 2010-2012 Revenue Requirement Settlement and continuing to transition to the toll methodology approved in the Rate Design Settlement. TransCanada expects to file for final 2011 tolls on the Alberta System which will reflect the outcome of further discussions with stakeholders with respect to 2011 tolls and commercial integration of the ATCO Pipeline system.
North Central Corridor Expansion ("North Central Corridor")	
October 2008	The Alberta Utilities Commission ("AUC"), which previously regulated the Alberta System, approved TransCanada's application for a permit to construct the North Central Corridor.
October 2008	Construction of the North Central Corridor commenced.
May 2009	The 140 kilometer ("km") North Star section of the North Central Corridor was completed.
September 2009	Work on the final phase of the North Central Corridor commenced.
March 2010	The North Central Corridor was completed, on schedule and under budget.
Groundbitch Pipeline Project ("Groundbitch")	
March 2010	The NEB approved TransCanada's application after a public hearing, to construct and operate Groundbitch.
August 2010	TransCanada received final regulatory approvals and commenced construction of Groundbitch.
December 2010	Groundbitch was completed on schedule and under budget, and began transporting natural gas from the Montanay shale gas formation into the Alberta System.

Date	Description of Development
Horn River Pipeline Project ("Horn River")	
February 2009	TransCanada announced the successful completion of a binding open season, securing support for firm transportation contracts of 378 million cubic feet per day ("MMcf/d") for the pipeline.
February 2010	TransCanada filed an application with the NEB for approval to construct and operate the pipeline.
April 2010	The NEB announced that it would hold a public hearing process on TransCanada's February 2010 application for approval to construct and operate the pipeline. The NEB hearing relating to the Horn River pipeline concluded in November 2010.
January 2011	TransCanada received approval from the NEB to construct the Horn River pipeline.
FOOTHILLS SYSTEM ("Foothills System")	
June 2010	TransCanada reached an agreement to establish a cost of capital for Foothills System. The NEB approved final tolls for 2010, effective July 1, 2010.
MACKENZIE GAS PIPELINE PROJECT ("Mackenzie Gas Project")	
December 2009	A Joint Review Panel of the Canadian government released a report on environmental and socio-economic factors in relation to the Mackenzie Gas Project. The report was submitted to the NEB as part of the review process for approval of the project.
December 2010	The NEB approved the proponents' application to construct the Mackenzie Gas Project subject to numerous conditions.
ALASKA PIPELINE PROJECT ("Alaska Pipeline")	
December 2008	The Alaska Commissioners of Revenue and Natural Resources issued the <i>Alaska Gasline Inducement Act</i> ("AGIA") license to TransCanada to advance the Alaska Pipeline. Subsequently, TransCanada commenced the engineering, environmental, field and commercial work. 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.
June 2009	TransCanada reached an agreement with ExxonMobil Corporation ("ExxonMobil") to jointly advance the Alaska Pipeline. A joint project team is developing the engineering, environmental, aboriginal relations and commercial work.
April 2010	The Alaska Pipeline open season commenced.
Third Quarter 2010	Interested shippers on the proposed Alaska Pipeline project submitted conditional commercial bids in the open season that closed July 30, 2010. The project is now working with shippers to resolve those conditions within the project's control.
BISON PIPELINE ("Bison")	
September 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 Bison.
December 2010	Construction of Bison was completed.
January 2011	Bison was placed in commercial service upon receiving final regulatory approvals to commence operations.
GREAT LAKES SYSTEM ("Great Lakes System")	
November 2009	The U.S. Federal Energy Regulatory Commission ("FERC") initiated an investigation to determine whether rates on the Great Lakes System were just and reasonable. In response, Great Lakes Gas Transmission Limited Partnership ("Great Lakes") filed a cost and revenue study with the FERC in February 2010.
July 2010	FERC approved, without modification, the settlement stipulation agreement reached among Great Lakes, active participants and the FERC trial staff. As approved, the stipulation and agreement applies to all current and future shippers on the Great Lakes System.
NORTH BAJA SYSTEM ("North Baja System")	
July 2009	TransCanada completed the sale of North Baja Pipeline, LLC ("North Baja") to its affiliate, TC PipeLines, LP. As part of the transaction, TransCanada agreed to amend its incentive distribution rights with TC PipeLines, LP. Under the amendment, TransCanada received additional common units in exchange for a resetting of its incentive distribution rights at a lower percentage which escalates with increases in TC PipeLines, LP distributions. The aggregate consideration received from the partnership included a combination of cash and common units totaling approximately US\$395 million.

Date	Description of Development
GUADALAJARA ("Guadalajara")	
May 2009	TransCanada announced that it was the successful bidder on a contract to build, own and operate the Guadalajara pipeline.
December 2010	The Guadalajara pipeline was 70 per cent complete at Year End.

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

Developments in the Oil Pipelines Business

Date	Description of Development
KEystone	
2008	TransCanada increased its equity ownership in TransCanada Keystone Pipeline, LP ("Keystone U.S.") and TransCanada Keystone Pipeline Limited Partnership ("Keystone Canada") to 79.99 per cent from 50 per cent with ConocoPhillips' equity ownership being reduced concurrently to 20.01 per cent.
March 2008	Keystone U.S. received a Presidential Permit authorizing the construction, maintenance and operation of facilities at the U.S. and Canada border for the transportation of crude oil between the two countries. The Presidential Permit, was issued following the issuance by the U.S. Department of State of the Final Environmental Impact Statement on January 11, 2008 for the construction of the Keystone U.S. pipeline and its Cushing extension (the "Cushing Extension").
June 2008	The NEB approved the application for additional pumping facilities required to expand the Canadian portion of Keystone (as defined below and referred to in this section as "Keystone") from approximately 435,000 barrels per day ("Bbl/d") to 591,000 Bbl/d to accommodate volumes to be delivered to the Cushing markets.
July 2008	TransCanada announced plans for Keystone U.S. Gulf Coast expansion (the "U.S. Gulf Coast Expansion") to provide additional capacity in 2013 of 500,000 Bbl/d from Western Canada to the U.S. Gulf Coast, near existing terminals in Port Arthur, Texas.
October 2008	The Company successfully conducted an open season for the U.S. Gulf Coast Expansion by securing additional firm, long term transportation contracts.
August 2009	TransCanada became sole owner of Keystone project through the purchase of ConocoPhillips' remaining interest (approximately 20 per cent) for US\$553 million and the assumption of US\$197 million of short-term debt.
March 2010	The NEB approved TransCanada's application to construct and operate the Canadian portion of the U.S. Gulf Coast Expansion.
April 2010	The U.S. Department of State issued a Draft Environmental Impact Statement for the U.S. Gulf Coast Expansion.
June 2010	Keystone oil pipeline commenced operating at a reduced maximum operating pressure as the first phase of Keystone began delivering oil to Wood River and Patoka in Illinois ("Wood River/Patoka").
November 2010	The open season for the Bakken Marketlink ("Bakken Marketlink") project, which commenced in September 2010, closed successfully. The Company secured firm, five year shipper contracts of 65,000 Bbl/d.
November 2010	The open season for the Cushing Marketlink ("Cushing Marketlink") project, which commenced in September 2010, closed successfully. The Company secured contractual support sufficient to proceed with the Cushing Marketlink project, which would when completed have the ability to provide 150,000 Bbl/d of crude oil from Cushing, Oklahoma to the U.S. Gulf Coast.
December 2010	The reduced maximum operating pressure restriction on the Canadian conversion phase of the base Keystone oil pipeline was removed by the NEB following the completion of in-line inspections.
Fourth Quarter 2010	Construction of the Cushing Extension was completed, and line fill commenced in late 2010.
January 2011	The required operational modifications were completed on the Wood River/Patoka phase of Keystone oil pipeline. As a result, the system was capable of operating at the approved design pressure and the Company commenced recording earnings for the Wood River/Patoka phase in February 2011.
February 2011	The commercial in service of the Cushing Extension commenced.

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

Developments in the Energy Business

Date	Description of Development
RAVENSWOOD GENERATING STATION ("Ravenswood")	
August 2008	TransCanada completed its acquisition of Ravenswood for US\$2.9 billion, subject to certain post-closing adjustments, pursuant to a purchase agreement with KeySpan Corporation and certain subsidiaries.
BÉCANOUR ("Bécancour")	
June 2010	Hydro-Québec Distribution ("Hydro-Québec") notified TransCanada it would exercise its option to extend the agreement to suspend all electricity generation from Bécancour throughout 2011. Hydro-Québec had previously announced that it would exercise its option to extend the agreement to suspend all electricity generation from Bécancour throughout 2010. Under the original agreement, Hydro-Québec has the option, subject to certain conditions, to extend the suspension on an annual basis until such time as regional electricity demand levels recover. TransCanada will continue to receive payments under the agreement similar to those that would have been received under the normal course of operation.
BRUCE POWER ("Bruce Power")	
January 2008	The sixteenth and final new steam generator was installed in Bruce A (as defined below and referred in this section as "Bruce A") Units 1 and 2.
Fourth Quarter 2008	A review of the end of life estimates for Units 3 and 4 was completed. As a result of the review, Unit 3 was expected to be in commercial service until 2011, providing an additional two years of generation before refurbishment. After the refurbishment, the end of life estimate for Unit 3 was to be extended to 2038. The review also showed that Unit 4 was expected to remain in commercial service until 2016, providing seven years of generation before refurbishment, after which the end of life estimate for Unit 4 was expected to be extended to 2042.
July 2009	Bruce Power and the Ontario Power Authority ("OPA") amended certain terms and conditions included in the Bruce Power Refurbishment Implementation Agreement. The amendments were consistent with the intent of the agreement, originally signed in 2005, and recognize the significant changes in Ontario's electricity market. Under the original agreement, Bruce A committed to refurbish and restart the currently idle Units 1 and 2, extend the operating life of Unit 3 and replace the steam generators on Unit 4. An amendment in 2007 provided for a full refurbishment of Unit 4, which will extend the expected operating life of the unit. This most recent amendment included amendments to Bruce B (as defined below and referred in this section as "Bruce B") floor price mechanism, the removal of a support payment cap for Bruce A, an amendment to the capital cost-sharing mechanism, and provision for deemed generation payments to Bruce Power at the contract prices under circumstances where generation from Bruce A and Bruce B is reduced due to system curtailments on the Independent Electricity System Operator controlled grid in Ontario.
October 2010	The last of the 960 calandria tubes were successfully installed in Bruce A Units 1 and 2.
December 2010	The last of the fuel channel assemblies into Bruce A Unit 2 were successfully installed.
February 2011	A maintenance outage of approximately three weeks commenced on February 1, 2011 on Bruce B Unit 8 and outages of approximately seven weeks each are scheduled to begin in mid-April 2011 for Bruce B Unit 7 and mid-October 2011 for Bruce B Unit 5. Bruce A expects an outage of approximately one week on Unit 3 in July 2011 and, following approval from the Canadian Nuclear Safety Commission the West Shift Plus outage of approximately six months is scheduled to commence in early November 2011 on Unit 3. The West Shift Plus outage is a key part of the life extension strategy for Unit 3 and is an extension of the West Shift program which was successfully executed in 2009. Subject to regulatory approval, Bruce Power expects to load fuel into Unit 2 in second quarter 2011 and achieve a first synchronization of the generator to the electrical grid by the end of 2011, with commercial operation expected to occur in first quarter 2012. Bruce Power expects to load fuel into Unit 1 in third quarter 2011, with a first synchronization of the generator during first quarter 2012 and commercial operation expected to occur during third quarter 2012. Plant commissioning and testing are underway and will accelerate in second quarter 2011 when construction activities are essentially complete.
February 2011	The Bruce Power Refurbishment Implementation Agreement was amended to reflect: the suspension date for contingent support payments on Bruce A output was extended to June 1, 2012 from December 31, 2011, and as a result, all output from Bruce A will receive spot prices from June 1, 2012 until the restart of Units 1 and 2 is complete; and a recovery of costs incurred by Bruce A in connection with development of fuel programs.

Date	Description of Development
PORTLANDS ENERGY CENTRE ("Portlands Energy")	
April 2009	Portlands Energy was fully commissioned, ahead of time and under budget.
OAKVILLE GENERATING STATION	
September 2009	The OPA advised TransCanada that it was awarded a 20 year Clean Energy Supply contract to build, own and operate a 900 MW a generating station in Oakville, Ontario.
October 2010	The Government of Ontario announced that it would not proceed with the Oakville generating station. TransCanada commenced negotiations with the OPA on a settlement which would terminate the Clean Energy Supply contract and compensate TransCanada for the economic consequences associated with the contract's termination.
CARTIER WIND ("Cartier Wind")	
November 2008	The 109 MW Carleton wind farm, the third of five phases of Cartier Wind, became operational.
Third Quarter 2009	Construction activity began on the Cartier Wind's 212 MW Gros-Morne and 58 MW Montagne-Sèche wind farms. The Montagne-Sèche project and phase one of the Gros-Morne project are expected to be operational in 2011, and phase two of the Gros-Morne project is expected to be operational in 2012, subject to the necessary approvals.
COOLIDGE ("Coolidge")	
May 2008	TransCanada announced that the Phoenix, Arizona based utility, Salt River Project Agricultural Improvement and Power District, signed a 20 year power purchase agreement to secure 100 per cent of the output from Coolidge.
December 2008	The Arizona Corporation Commission granted a Certificate of Environmental Compatibility approving Coolidge.
August 2009	TransCanada began construction of Coolidge.
December 2010	At Year End, construction of Coolidge was approximately 95 per cent complete and commissioning was approximately 80 per cent finished.
KIBBY WIND ("Kibby Wind")	
July 2008	Kibby Wind received unanimous final development plan approval from Maine's Land Use Regulation Commission.
October 2009	The first phase of Kibby Wind, including 22 turbines capable of producing a combined 66 MW of power, was completed and placed in service ahead of schedule and under budget.
October 2010	The 66 MW second phase of the Kibby Wind was completed and placed in service. This phase included the installation of an additional 22 turbines, ahead of schedule and on budget.
SUNDANCE ("Sundance")	
February 2011	On February 8, 2011, TransCanada received from TransAlta Corporation ("TransAlta") notice under the Sundance A power purchase arrangement that TransAlta has determined that the Sundance 1 and 2 generating units cannot be economically repaired, replaced, rebuilt or restored and that TransAlta therefore seeks to terminate the power purchase arrangement in respect of those units. TransCanada has not received any information that would validate TransAlta's determination that the units cannot be economically restored to service. TransCanada has 10 business days from the date of TransAlta's notice to either agree with or dispute TransAlta's determination that the Sundance 1 and 2 generating units cannot be economically repaired, replaced, rebuilt or restored. TransCanada will assess any information provided by TransAlta during this 10-day period. If TransCanada disputes TransAlta's determination, the issue will be resolved using the dispute resolution procedure under the terms of the power purchase arrangement. In December 2010, the Sundance 1 and 2 generating units were withdrawn from service for testing. In January 2011, these same units were subject to a force majeure claim by TransAlta under the power purchase arrangement. TransCanada has received insufficient information to make an assessment of TransAlta's force majeure claim and therefore has recorded revenues under the power purchase arrangement as though this event was a normal plant outage.
Second Quarter 2010	Sundance B Unit 3 experienced an unplanned outage related to mechanical failure of certain generator components that the facility operator, TransAlta, has asserted is a force majeure event. TransCanada has received no information that validates a claim of force majeure and therefore has recorded revenues under the power purchase arrangement as though this event was a normal plant outage. TransCanada is pursuing the remedies available to it under the terms of the power purchase arrangement.
HALTON HILLS GENERATING STATION ("Halton Hills")	
September 2010	Halton Hills, which was constructed pursuant to a 20 year Clean Energy Supply contract with the OPA in November 2006, was completed and placed in service.

Date	Description of Development
ZEPHYR ("Zephyr") AND CHINOOK ("Chinook") POWER TRANSMISSION LINES	
February 2009	The FERC approved the application filed by TransCanada in December 2008 requesting approval to charge negotiated rates and to proceed with open seasons in the spring of 2009 for Zephyr and Chinook, respectively. Zephyr is a proposed 1,609 km (1,000 mile), 500 kilovolt high voltage direct current ("HVDC") line that would be capable of delivering primarily wind generated power from Wyoming to Nevada. Chinook is a proposed 1,609 km (1,000 miles), 500 kilovolt HVDC line that would be capable of delivering primarily wind generated power to markets from Montana to Nevada. The open seasons commenced in October 2009.
May 2010	TransCanada concluded a successful open season for Zephyr. Support from key markets and a positive regulatory environment are necessary before the significant siting and permitting activities required to construct Zephyr will commence and TransCanada anticipates making a decision on whether to proceed in 2011.
December 2010	TransCanada closed the open season for Chinook without allocating capacity to Montana shippers. TransCanada continues to advance the Chinook project, and discussions with Montana wind developers and other market participants is ongoing.

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

BUSINESS OF TRANSCANADA

TransCanada is a leading North American energy infrastructure company focused on Natural Gas Pipelines, Oil Pipelines and Energy. At Year End, Natural Gas Pipelines accounted for approximately 54 per cent of revenues and 51 per cent of TransCanada's total assets, Oil Pipelines had not yet recorded any revenues but accounted for 18 per cent of TransCanada's total assets and Energy accounted for approximately 46 per cent of revenues and 28 per cent of TransCanada's total assets. The following is a description of each of TransCanada's three main areas of operation.

The following table shows TransCanada's revenues from operations by segment, classified geographically, for the years ended December 31, 2010 and 2009.

Revenues From Operations (<i>millions of dollars</i>)	2010	2009
Natural Gas Pipelines		
Canada - Domestic	\$2,125	\$2,389
Canada - Export ⁽¹⁾	837	755
United States and other	1,411	1,585
	4,373	4,729
Oil Pipelines	Nil	Nil
Energy⁽²⁾		
Canada – Domestic	2,243	2,690
Canada - Export ⁽¹⁾	1	1
United States and other	1,447	761
	3,691	3,452
Total Revenues⁽³⁾	\$8,064	\$8,181

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

(2) Revenues include sales of natural gas.

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

Natural Gas Pipelines Business

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas and regulated gas storage facilities. TransCanada's network of wholly owned natural gas pipelines extends more than 60,000 km (37,000 miles), and its partially owned natural gas pipelines extend more than 8,800 km (5,500 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, including those listed below. The following natural gas pipelines are owned 100 per cent by TransCanada unless otherwise stated.

TransCanada has the following natural gas pipelines and related holdings in Canada:

- TransCanada's Canadian Mainline is a 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 natural gas transmission system in Alberta and Northeast British Columbia ("B.C.") which gathers natural gas for use within the province of Alberta and delivers it to provincial boundary points for connection with the Canadian Mainline and the Foothills System and with third party natural gas pipelines. The 24,187 km (15,029 mile) Alberta System is one of the largest carriers of natural gas in North America. During the past three completed financial years TransCanada has enhanced the Alberta System as follows:
 - North Central Corridor, which extends the northern section of the Alberta System, was completed in March 2010; and
 - TransCanada continues to advance further pipeline development in B.C. and Alberta to transport unconventional shale gas supply as follows:
 - Groundbirch was completed in December 2010, connecting the Alberta System to natural gas supplies from the Montney shale gas formation in Northeast B.C. TransCanada has entered into firm transportation agreements with Groundbirch pipeline customers for 1.24 billion cubic feet per day ("Bcf/d") by 2014;
 - TransCanada has applied to build the proposed Horn River pipeline, an extension of the Alberta System to serve production from the new shale gas supply in the Horn River basin north of Fort Nelson, B.C. TransCanada received approval from the NEB to construct the Horn River pipeline in January 2011. The Horn River pipeline is scheduled to be operational in second quarter 2012 with commitments for contracted natural gas of over 634 MMcf/d by 2014; and
 - the Company has received requests for additional natural gas transmission service throughout the northwest portion of the Western Canadian Sedimentary Basin, including the Horn River and Montney areas of B.C. These new requests are expected to result in the need for further extensions and expansions of the Alberta System.
- TransCanada's Foothills System is a 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.
- TransCanada Pipeline Ventures LP owns a 161 km (100 mile) pipeline and related facilities that supply natural gas to the oil sands region near Fort McMurray, Alberta as well as a 27 km (17 mile) pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.
- TQM ("TQM") is 50 per cent owned by TransCanada. TQM is a 572 km (355 mile) pipeline system that connects with the Canadian Mainline near the Québec/Ontario border and transports natural gas to markets in Québec, and connects with the Portland System. TQM is operated by TransCanada.
- The Mackenzie Gas Project is a proposed natural gas pipeline extending 1,196 km (743 mile) that would connect northern onshore natural gas fields with North American markets. TransCanada has the right to acquire an equity interest in the project.

TransCanada has the following natural gas pipeline and related holdings in the U.S.:

- The proposed Alaska Pipeline is a 4.5 Bcf/d natural gas pipeline and treatment plant. The pipeline would extend 2,737 km (1,700 miles) from the natural gas treatment plant at Prudhoe Bay, Alaska to Alberta, or an alternative pipeline to Valdez, Alaska. TransCanada received approval of its plan to conduct an open season from the FERC in March 2010. An open season commenced at the end of April 2010, and continued until July 2010. TransCanada is continuing to negotiate with potential shippers from the initial open season. The Alaska Pipeline project is a joint effort between TransCanada and ExxonMobil pursuant to the AGIA.

- TransCanada's ANR System ("ANR System") is a 17,000 km (10,563 mile) natural gas transmission system which transports natural gas from producing fields located in the Texas and Oklahoma panhandle regions, from the offshore and onshore regions of the Gulf of Mexico, and from the U.S. Midcontinent region to markets located mainly in Wisconsin, Michigan, Illinois, Indiana and Ohio. ANR System 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 American Natural Resources Company and ANR Storage Company (collectively, "ANR") provide regulated gas storage services to customers on the ANR System and the Great Lakes System in upper Michigan. In total, the ANR business unit owns and operates natural gas storage facilities throughout the State of Michigan with total natural gas storage capacity of 250 billion cubic feet ("Bcf").

- The GTN System ("GTN System") is TransCanada's 2,178 km (1,353 miles) natural gas transmission system that transports Western Canada Sedimentary Basin and Rocky Mountain sourced natural gas to third party natural gas pipelines and markets in Washington, Oregon and California, and connects with the Tuscarora Gas Transmission Company ("Tuscarora") pipeline.
- The Bison pipeline is a 487 km (303 mile) natural gas pipeline from the Powder River Basin in Wyoming connecting to the Northern Border Pipeline System ("NBPL System") in Morton County, North Dakota. The Company commenced construction of the Bison pipeline in July 2010 and the pipeline became operational in January 2011. The Bison pipeline has long term shipping commitments for 407 MMcf/d.
- The Great Lakes System is a 3,404 km (2,115 mile) natural gas transmission system connecting to the Canadian Mainline and serves markets primarily in Eastern Canada and the Northeastern and Midwestern U.S. TransCanada operates the Great Lakes System and effectively owns 71.3 per cent of the system through its 53.6 per cent ownership interest and its indirect ownership, which it has through its 38.2 per cent interest in TC PipeLines, LP.
- The 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. TransCanada operates and effectively owns 19.1 per cent of the NBPL System through its 38.2 per cent interest in TC PipeLines, LP.
- Tuscarora is 100 per cent owned by TC PipeLines, LP. TransCanada operates the Tuscarora System ("Tuscarora System") a 491 km (305 mile) pipeline system transporting natural gas from the GTN System at Malin, Oregon to Wadsworth, Nevada, with delivery points in Northeastern California and Northwestern Nevada. TransCanada effectively owns 38.2 per cent of the system through its 38.2 per cent interest in TC PipeLines, LP.
- North Baja is 100 per cent owned by TC PipeLines, LP. TransCanada operates the North Baja System, a natural gas transmission system which extends 138 km (86 miles) from Ehrenberg, Arizona to a point near Ogilby, California on the California/Mexico border and connects with a third party natural gas pipeline system in Mexico. TransCanada effectively owns 38.2 per cent of the same through its 38.2 per cent interest in TC PipeLines, LP.
- The Iroquois System ("Iroquois System") is a gas transmission system that 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 ("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 38.2 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, 46.4 per cent in the Great Lakes System, 100 per cent of the Tuscarora System and 100 per cent of the North Baja System.

TransCanada 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.
- Owned 30 per cent by TransCanada, Gas Pacifico is a 540 km (336 mile) natural gas pipeline extending from Loma de la Lata, Argentina to Concepción, Chile. TransCanada also has a 30 per cent ownership interest in INNERGY, an industrial natural gas marketing company based in Concepción that markets natural gas transported on Gas Pacifico.
- Tamazunchale is a 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.
- The proposed Guadalajara pipeline is under construction and when completed will extend approximately 305 km (190 miles) transporting natural gas from a LNG terminal under construction near Manzanillo on Mexico's Pacific coast to Guadalajara, the second largest city in Mexico. The Guadalajara pipeline is supported by a twenty-five year contract for its entire capacity with Comisión Federal de Electricidad, Mexico's state-owned electric power company. Guadalajara pipeline has an expected in service date of mid-2011 and was 70 per cent complete at Year End.

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

Oil Pipelines Business

With increasing production from crude oil sands in Alberta and new crude oil discoveries in the U.S., including the Bakken shale play in Montana and North Dakota, along with growing demand for secure, reliable sources of energy, TransCanada has identified opportunities to develop new oil pipeline capacity. The Company's Keystone crude oil pipeline and other opportunities in TransCanada's oil pipeline business are described below.

Keystone ("Keystone") is a crude oil pipeline system designed to initially carry 1.1 million Bbl/d which is comprised of the completed 3,467 km (2,154 mile) Wood River/Patoka and Cushing Extension phases, and the proposed 2,673 (1,661 mile) U.S. Gulf Coast Expansion. The Wood River/Patoka phase transports crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka, Illinois and is designed for an initial nominal capacity of 435,000 Bbl/d. The Wood River/Patoka phase was placed in service in June 2010. The Cushing Extension extends the pipeline to Cushing, Oklahoma and increases nominal capacity to 591,000 Bbl/d if design capacity is achieved. The Cushing Extension was placed in service in February 2011. The proposed U.S. Gulf Coast Expansion, which would expand and extend Keystone from Hardisty to a delivery point near existing terminals in Port Arthur, Texas, is expected to provide additional pipeline capacity in 2013, pending U.S. regulatory approval.

The Company is pursuing the opportunity to transport growing Bakken shale crude oil production from the Williston Basin in Montana and North Dakota for delivery to major U.S. refining markets. Following an open season conducted in the second half of 2010, the Company secured firm, five year shipper contracts totaling 65,000 Bbl/d for its proposed Bakken Marketlink project, which would transport U.S. crude oil from Baker, Montana to Cushing, Oklahoma on facilities that form part of the U.S. Gulf Coast Expansion. Following an open season conducted in the second half of 2010, the Company secured contractual support sufficient to proceed with the Cushing Marketlink project, which would when completed transport up to 150,000 Bbl/d of crude oil from Cushing, Oklahoma to the U.S. Gulf Coast on facilities that form part of the U.S. Gulf Coast Expansion. With these commitments, TransCanada will file for the necessary regulatory approvals in the U.S. to construct and operate the Bakken and Cushing Marketlink pipelines. Commercial in service is anticipated in 2013.

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

Regulation of the Natural Gas and Oil Pipelines Businesses

Canada

Under the terms of the *National Energy Board Act* (Canada), the Canadian Mainline, TQM, and the Foothills and Alberta systems (collectively referred to in this section as the "Systems") are regulated by the NEB (the Alberta System became subject to federal jurisdiction on April 29, 2009 following NEB approval of an application by TransCanada). The NEB sets tolls which provide TransCanada the opportunity to recover projected costs of transporting natural gas, including the return on the average investment base for each of the Systems. In addition, new facilities are approved by the NEB before construction begins and the NEB regulates the operations of each of the Systems. Net earnings of the Systems may be affected by changes in investment base, the allowed return on equity, the level of deemed common equity and any incentive earnings.

The NEB regulates the terms and conditions of service, including rates, and the physical operation of the Canadian portion of Keystone. NEB approval is also required for facility additions, such as the Canadian portion of the proposed U.S. Gulf Coast Expansion project which was approved by the NEB in March 2010.

United States

TransCanada's wholly owned and partially owned U.S. pipeline systems, including the ANR, GTN, Great Lakes, Iroquois, Portland, NBPL, North Baja and Tuscarora systems, are considered "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 transportation rates, on the U.S. portion of Keystone system. Certain states in which Keystone has right of ways also regulate construction and siting of Keystone.

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 and ownership and operation of non-regulated natural gas storage in Alberta.

The electrical power generation plants and power supply that TransCanada has an interest in, including those under development, in the aggregate, represent more than 10,800 MW of power generation capacity. Power plants and power supply in Canadian power account for approximately 65 per cent of this total, and power plants in U.S. power account for the balance, being approximately 35 per cent.

TransCanada owns and operates the following facilities:

- Ravenswood generating station, 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 20 per cent of New York City's peak load.
- Halton Hills, a 683 MW natural gas-fired power plant in Halton Hills, Ontario, which was placed in service in September 2010. All of the power produced by the facility is sold to the OPA under a 20 year Clean Energy Supply contract.
- Kibby Wind, a 132 MW wind farm located in the Kibby and Skinner Townships in Maine. The first 66 MW phase of Kibby Wind was placed in service in October 2009 and the second 66 MW phase was placed in service in October 2010.
- TC Hydro, TransCanada's hydroelectric facilities located in New Hampshire, Vermont and Massachusetts on the Connecticut and Deerfield Rivers, consists of 13 stations and associated dams and reservoirs with a total generating capacity of 583 MW.

- Ocean State Power ("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 under a 20 year power purchase agreement expiring in 2026. Steam is also sold to an industrial customer for use in commercial processes. Since 2008, electricity generation at the Bécancour power plant has been temporarily suspended under an agreement entered into with Hydro-Québec. Under the agreement, TransCanada receives payments that are similar to those that would have been received under the normal course of operation.
- 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 on the site of the Irving Oil Limited oil refinery in Saint John, New Brunswick. Irving Oil Limited is under a 20 year tolling arrangement that expires in 2025, to supply fuel for the plant and to contract 100 per cent of the plant's heat and electricity output.
- Cancarb, a 27 MW facility located in 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 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 arrangement that 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 power purchase arrangement, which expires in 2020. The Sundance A and Sundance B facilities are located in South Central Alberta.
- The Sheerness ("Sheerness") facility, which consists of two coal-fired thermal power generating units, is located in Southeastern Alberta. TransCanada has the rights to 756 MW of generating capacity from the Sheerness power purchase arrangement that expires in 2020.

TransCanada has interests in the following:

- Two nuclear power generating stations, Bruce A, which is owned 48.8 per cent by TransCanada and has four 750 MW reactors, of which two are currently operating and two are being refurbished, and Bruce B, which is owned 31.6 per cent by TransCanada and has four operating reactors with a combined capacity of approximately 3,200 MW. Bruce Power is two partnerships with generating facilities and offices located on 2,300 acres northwest of Toronto, Ontario on which are housed Bruce A and Bruce B. The two units of Bruce A which are being refurbished are expected to recommence commercial operations in first quarter and third quarter 2012.
- A 60 per cent ownership in CrossAlta, which is a 68 Bcf underground natural gas storage facility connected to the Alberta System near Crossfield, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 550 MMcf/d of natural gas.
- 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.
- Portlands Energy, a 550 MW, combined-cycle natural gas power plant located in Toronto, Ontario is 50 per cent owned by TransCanada. This facility, which was fully commissioned in April 2009, provides electricity under a 20 year Accelerated Clean Air Energy Supply contract with the OPA.

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

- The Cartier Wind energy project consists of five wind projects in the Gaspé region of Québec contracted by Hydro-Québec representing a total of 590 MW when complete. Three of the wind farms are in service, and two are currently under construction. The Montagne-Sèche project and phase one of the Gros-Morne project (101 MW) are expected to be operational in 2011, and phase two of the Gros-Morne project (111 MW) is expected to be operational in 2012, subject to the necessary approvals. Cartier Wind is 62 per cent owned by TransCanada. All of the power produced by Cartier Wind is sold to Hydro-Québec under a 20 year power purchase agreement.
- Coolidge is a simple-cycle, natural gas-fired peaking power generation station under construction in Coolidge, Arizona. Based on optimal operating conditions, TransCanada expects an electrical output of approximately 575 MW from this facility, designed to provide a quick response to peak power demands. Construction commenced in August 2009 and was approximately 95 per cent complete at Year End. The generating station is expected to be placed in service in accordance with its 20 year power purchase agreement with the Salt River Project Agricultural Improvement and Power District in second quarter 2011.

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

GENERAL

Employees

At Year End, TransCanada's principal operating subsidiary, TCPL, had approximately 4,230 full time active employees, substantially all of whom were employed in Canada and the U.S., as set forth in the following table.

Calgary	1,862
Western Canada (excluding Calgary)	460
Houston	453
U.S. Midwest	453
U.S. Northeast	409
Eastern Canada	264
U.S. Southeast/Gulf Coast	233
U.S. West Coast	86
Mexico and South America	10
Total	4,230

Social and Environmental Policies

Health, safety and environment ("HS&E") are top priorities in all of TransCanada's operations and activities. These areas are guided by the Company's HS&E Commitment Statement, which outlines guiding principles for a safe and healthy environment for TransCanada's employees, contractors and the public, and for TransCanada's commitment to protect the environment. All employees are responsible for TransCanada's HS&E performance. 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 their collective performance. TransCanada is committed to respecting the diverse environments and cultures in which it operates and to support open communication with its stakeholders.

The Health, Safety and Environment Committee of the Board of Directors (the "Board") monitors compliance with the Company's HS&E corporate policy through regular reporting. TransCanada's HS&E management system is modeled on the International Organization for 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 December 2009 and did not identify any material issues. The HS&E management system is subject to ongoing internal review to ensure that it remains effective as circumstances change.

As one of TransCanada's priorities, safety is an integral part of the way its employees work. In 2010, one of TransCanada's objectives was to sustain health and safety performance. Overall, TransCanada's safety frequency rates in 2010 continued to be better than most industry benchmarks.

The safety and integrity of the Company's existing and newly developed infrastructure also continued to be top priorities. All new assets are designed, constructed and commissioned with full consideration given to safety and integrity, and are brought into service only after all necessary requirements have been satisfied. The Company expects to spend approximately \$250 million in 2011 for pipeline integrity on its wholly owned pipelines, an increase of approximately \$95 million over 2010 primarily due to increased levels of in-line pipeline inspection on all systems and pipeline enhancements in areas of population encroachment. Under the approved regulatory models in Canada, non-capital pipeline integrity expenditures on NEB regulated pipelines are treated on a flow-through basis and, as a result, these expenditures have no impact on TransCanada's earnings. Under the Keystone contracts, pipeline integrity expenditures are recovered through the tolling mechanism and, as a result, these expenditures have no impact on TransCanada's earnings. Expenditures for GTN System may also be recovered through a cost recovery mechanism in its rates if threshold expenditures are achieved. TransCanada's pipeline safety record in 2010 continued to be above industry benchmarks. TransCanada experienced no pipeline breaks in 2010. Spending associated with public safety on the Energy assets is focused primarily on the Company's hydro dams and associated equipment, and is consistent with previous years.

Aboriginal and Stakeholder Relations

TransCanada has recognized the enhanced level of engagement of a wide variety of stakeholders in its business activities that can have a significant impact on the Company's ability to obtain approvals for new assets and to maintain its licences to operate. TransCanada has adopted a code of business ethics which applies to the Company's employees that is based on the Company's four core values of integrity, collaboration, responsibility and innovation, which guide the interaction between and among the Company's employees and serve as a standard for TransCanada in its dealings with all stakeholders. The code, which may be viewed on TransCanada's website at www.transcanada.com, sets out the fundamental principles of compliance with the law, fair dealing and a commitment to HS&E.

TransCanada's approach to stakeholder engagement is based on building relationships, mutual respect and trust while recognizing the unique values, needs and interests of each community. Key principles that guide TransCanada's engagement include: the Company's respect for the diversity of Aboriginal/Native American communities and recognition of the importance of the land to these communities; and the Company's belief in engaging stakeholders from the earliest stages of its projects, through the project development process and into operations.

Environmental Protection

TransCanada's facilities are subject to stringent federal, provincial, state and local environmental statutes and regulations regarding environmental protection, including requirements that establish compliance and remedial obligations. Such laws and regulations generally require facilities to obtain and comply with a wide variety of environmental restrictions, licences, permits and other approvals. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and/or criminal penalties, the imposition of remedial requirements, and/or the issuance of orders respecting future operations. TransCanada has ongoing inspection programs designed to keep all of its facilities in compliance with environmental requirements.

At December 31, 2010, TransCanada recorded liabilities of approximately \$84 million (2009 - \$91 million) for remediation obligations and compliance costs associated with environmental regulations. The Company believes it has considered all necessary contingencies and established appropriate reserves for environmental liabilities, however, there is the risk that unforeseen matters may arise requiring the Company to set aside additional amounts.

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

In 2010, the Company owned assets in four regions, Alberta, Québec, B.C., and the Northeastern U.S., where regulations exist to address industrial greenhouse gas ("GHG") emissions. TransCanada has procedures in place to address these regulations. In Alberta, under the *Specified Gas Emitters Regulation*, industrial facilities emitting GHGs over an intensity threshold level are required to reduce GHG emissions intensities by 12 per cent below an average baseline. TransCanada's Alberta-based facilities are subject to this regulation, as are the Sundance and Sheerness coal-fired power facilities with which TransCanada has power purchase arrangements. As an alternative to reducing emissions intensities, compliance can be achieved through acquiring

offsets or making payments to a technology fund at a cost of \$15 per tonne of carbon dioxide ("CO₂") equivalents in excess of the mandated reduction. A program is in place to manage the compliance costs incurred by these assets as a result of regulation. Compliance costs on the Alberta System are recovered through tolls paid by customers. Some of the compliance costs from the Company's power generation facilities in Alberta are recovered through market pricing and contract flow-through provisions. TransCanada has estimated and recorded related costs of \$22 million for 2010, after contracted cost recovery.

In Québec, the natural gas distributor collects the hydrocarbon royalty on behalf of the provincial government through a green fund contribution charge on gas consumed. In 2010, the cost pertaining to the Bécancour facility arising from the hydrocarbon royalty was less than \$1 million as a result of an agreement between TransCanada and Hydro-Québec to temporarily suspend the facility's power generation. The cost is expected to increase substantially when the plant returns to service.

The carbon tax in B.C., which came into effect in mid-2008, applies to CO₂ emissions from fossil fuel combustion. Compliance costs for fuel combustion at the Company's compressor and meter stations in B.C. are recovered through tolls paid by customers. Costs related to the carbon tax in 2010 were estimated at \$4 million. As specified by this law, the cost per tonne of CO₂ will increase in July 2011 to \$25.00 from \$20.00.

Northeastern U.S. states that are members of the Regional Greenhouse Gas Initiative ("RGGI") implemented a CO₂ cap-and-trade program for electricity generators effective in January 2009. Under the RGGI, both the Ravenswood and Ocean State Power generation facilities will be required to submit allowances following the end of the first compliance period on December 31, 2011. TransCanada participated in the quarterly auctions of allowances for the Ravenswood and Ocean State Power generation facilities and incurred related costs of approximately \$5 million in 2010. These costs were generally recovered through the power market and the net impact on TransCanada was not significant.

RISK FACTORS

Environmental Risk Factors

Environmental Risks

Environmental risks from TransCanada's operating facilities typically include: air emissions, such as nitrogen oxides, particulate matter and GHGs; potential impacts on land, including land reclamation or restoration following construction; the use, storage and 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.

As mentioned above, 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, and with damage claims arising from the contamination of properties. It is not possible for TransCanada to estimate the amount and timing of all future expenditures related to environmental matters due to:

- uncertainties in estimating pollution control and clean up costs, including at 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 the Company's 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 of them; and
- the potential for litigation on existing or discontinued assets.

Oil Leaks and Spills

In 2010, the Wood River/Patoka phase of Keystone became operational. Steel pipelines are a safe, efficient and economical method of transporting crude oil. The equipment and procedures put in place with respect to Keystone provide the capability to contain oil leaks quickly and safely.

TransCanada's pipelines are designed, constructed and operated to the highest industry standards and meet or exceed all regulatory requirements. Keystone is continuously monitored and is fully automated with remotely started secure pumps and

valves. A variety of methods are used to detect and prevent leaks. In the unlikely event of a leak or spill, valves can be closed to isolate the leak and limit spill volumes.

The Company has established emergency response plans to be enacted in the unlikely event of a leak or spill along TransCanada's operational crude oil pipeline. The plans encompass the necessary personnel and equipment to respond to any size of spill as well as clean-up and remediation operations to minimize any effects on the environment. The plan outlines specific environmental features in the vicinity of the pipeline and containment and remediation efforts are based on practices that are well-understood and tested. In addition, TransCanada has an on-going program to provide local emergency responders with the information and training necessary to ensure their preparedness for responding to events.

Changing Legislation and Regulations

The impact of new or proposed provincial, state and/or federal safety and environmental laws, regulations, guidelines and enforcement in Canada and the U.S. on TransCanada's business is not yet certain. TransCanada makes assumptions about possible expenditures to safety and environmental matters based on current laws and regulations and interpretations thereof. If the laws or regulations or the interpretation thereof changes, the Company's assumptions may change. Incremental costs may or may not be recoverable under existing rate structures or commercial agreements. Proposed changes in environmental policy, legislation or regulation are routinely monitored by TransCanada, and where the risks are potentially large or uncertain, the Company works independently or through industry associations to comment on proposals.

In April 2010, the Environmental Protection Agency ("EPA") published an Advanced Notice of Proposed Rulemaking to solicit comments with respect to EPA's reassessment of current regulations under the *Toxic Substances Control Act*, governing the authorized use of polychlorinated biphenyls ("PCBs") in certain equipment. The proposed changes could require notification to the EPA when PCBs are discovered in any pipeline system, a phase out and eventual elimination of PCB use in pipeline systems and air compressor systems and the immediate elimination of the storage of PCB equipment for reuse. If finalized as proposed, these changes are likely to have significant cost implications for the Company's U.S. assets.

Regulation of air pollutant emissions under the U.S. *Clean Air Act* ("CAA") and state regulations continue to evolve. A number of EPA initiatives could lead to impacts ranging from requirements to install emissions control equipment, to additional administrative and reporting requirements. At this time, there is insufficient detail to accurately determine the potential impacts of these initiatives. While the majority of the proposals are not expected to be material to TransCanada, the Company anticipates additional future costs related to the monitoring and control of air emissions.

In addition to those climate change policies already in force, there are also several federal (Canada and U.S.), regional and provincial initiatives currently in development. While recent political and economic events may significantly affect the scope and timing of new policies, TransCanada anticipates that most of the Company's facilities in Canada and the U.S. are or will be subject to federal and/or regional climate change regulations to manage industrial GHG emissions. Certain of these initiatives are outlined below.

The Canadian government has continued to express interest in pursuing a harmonized continental climate change strategy. In January 2010, Environment Canada submitted a revised GHG reduction target to the United Nations Framework Convention on Climate Change as part of its submission for the Copenhagen Accord. The revised target represents a 17 per cent reduction in GHG emissions by 2020 relative to 2005 levels. In June 2010, the Federal government initiated consultation on its policy for coal-fired power operations with the stated intention of publishing the draft regulatory framework in *Canada Gazette* in early 2011. TransCanada participated in this consultation process directly through meetings with government officials and through the Canadian Electricity Association. The new regulations to reduce GHG emissions for coal-fired operations are expected to come into effect in July 2015.

In the U.S., the EPA is proceeding towards regulating industrial GHG emissions under the CAA. In May 2010, the EPA issued its final version of the Tailoring Rule which outlines emissions thresholds and a schedule for phasing in certain permitting requirements under the CAA. Under this rule, the Prevention of Significant Deterioration program stipulates the air pollution protection criteria a company must meet to obtain a construction permit. Requirements will apply to GHG emissions starting in January 2011. The second phase of the program will commence in July 2011, with new rulemaking in 2012 to establish emission thresholds and permitting requirements to take effect in 2013. In addition to the Prevention of Significant Deterioration requirements, the Tailoring Rule sets comparable emissions thresholds and timetables for new and existing facilities to obtain operating permits under Title V of the CAA. The regulation of GHG emissions by the EPA under the CAA would have implications for TransCanada with respect to permitting for existing, new and modified facilities.

The Western Climate Initiative ("WCI") continues to work toward implementing a regional cap-and-trade program expected to come into effect in 2012. The cap-and-trade program would be a key component of the plan to help WCI members reach their goal of reducing GHG emissions 15 per cent below 2005 by 2020. Beginning in 2012, the cap would cover utilities and large industrial sectors, and expand by 2015 to cover transportation fuels, and commercial and residential fuels. The WCI comprises seven Western states and four Canadian provinces. While TransCanada has assets located in all four Canadian member provinces (B.C., Manitoba, Ontario and Québec) and five of the member states (California, Oregon, Washington, Montana and Arizona), the cap-and-trade program is proposed to begin in 2012 in California and the Canadian provinces of B.C., Québec, and Ontario. The programs would cover TransCanada's pipeline and power facilities, however, TransCanada expects the cost of compliance would be largely recoverable on the facilities that trigger emissions thresholds.

TransCanada monitors climate change policy developments and, when warranted, participates in policy discussions in jurisdictions where the Company has operations. The Company 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.

With respect to business opportunities, the Company has well established processes and criteria for assessing new business opportunities including those that may arise as a result of climate change policies. These processes have been and continue to be key contributors to TransCanada's financial strength and success. Governments in North America are developing long-term plans for limiting GHG emissions. These plans, combined with a shift in consumer attitude and demand for low-emissions fuels, will require changes in energy supply and infrastructure. With the Company's experience in pipeline transmission and power generation, TransCanada is well-positioned to participate in these opportunities.

With respect to physical risks arising from climate change, TransCanada has in place a set of procedures to manage its response to natural disasters such as forest fires, tornadoes, earthquakes, floods, volcanic eruptions and hurricanes regardless of cause. These procedures are included in TransCanada's Operating Procedures and are part of the Company's Incident Management System. The procedures ensure that the health and safety of the Company's employees and the environment are not compromised during natural disasters.

TransCanada's assets are located throughout North America and the Company's facility design must deal with different geographical areas. In northern regions, changing permafrost levels due to warmer temperatures have been experienced, however, very few kilometers of TransCanada's pipeline systems are currently in permafrost regions. If TransCanada builds new facilities in northern areas, the Company's facility designs will take into account the potential for changing permafrost levels.

Other Risk Factors

A discussion of the Company's risk factors can be found in the MD&A under the headings "Natural Gas Pipelines – Opportunities and Developments", "Natural Gas Pipelines – Business Risks", "Natural Gas Pipelines – Outlook", "Oil Pipelines – Opportunities and Developments", "Oil Pipelines – Business Risks", "Oil Pipelines – Outlook", "Energy – Opportunities and Developments", "Energy – Business Risks", "Energy – 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 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. In the opinion of TransCanada's management, such provisions do not currently restrict or alter TransCanada's ability to declare or pay dividends.

Holders of cumulative redeemable first preferred shares, series 1 ("Series 1 Preferred Shares") are entitled to receive fixed cumulative dividends, at an annual rate of \$1.15 per share, payable quarterly, as and when declared by the Board, for the initial five year period ending December 31, 2014. For the period from issuance on September 30, 2009 to December 31, 2009, dividends in the amount of \$0.2899 per share were declared and paid on the Series 1 Preferred Shares. For the period January 1, 2010 to December 31, 2010, dividends in the amount of \$1.15 per share were declared and paid on the Series 1 Preferred Shares. The dividend on the Series 1 Preferred Shares will reset on December 31, 2014 and every five years thereafter to a rate equal to the sum of the then five year Government of Canada bond yield and 1.92 per cent. The holders of Series 1 Preferred Shares have the right to convert their shares into cumulative redeemable first preferred shares, series 2 (the "Series 2 Preferred Shares") as set out under the heading "First Preferred Shares" below.

Holders of cumulative redeemable first preferred shares, series 3 ("Series 3 Preferred Shares") are entitled to receive fixed cumulative dividends, at an annual rate of \$1.00 per share, payable quarterly, as and when declared by the Board, for the initial five year period ending June 30, 2015. For the period from issuance on March 12, 2010 to December 31, 2010, dividends in the amount of \$0.8041 per share were declared and paid on the Series 3 Preferred Shares. The dividend on the Series 3 Preferred Shares will reset on June 30, 2015 and every five years thereafter to a rate equal to the sum of the then five year Government of Canada bond yield and 1.28 per cent. The holders of Series 3 Preferred Shares have the right to convert their shares into cumulative redeemable first preferred shares, series 4 (the "Series 4 Preferred Shares") as set out under the heading "First Preferred Shares" below.

Holders of cumulative redeemable first preferred shares, series 5 ("Series 5 Preferred Shares") are entitled to receive fixed cumulative dividends, at an annual rate of \$1.10 per share, payable quarterly, as and when declared by the Board, for the initial five and a half year period ending January 30, 2016. For the period from issuance on June 29, 2010 to December 31, 2010, dividends in the amount of \$0.6457 per share were declared and dividends in the amount of \$0.3707 per share were paid, on the Series 5 Preferred Shares. The dividend on the Series 5 Preferred Shares will reset on January 30, 2016 and every five years thereafter to a rate equal to the sum of the then five year Government of Canada bond yield and 1.54 per cent. The holders of Series 5 Preferred Shares have the right to convert their shares into cumulative redeemable first preferred shares, series 6 (the "Series 6 Preferred Shares") as set out under the heading "First Preferred Shares" below.

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

	2010	2009	2008
Dividends declared on Common Shares	\$1.60	\$1.52	\$1.44

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

TransCanada's authorized share capital consists of an unlimited number of Common Shares, of which 696,229,462 were issued and outstanding at Year End, and an unlimited number of first preferred shares and second preferred shares, issuable in series, of which 22 million Series 1 Preferred Shares, 14 million Series 3 Preferred Shares and 14 million Series 5 Preferred Shares are issued and 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 "SR 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 SR 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 SR Plan. Prior to a flip-in event (as described below), each right permits registered holders to purchase from the Company Common Shares of TransCanada at the exercise price equal to three times the market price of such shares, subject to adjustments and anti-dilution provisions (the "Exercise Price"). The beneficial acquisition by any person of 20 percent or more of the Common Shares, other than by way of a take-over bid permitted under the terms of the SR Plan, is referred to as a "Flip-in Event". Ten trading days after a Flip-in Event, each TransCanada right will permit registered holders to receive, upon payment of the exercise price, the number of Common Shares with an aggregate market price equal to twice the exercise price. The SR Plan was reconfirmed at the 2010 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 and preferred shareholders of TransCanada and preferred shareholders of TCPL, to elect to reinvest their cash dividends in additional 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 three per cent in 2009 and 2010, and was reduced to two per cent commencing with the dividends declared in February 2011. The discount was set at two per cent for 2008 and was increased to three per cent commencing with the dividend declared in February 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 (the "SOPs") 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 SOPs 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, the provisions described below.

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 CBCA 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.

The Series 1 Preferred Shares are entitled to the payment of dividends as set out above under the heading "Dividends". The Series 1 Preferred Shares are redeemable by TransCanada in whole or in part on or after December 31, 2014, by the payment of an amount in cash for each share to be redeemed equal to \$25.00 plus all accrued and unpaid dividends thereon. The holders of Series 1 Preferred Shares have the right to convert their shares into cumulative redeemable Series 2 Preferred Shares, subject to certain conditions, on December 31, 2014 and on December 31 of every fifth year thereafter. The holders of Series 2 Preferred Shares will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate plus 1.92 per cent. In the event of liquidation, dissolution or winding up of TransCanada, the holders of Series 1 Preferred Shares shall be entitled to receive \$25.00 per Series 1 Preferred Share plus all accrued and unpaid dividends thereon in preference over the Common Shares or any other shares ranking junior to the Series 1 Preferred Shares.

The Series 3 Preferred Shares are entitled to the payment of dividends as set out above under the heading "Dividends". The rights, privileges, restrictions and conditions attaching to the Series 3 Preferred Shares are substantially identical to those attaching to the first preferred shares, except as outlined below. The Series 3 Preferred Shares are redeemable by TransCanada in whole or in part on or after June 30, 2015, by the payment of an amount in cash for each share to be redeemed equal to \$25.00 plus all accrued and unpaid dividends thereon. The holders of Series 3 Preferred Shares have the right to convert their shares into cumulative redeemable Series 4 Preferred Shares, subject to certain conditions, on June 30, 2015 and on June 30 of every fifth year thereafter. The holders of Series 4 Preferred Shares will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate plus 1.28 per cent. In the event of liquidation, dissolution or winding up of TransCanada, the holders of Series 3 Preferred Shares shall be entitled to receive \$25.00 per Series 3 Preferred Share plus all accrued and unpaid dividends thereon in preference over the Common Shares or any other shares ranking junior to the Series 3 Preferred Shares.

The Series 5 Preferred Shares are entitled to the payment of dividends as set out above under the heading "Dividends". The rights, privileges, restrictions and conditions attaching to the Series 5 Preferred Shares are substantially identical to those attaching to the first preferred shares, except as outlined below. The Series 5 Preferred Shares are redeemable by TransCanada in whole or in part on or after January 30, 2016, by the payment of an amount in cash for each share to be redeemed equal to \$25.00 plus all accrued and unpaid dividends thereon. The holders of Series 5 Preferred Shares have the right to convert their shares into cumulative redeemable Series 6 Preferred Shares, subject to certain conditions, on January 30, 2016 and on January 30 of every fifth year thereafter. The holders of Series 6 Preferred Shares will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate plus 1.54 per cent. In the event of liquidation, dissolution or winding up of TransCanada, the holders of Series 5 Preferred Shares shall be entitled to receive \$25.00 per Series 5 Preferred Share plus all accrued and unpaid dividends thereon in preference over the Common Shares or any other shares ranking junior to the Series 5 Preferred Shares.

Except as provided by the CBCA, the respective holders of the Series 1, 2, 3, 4, 5 and 6 Preferred Shares are not entitled to receive notice of, attend at, or vote at any meeting of shareholders unless and until TransCanada shall have failed to pay eight quarterly dividends, whether or not consecutive, in which case the respective holders of Series 1, 2, 3, 4, 5 and 6 Preferred Shares shall have the right to receive notice of and to attend each meeting of shareholders at which directors are to be elected and which take place more than 60 days after the date on which the failure first occurs, and to one vote with respect to resolutions to elect directors for each Series 1, 2, 3, 4, 5 and 6 Preferred Share, respectively, until all arrears of dividends have been paid.

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 credit ratings by Moody's Investors Service, Inc. ("Moody's") and Standard and Poor's ("S&P"). Moody's has assigned an issuer rating of Baa1 with a stable outlook and S&P has assigned a long-term corporate credit rating of A- with a stable outlook. TransCanada does not presently intend to issue debt securities to the public in its own name and any future debt financing requirements are expected to continue to be funded primarily through its subsidiary, TCPL. The following table sets out the current credit ratings assigned to those outstanding classes of securities of TCPL which have been rated by DBRS Limited ("DBRS"), Moody's and S&P:

	DBRS	Moody's	S&P
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	P-2
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.

The following information concerning the Company's credit ratings relates to the Company's financing costs, liquidity and operations. The availability of TransCanada's funding options may be affected by certain factors, including the global capital market environment and outlook as well as the Company's financial performance. TransCanada's access to capital markets at competitive rates is dependent on its credit rating and rating outlook, as determined by credit rating agencies such as DBRS, Moody's and S&P, and if TransCanada's ratings were downgraded the Company's financing costs and future debt issuances could be unfavorably impacted. 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 all rating categories other than AAA and D. 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 in the third highest of ten rating categories and indicates good credit quality. The overall strength is not as favourable as higher rating categories, but any qualifying negative factors that exist are considered manageable. The A rating assigned to TCPL's senior unsecured debt is in the third highest of ten categories for long-term debt. Long-term debt rated A is good credit quality. The capacity for the payment of interest and principal is substantial, but the degree of strength is less than that of AA rated securities. The BBB (high) rating assigned to junior subordinated notes is in the fourth highest of the ten categories for long-term debt. Long-term debt rated BBB is of adequate credit quality. The capacity for the payment of interest and principal is considered acceptable, but it may be vulnerable to future events. The Pfd-2 (low) rating assigned to TCPL's and TransCanada's preferred shares is in 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. In general, Pfd-2 ratings correspond with long-term debt rated in the A category.

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 from Aa through Caa, with 1 being the highest and 3 being the lowest. The A3 rating assigned to TCPL's senior unsecured debt is in the third highest of nine rating categories for long-term obligations. Obligations rated A are considered upper medium grade and are subject to low credit risk. The Baa1 and Baa2 ratings assigned to TCPL's junior subordinated debt and preferred shares, respectively, are in the fourth 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 from AA through CCC 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 in 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 and P-2 ratings assigned to TCPL's junior subordinated notes and TCPL's and TransCanada's preferred shares 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") under the symbol "TRP". TransCanada's Series 1 Preferred Shares, Series 3 Preferred Shares and Series 5 Preferred Shares have been listed for trading on the TSX since September 30, 2009, March 12, 2010 and June 29, 2010, respectively under the symbols "TRP.PR.A", "TRP.PR.B", and "TRP.PR.C", respectively. The following tables set 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, and the respective Series 1 Preferred Shares, Series 3 Preferred Shares and Series 5 Preferred Shares on the TSX, 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 2010	38.71	36.53	37.99	36,564,145	38.44	35.86	38.04	8,743,709
November 2010	38.04	35.49	36.20	47,122,180	37.72	34.77	35.33	8,000,248
October 2010	39.28	37.06	37.67	24,452,953	38.59	36.33	36.95	6,887,287
September 2010	38.88	37.25	38.17	35,287,579	37.75	36.00	37.12	5,548,775
August 2010	38.45	35.75	38.00	23,551,406	36.53	34.23	35.64	6,079,595
July 2010	37.25	35.50	36.33	30,315,925	35.85	32.86	35.35	8,077,360
June 2010	37.31	34.57	35.61	30,159,655	36.69	33.02	33.43	8,154,916
May 2010	36.92	30.01	35.50	32,936,332	36.47	25.80	33.17	9,235,485
April 2010	38.16	35.18	35.84	30,450,870	38.01	34.92	35.20	6,424,836
March 2010	37.87	34.75	37.22	42,951,844	37.11	33.20	36.76	5,806,751
February 2010	35.30	33.96	34.78	25,627,521	33.68	31.58	33.00	5,669,857
January 2010	36.44	34.00	34.17	23,180,090	35.07	31.85	31.91	6,314,623

Series 1 Preferred Shares

Month	TSX (TRP.PR.A)			
	High (\$)	Low (\$)	Close (\$)	Volume Traded
December 2010	26.00	25.50	26.00	559,051
November 2010	26.79	25.95	25.97	583,072
October 2010	26.45	26.13	26.29	528,964
September 2010	27.89	25.90	26.24	613,195
August 2010	26.11	25.80	26.00	623,916
July 2010	25.95	25.35	25.95	454,853
June 2010	25.90	25.15	25.45	552,510
May 2010	25.45	25.00	25.11	1,147,115
April 2010	25.85	25.06	25.25	619,658
March 2010	26.59	25.08	25.69	1,289,162
February 2010	26.29	25.80	25.95	727,716
January 2010	27.15	25.80	26.15	1,561,414

Series 3 Preferred Shares

Month	TSX (TRP.PR.B)			
	High (\$)	Low (\$)	Close (\$)	Volume Traded
December 2010	25.59	24.65	25.57	219,795
November 2010	25.98	24.85	24.98	342,225
October 2010	25.48	24.85	25.10	522,319
September 2010	25.66	24.95	25.36	431,061
August 2010	25.20	24.85	24.98	533,912
July 2010	25.00	24.60	24.94	291,835
June 2010	24.75	24.16	24.65	425,787
May 2010	24.84	23.99	24.20	458,273
April 2010	25.07	23.90	23.90	497,079
March 2010	25.08	24.83	25.02	1,817,221

Series 5 Preferred Shares

Month	TSX (TRP.PR.C)			
	High (\$)	Low (\$)	Close (\$)	Volume Traded
December 2010	26.26	25.00	25.81	351,359
November 2010	26.45	25.50	25.65	397,725
October 2010	26.17	25.36	25.56	499,857
September 2010	26.50	25.28	25.69	597,352
August 2010	25.82	25.20	25.70	613,671
July 2010	25.41	24.84	25.30	1,084,450
June 2010	24.98	24.75	24.95	944,707

In addition, TransCanada's subsidiary, TCPL, has cumulative redeemable first preferred shares, series U and series Y listed on the TSX under the symbols "TCA.PR.X", and "TCA.PR.Y", respectively.

DIRECTORS AND OFFICERS

As of February 14, 2011, the directors and officers of TransCanada as a group beneficially owned, or exercised control or direction, directly or indirectly, over an aggregate of 517,667, Common Shares of TransCanada. This constitutes less than one per cent of TransCanada's 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 DeWinton, Alberta Canada	President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) from June 2003 to October 2007. Director, Emergency Medical Services Corporation.	2005
Derek H. Burney ⁽¹⁾ , O.C. Ottawa, Ontario Canada	Senior strategic advisor at Ogilvy Renault LLP (law firm). Chair (not a Director), International Advisory Board for Garda World Consulting & Investigation, a division of Garda World Security Corporation since 2008. Chair, Canwest Global Communications Corp. (communications) from August 2006 (director since April 2005) to October 2010 and Lead Director at Shell Canada Limited (oil and gas) from April 2001 to May 2007.	2005
Wendy K. Dobson Uxbridge, Ontario Canada	Professor, Rotman School of Management. Director, Institute for International Business, University of Toronto and Director, the Toronto-Dominion Bank. Vice Chair, Canadian Public Accountability Board until February 2010 and Chair of the Audit Committee of the same organization from 2003 to 2009.	1992
E. Linn Draper Lampasas, Texas U.S.	Director, Alliance Data Systems Corporation (data processing and services) and Director, Alpha Natural Resources, Inc. (mining). Chair, NorthWestern Corporation (conducting business as NorthWestern Energy) (oil and gas). Lead Director, Temple-Inland Inc. (materials).	2005
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C. Québec, Québec Canada	Senior Partner, Stein Monast LLP (law firm). Director, Metro Inc., RBC Dexia Investor Services Trust, Royal Bank of Canada and Care Canada. Director, Institut Québécois des Hautes Études Internationales, Laval University from 2002 until 2009.	2002

Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
Russell K. Girling Calgary, Alberta Canada	President and Chief Executive Officer, TransCanada since July 1, 2010. Chief Operating Officer from July 2009 to June 30, 2010 and President, Pipelines from June 2006 to June 30, 2010. Prior to June 2006, Chief Financial Officer and Executive Vice-President, Corporate Development. Director, Agrium Inc.	2010
Kerry L. Hawkins Winnipeg, Manitoba Canada	Director, NOVA Chemicals Corporation until July 2009. President, Cargill Limited (agricultural) from September 1982 to December 2005.	1996
S. Barry Jackson Calgary, Alberta Canada	Chair of the Board, TransCanada since April 2005. Director, Nexen Inc. (oil and gas) and Director, WestJet Airlines Ltd. Chair, Resolute Energy Inc. (oil and gas) from January 2002 to April 2005. Chair of Deer Creek Energy Limited (oil and gas) from April 2001 to September 2005.	2002
Paul L. Joskow New York, New York U.S.	Economist and President of the Alfred P. Sloan Foundation. Professor of Economics, Emeritus, 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, Exelon Corporation (energy), and a trustee of Putnam Mutual Funds.	2004
John A. MacNaughton ⁽²⁾ , C.M. Toronto, Ontario Canada	Chair of the Business Development Bank of Canada. Chair, CNSX Markets Inc. (formerly the Canadian Trading and Quotation System Inc.) (stock exchange) from 2006 to July 2010. Director, Nortel Networks Corporation and Nortel Networks Limited (the principal operating subsidiary of Nortel Networks Corporation) (technology) from 2005 to September 2010. Chair of the Independent Nominating Committee of the Canada Employment Insurance Financing Board since 2008. Founding President and Chief Executive Officer of the Canada Pension Plan Investment Board from 1999 to 2005.	2006
David P. O'Brien ⁽³⁾ Calgary, Alberta Canada	Chair, EnCana Corporation (oil and gas) since April 2002 and Chair, Royal Bank of Canada since February 2004. Director, Molson Coors Brewing Company, and Enerplus Corporation. Member of the Science, Technology and Innovation Council of Canada.	2001
W. Thomas Stephens Greenwood Village, Colorado U.S.	Chair and Chief Executive Officer of Boise Cascade, LLC from November 2004 to November 2008. Director, Boise Inc. until April 2010. Trustee, Putnam Mutual Funds.	2007 ⁽⁴⁾
D. Michael G. Stewart Calgary, Alberta Canada	Director, Canadian Energy Services & Technology Corp. (previously Canadian Energy Services LP (Director, Canadian Energy Services Inc., the GP)), Pengrowth Energy Corporation (previously Pengrowth Corporation (the administrator of Pengrowth Energy Trust)) and C&C Energia Ltd. Director, Orleans Energy Ltd. from October 2008 to December 2010. Chairman and a trustee of Esprit Energy Trust (oil and gas) from August 2004 to October 2006. Director, 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) Canwest Global Communications Corp. ("Canwest") voluntarily entered into, and successfully obtained an Order from the Ontario Superior Court of Justice (Commercial Division) commencing proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") on October 6, 2009. Although no cease trade orders were issued, following the filing Canwest shares were de-listed from trading on the TSX and now trade on the TSX Venture Exchange. Canwest emerged from CCAA protection and its newspaper business was acquired by Postmedia Network on July 13, 2010 and its broadcast media business was acquired by Shaw Communications Inc. on October 27, 2010. Mr. Burney ceased to be a director of Canwest on October 27, 2010.
- (2) Nortel Networks Limited is the principal operating subsidiary of Nortel Networks Corporation (collectively referred to as "Nortel"). 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. On January 14, 2009, Nortel, and certain of Nortel's other Canadian subsidiaries filed for creditor protection under the CCAA.

- (3) Air Canada filed for protection under the CCAA and applicable bankruptcy protection statutes in the U.S. in April 2003. Mr. O'Brien resigned as a director of Air Canada on November 26, 2003.
- (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. The voting members of each of these committees, as of Year End, are identified below:

Audit Committee	Governance Committee	Health, Safety and Environment Committee	Human Resources Committee
Chair: K.E. Benson	Chair: J.A. MacNaughton	Chair: E.L. Draper	Chair: W.T. Stephens
Members: D.H. Burney	Members: K.E. Benson	Members: W.K. Dobson	Members: W.K. Dobson
E.L. Draper	D.H. Burney	P. Gauthier	P. Gauthier
P.L. Joskow	P.L. Joskow	K.L. Hawkins	K.L. Hawkins
J.A. MacNaughton	D.P. O'Brien	W.T. Stephens	D.P. O'Brien
D.M.G. Stewart	D.M.G. Stewart		S.B. Jackson
	S.B. Jackson		

The charters of the Audit Committee, Governance Committee, the Health, Safety and 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. 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, with the exception of Mr. Hobbs who resides in Houston, Texas, U.S. References to positions and offices with TransCanada prior to May 15, 2003 are references to the positions and offices held with TCPL. Current positions and offices held with TransCanada are also held by such person at TCPL. As of the date hereof, the officers of TransCanada, their present positions within TransCanada and their principal occupations during the five preceding years are as follows:

Executive Officers

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Russell K. Girling	President and Chief Executive Officer	Prior to July 2010, Chief Operating Officer since July 2009 and President, Pipelines since June 2006. Prior to June 2006, Executive Vice-President, Corporate Development, since March 2003 and Chief Financial Officer, since August 1999.
Gregory A. Lohnes	Executive Vice-President and President, Natural Gas Pipelines	Prior to July 2010, Executive Vice-President and Chief Financial Officer. Prior to June 2006, President and Chief Executive Officer of Great Lakes Gas Transmission Company, since August 2000.
Donald R. Marchand	Executive Vice-President and Chief Financial Officer	Prior to July 2010, Vice-President, Finance and Treasurer, since September 1999.
Dennis J. McConaghy	Executive Vice-President, Corporate Development	Prior to July 2010, Executive Vice-President, Pipeline Strategy and Development. Prior to June 2006, Executive Vice-President, Gas Development, since May 2001.
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 2006. Prior to June 2006, Vice-President, Transactions, Power Division, TCPL, since April 2003.

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Alexander J. Pourbaix	President, Energy and Oil Pipelines	President, Energy from June 2006 to June 2010 and Executive Vice-President, Corporate Development from July 2009 to June 2010. Prior to June 2006, Executive Vice-President, Power, since March 2003.
Sarah E. Raiss	Executive Vice-President, Corporate Services	Executive Vice-President, Corporate Services, since January 2002.
Donald M. Wishart	Executive Vice-President, Operations and Major Projects	Prior to July 2009, Executive Vice-President, Operations and Engineering, since March 2003.

Corporate Officers

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Sean M. Brett	Vice-President and Treasurer	Prior to July 2010, Vice-President, Commercial Operations of TC Pipelines GP, Inc., and Director, LP Operations of TCPL. Prior to November 2009, Director, Joint Venture Management, Keystone Pipeline Project of TCPL. Prior to December 2008, Vice-President and Treasurer of TC Pipelines GP, Inc. Prior to January 2007, Mr. Brett held a number of positions of increasing responsibility with TransCanada's Finance and Treasury Group.
Ronald L. Cook	Vice-President, Taxation	Vice-President, Taxation, since April 2002.
Donald J. DeGrandis	Vice-President and Corporate Secretary	Prior to February 2009, Corporate Secretary. Prior to June 2006, Associate General Counsel, Corporate Services, since June 2004.
Lee G. Hobbs	President, U.S. Natural Gas Pipelines	Senior Vice-President and General Manager, U.S. Pipelines, Pipelines Division, TCPL, June 2009 to July 2010. Vice-President and General Manager, U.S. Pipelines Central, Pipelines Division, TCPL, March 2007 to June 2009. President, Great Lakes Gas Transmission Company and Great Lakes Gas Transmission Limited Partnership, September 2006 to March 2007. Prior to September 2006, Vice-President and Controller, TCPL, since July 2001.
Joel E. Hunter	Vice-President, Finance	Director, Corporate Finance, January 2008 to July 2010. Prior to January 2008, Senior Analyst, Corporate Finance. Prior to January 2007 Mr. Hunter held a number of positions of increasing responsibility with TransCanada's Finance and Treasury Group.
Garry E. Lamb	Vice-President, Risk Management	Vice-President, Risk Management, since October 2001.
G. Glenn Menuz	Vice-President and Controller	Prior to June 2006, Assistant Controller, since October 2001.

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 CBCA. 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 the oil and gas producer and shipper community; the Governance Committee 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 CSA, those of the NYSE and of the SEC applicable to foreign issuers. 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, 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 National Instrument 52-110, 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 under the heading "Corporate Governance" or at Schedule "B" to TransCanada's Management Proxy Circular dated February 14, 2011.

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.

Relevant Education and Experience of Members

The members of the Audit Committee at Year End were Kevin E. Benson (Chair), Derek H. Burney, E. Linn Draper, 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 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 The Insurance Corporation of British Columbia and has served on other public company boards and on the audit committees of certain of those 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 Chair and Chief Executive Officer of Bell Canada International Inc. Mr. Burney was the lead director at Shell Canada Limited until May 2007 and was the Chair of Canwest Global Communications Corp. until October 2010. He has served on one other organization's audit committee.

E. Linn Draper

Dr. Draper holds a Bachelor of Science in Chemical Engineering from Rice University and a Ph.D. in Nuclear Science and Engineering from Cornell University. Dr. Draper was Chair, President and Chief Executive Officer of American Electric Power Co., Inc. until 2004. He previously served as Chair, President and Chief Executive Officer of Gulf States Utilities Company. Dr. Draper has served and continues to serve on several other public company 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 a Ph.D. in Economics from Yale University. He is currently the President of the Alfred P. Sloan Foundation and a Professor of Economics, Emeritus, at 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 Chair of the Business Development Bank of Canada, and was Chair of CNSX Markets Inc. (formerly Canadian Trading and Quotation System Inc.) until July 2010. 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 has served on the audit committee of other public companies.

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 37 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 2010 and 2009 fiscal years.

Fee Category	2010	2009	Description of Fee Category
	(millions of dollars)		
Audit Fees	\$6.5	\$7.2	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	\$0.2	\$0.2	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 Company pension plans.
Tax Fees	\$1.0	\$1.1	Aggregate fees rendered for tax planning and tax compliance advice. The nature of these services consisted of domestic and international tax planning advice and tax compliance matters including the review of income tax returns and other tax filings.
All Other Fees	\$0.2	\$0.4	Aggregate fees for products and services other than those reported elsewhere in this table. The nature of these services primarily consisted of advice and training primarily related to IFRS.
Total	\$7.9	\$8.9	

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

TransCanada and its subsidiaries are subject to various 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.

TRANSFER AGENT AND REGISTRAR

TransCanada's transfer agent and registrar is Computershare Trust Company of Canada with its Canadian transfer facilities in the 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.
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
AGIA	<i>Alaska Gasline Inducement Act</i>
AIF	Annual Information Form of TransCanada Corporation dated February 14, 2011
Alaska Pipeline	A proposed natural gas pipeline extending from Prudhoe Bay, Alaska to either Alberta or Valdez, Alaska
Alberta System	A natural gas transmission system in Alberta and Northeast B.C.
ANR	American Natural Resources Company and ANR Storage Company, collectively
ANR System	A natural gas transmission system extending from producing fields located primarily in Texas, Oklahoma, the Gulf of Mexico and U.S. Midcontinent region to markets located primarily in Wisconsin, Michigan, Illinois, Ohio and Indiana, and regulated underground natural gas storage facilities in Michigan
AUC	Alberta Utilities Commission
Bakken Marketlink	A proposed pipeline that would transport crude oil from Baker, Montana to Cushing on facilities that form part of the U.S. Gulf Coast Expansion
Bbl/d	Barrels per day
B.C.	British Columbia
Bcf	Billion cubic feet
Bcf/d	Billion cubic feet per day
Bécancour	A natural gas-fired cogeneration plant near Trois-Rivières, Québec
Bison	A natural gas pipeline extending from the Powder River Basin in Wyoming to the NBPL System in North Dakota
Board	TransCanada's Board of Directors
Bruce A	A partnership interest in a nuclear power generation facility consisting of Units 1 to 4 of Bruce Power (Bruce Power A L.P.)
Bruce B	A partnership interest in a nuclear power generation facility consisting of Units 5 to 8 of Bruce Power (Bruce Power L.P.)
Bruce Power	A nuclear power generating facility located northwest of Toronto, Ontario (Bruce A and Bruce B, collectively)
CAA	<i>Clean Air Act</i>
Canadian GAAP	Canadian generally accepted accounting principles
Canadian Mainline	A natural gas transmission system extending from the Alberta/Saskatchewan border east into Québec
Canwest	Canwest Global Communications Corp.
Cartier Wind	Five wind farms in Gaspé, Québec, three of which are operational and two under construction
CBCA	<i>Canada Business Corporations Act</i>
CCAA	<i>Companies' Creditors Arrangement Act</i>
Chinook	A proposed power transmission line project originating in Montana and terminating in Nevada
CICA	Canadian Institute of Chartered Accountants
CO ₂	Carbon dioxide
Common Shares	Common shares of TransCanada
Coolidge	A simple-cycle, natural gas-fired peaking power generation station under construction in Coolidge, Arizona
CSA	Canadian Securities Administrators
Cushing Extension	The second phase of the Keystone oil pipeline delivering crude oil to Cushing, Oklahoma
Cushing Marketlink	A proposed pipeline that would provide crude oil from Cushing, Oklahoma to the U.S. Gulf Coast on facilities that form part of the U.S. Gulf Coast Expansion
DBRS	DBRS Limited
Energy	As defined in this AIF under the heading "General Development of the Business"
EPA	Environmental Protection Agency (U.S.)
Exercise Price	As defined in this AIF under the heading "Description of Capital Structure"
ExxonMobil	ExxonMobil Corporation
FERC	Federal Energy Regulatory Commission (U.S.)
Foothills System	A natural gas transmission system extending from central Alberta to the B.C./U.S. border and to the Saskatchewan/U.S. border
GHG	Greenhouse gas
Great Lakes	Great Lakes Gas Transmission Limited Partnership
Great Lakes System	A natural gas transmission system that connects to the Canadian Mainline and serves markets in Eastern Canada and the Northeastern and Midwestern U.S.
Groundbirch	A phase of the Alberta System, connecting natural gas supply primarily from the Montney shale gas formation in Northeast B.C. to existing infrastructure in Northwest Alberta
GTN System	A natural gas transmission system extending from the B.C./Idaho border to the Oregon/California border, traversing Idaho, Washington and Oregon
Guadalajara	A natural gas pipeline under construction in Mexico extending from Manzanillo, Colima to Guadalajara, Jalisco
Halton Hills	A natural gas-fired, combined cycle power plant in Halton Hills, Ontario
Horn River	A proposed extension of the Alberta System that would connect new shale gas supply in the Horn River basin north of Fort Nelson, B.C.
HS&E	Health, safety and environment
HVDC	High voltage direct current
Hydro-Québec	Hydro-Québec Distribution
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Iroquois System	A natural gas transmission system connects with the Canadian Mainline near Waddington, New York and delivers natural gas in the Northeastern U.S.
ISO	International Organization for Standardization
Keystone Canada	TransCanada Keystone Pipeline Limited Partnership

Keystone	Wood River/Patoka, the Cushing Extension and the U.S. Gulf Coast Expansion, collectively
Keystone U.S.	TransCanada Keystone Pipeline, LP
Kibby Wind	A wind farm located in Kibby and Skinner townships in northwestern Franklin County, Maine
km	Kilometer(s)
LNG	Liquefied Natural Gas
Mackenzie Gas Project	A proposed natural gas pipeline extending from a point near Inuvik, Northwest Territories to the northern border of Alberta
MD&A	TransCanada's Management's Discussion and Analysis dated February 14, 2011
MIT	Massachusetts Institute of Technology
MMcf/d	Million cubic feet per day
Moody's	Moody's Investors Service, Inc.
MW	Megawatt(s)
Natural Gas Pipelines	As defined in this AIF under the heading "General Development of the Business"
NBPL	Northern Border Pipeline Company
NBPL System	A natural gas transmission system extending from a point near Monchy, Saskatchewan to the U.S. Midwest
NEB	National Energy Board
Nortel	Nortel Networks Limited and Nortel Networks Corporation
North Baja System	A natural gas transmission system extending from Arizona to the Baja California, Mexico/California border
North Central Corridor	A phase of the Alberta System which extends the northern section thereof
NYSE	New York Stock Exchange
Ocean State Power	A natural gas-fired, combined-cycle plant in Burrillville, Rhode Island
Oil Pipelines	As defined in this AIF under the heading "General Development of the Business"
OPA	Ontario Power Authority
OSC	Ontario Securities Commission
PCBs	Polychlorinated biphenyls
Portland System	A natural gas transmission system that extends from a point near East Hereford, Québec to the Northeastern U.S.
Portlands Energy	A natural gas-fired combined-cycle power plant near downtown Toronto, Ontario
Ravenswood	A natural gas-and oil-fired generating facility located in Queens, New York
RGGI	Regional Greenhouse Gas Initiative
RRA	Rate-regulated accounting
S&P	Standard and Poor's
SEC	U.S. Securities and Exchange Commission
Series 1 Preferred Shares	TransCanada's cumulative, redeemable, first preferred shares, series 1
Series 2 Preferred Shares	TransCanada's cumulative, redeemable, first preferred shares, series 2
Series 3 Preferred Shares	TransCanada's cumulative, redeemable, first preferred shares, series 3
Series 4 Preferred Shares	TransCanada's cumulative, redeemable, first preferred shares, series 4
Series 5 Preferred Shares	TransCanada's cumulative, redeemable, first preferred shares, series 5
Series 6 Preferred Shares	TransCanada's cumulative, redeemable, first preferred shares, series 6
Sheerness	A coal-fired power generating facility near Hanna, Alberta
SOPs	TransCanada's stock-based compensation plans
SR Plan	TransCanada's Shareholder Rights Plan
Subsidiary	As defined in this AIF under the heading "Presentation of Information"
Sundance	Two coal-fired power generating facilities near Wabamun, Alberta (Sundance A and Sundance B, collectively)
Systems	As defined in this AIF under the heading "Regulation of the Pipeline Business"
TCPL	TransCanada PipeLines Limited
TQM	A natural gas pipeline that connects with the Canadian Mainline near the Québec/Ontario border and transports natural gas to markets in Québec, and connects with the Portland System
TransCanada or the Company	TransCanada Corporation
TransAlta	TransAlta Corporation
TSX	Toronto Stock Exchange
Tuscarora	Tuscarora Gas Transmission Company
Tuscarora System	A natural gas transmission system extending from Malin, Oregon to Wadsworth, Nevada
U.S. or US	United States
U.S. GAAP	U.S. generally accepted accounting principles
U.S. Gulf Coast Expansion	A proposed extension and expansion of the Keystone crude oil pipeline to the U.S. Gulf Coast
WCI	Western Climate Initiative
Wood River/Patoka	The first phase of the Keystone oil pipeline delivering crude oil to Wood River and Patoka in Illinois
Year End	December 31, 2010
Zephyr	A proposed power transmission line project originating in Wyoming and terminating in Nevada

SCHEDULE "A"**METRIC CONVERSION TABLE**

The conversion factors set out below are approximate factors. To convert from Metric to Imperial multiply by the factor indicated. To convert from Imperial to Metric divide by the factor indicated.

Metric	Imperial	Factor
Kilometres (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, then add 32 degrees; to convert to Celsius subtract 32 degrees, then divide by 1.8

* The conversion is based on natural gas at a base pressure of 101.325 kilopascals and at a base temperature of 15 degrees Celsius.

SCHEDULE "B"

CHARTER OF THE AUDIT COMMITTEE

1. Purpose

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

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

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

2. Roles and Responsibilities

I. Appointment of the Company's External Auditors

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

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

II. Oversight in Respect of Financial Disclosure

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

- (a) review, discuss with management and the external auditors and recommend to the Board for approval, the Company's audited annual financial statements, annual information form including management discussion and analysis, all financial statements in prospectuses and other offering memoranda, financial statements required by regulatory authorities, all prospectuses and all documents which may be incorporated by reference into a prospectus, including without limitation, the annual proxy circular, but excluding any pricing supplements issued under a medium term note prospectus supplement of the Company;
- (b) review, discuss with management and the external auditors and recommend to the Board for approval the release to the public of the Company's interim reports, including the financial statements, management discussion and analysis and press releases on quarterly financial results;

- (c) review and discuss with management and external auditors the use of "pro forma" or "adjusted" non-GAAP information and the applicable reconciliation;
- (d) review and discuss with management and external auditors financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made). The Audit Committee need not discuss in advance each instance in which the Company may provide earnings guidance or presentations to rating agencies;
- (e) review with management and the external auditors major issues regarding accounting and auditing principles and practices, including any significant changes in the Company's selection or application of accounting principles, as well as major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies that could significantly affect the Company's financial statements;
- (f) review and discuss quarterly reports from the external auditors on:
 - (i) all critical accounting policies and practices to be used;
 - (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;
 - (iii) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences;
- (g) review with management and the external auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements;
- (h) review with management, the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;
- (i) review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the periodic reports filed with securities regulators about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls;
- (j) discuss with management the Company's material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies;

III. Oversight in Respect of Legal and Regulatory Matters

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

IV. Oversight in Respect of Internal Audit

- (a) review the audit plans of the internal auditors of the Company including the degree of coordination between such plan and that of the external auditors and the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control, fraud or other illegal acts;
- (b) review the significant findings prepared by the internal auditing department and recommendations issued by the Company or by any external party in relation 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;

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 the implementation and amendments to policies and program initiatives deemed advisable by management or the Audit Committee with respect to the Company's codes of business ethics and Risk Management and Financial Reporting policies;
- (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 Canadian Pension Plans (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 in relation 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 the policy and 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) make suggestions and provide feedback from the Audit Committee to management regarding information that is or should be provided to the Audit Committee;
- (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.