



**TransCanada**  
In business to deliver

**TRANSCANADA PIPELINES LIMITED**

**THIRD QUARTER 2003**

# Quarterly Report

**Consolidated Results-at-a-Glance**

| (unaudited)<br>(millions of dollars)          | Three months ended September 30 |            | Nine months ended September 30 |            |
|---|---------------------------------|------------|--------------------------------|------------|
|   | 2003                            | 2002       | 2003                           | 2002       |
| <b>Net Income Applicable to Common Shares</b> |                                 |            |                                |            |
| Continuing operations                         | 198                             | 175        | 608                            | 567        |
| Discontinued operations                       | 50                              | -          | 50                             | -          |
|   | <b>248</b>                      | <b>175</b> | <b>658</b>                     | <b>567</b> |

**Management's Discussion and Analysis**

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements of TransCanada PipeLines Limited (TCPL or the company) for the nine months ended September 30, 2003 and the notes thereto.

**Results of Operations**

**Consolidated**

TCPL's net income applicable to common shares for third quarter 2003 was \$248 million. This includes net income from discontinued operations which reflects the income recognition of \$50 million of the initially deferred gain of approximately \$100 million after tax relating to the 2001 disposition of the company's Gas Marketing business.

Net income applicable to common shares from continuing operations (net earnings) for third quarter 2003 of \$198 million increased by \$23 million compared to \$175 million for third quarter 2002. All segments of the company contributed to the increase. Higher net earnings from the Power business included \$26 million after tax from TCPL's investment in Bruce Power L.P. (Bruce Power), partially offset by lower operating and other income from Power's Western Operations. Higher net earnings in the Transmission business were mainly due to TCPL's \$11 million share of future income tax benefits recognized by TransGas de Occidente, partially offset by lower net earnings from the Alberta System.

TCPL's net income applicable to common shares for the nine months ended September 30, 2003 was \$658 million after reflecting net income from discontinued operations of \$50 million compared to \$567 million for the comparable period in 2002.

TCPL's net earnings applicable to common shares from continuing operations for the nine months ended September 30, 2003 was \$608 million compared to \$567 million for the comparable period in 2002. The increase of \$41 million in the first nine months of 2003 compared to the same period in 2002 was primarily due to higher net earnings from the Power business and lower net expenses in the Corporate segment, partially offset by lower net earnings from the Transmission segment.

The Power segment net earnings for the nine months ended September 30, 2003 included \$66 million after tax from TCPL's investment in Bruce Power which was acquired in February 2003 and a \$19 million positive after-tax earnings impact of a June 2003 settlement with a former counterparty which defaulted in 2001 under power forward contracts. This amount represents the value of power forward contracts terminated at the time of the counterparty's default. These increases are partially offset by reduced operating and other income from the Northeastern U.S. Operations, combined with higher general, administrative and support costs.

The decrease in 2003 year-to-date net expenses in the Corporate segment compared to the same period in the prior year was primarily due to lower general and administrative expenses related to services that support discontinued operations, lower net interest costs and the positive impact of foreign exchange rates.

The lower net earnings in the Transmission segment for the nine months ended September 30, 2003 compared to the same period in the prior year were primarily due to the decline in the Alberta System's 2003 net earnings reflecting the one-year fixed revenue requirement settlement reached between TCPL and its stakeholders in February 2003. In June 2002, TCPL received the National Energy Board (NEB) decision on its Fair Return application (Fair Return decision) to determine the cost of capital to be included in the calculation of 2001 and 2002 final tolls on its Canadian Mainline. The results for the nine months ended September 30, 2002 included after-tax income of \$30 million representing the impact of the Fair Return decision for 2001 (\$16 million) and nine months ended September 30, 2002 (\$14 million). The results for the nine months ended September 30, 2002 also included TCPL's \$7 million share of a favourable ruling for Great Lakes related to Minnesota use tax paid in prior years.

Funds generated from continuing operations of \$516 million for third quarter 2003 increased \$49 million compared to third quarter 2002. Funds generated from continuing operations of \$1,407 million for the nine months ended September 30, 2003 increased \$47 million compared to the same period last year.

#### Segment Results-at-a-Glance

| (unaudited)<br>(millions of dollars)          | Three months ended September 30 |            | Nine months ended September 30 |            |
|---|---------------------------------|------------|--------------------------------|------------|
|   | 2003                            | 2002       | 2003                           | 2002       |
| Transmission                                  | 160                             | 154        | 462                            | 491        |
| Power   | 50                              | 35         | 176                            | 116        |
| Corporate                                     | (12)                            | (14)       | (30)                           | (40)       |
| Continuing operations                         | 198                             | 175        | 608                            | 567        |
| Discontinued operations                       | 50                              | -          | 50                             | -          |
| <b>Net Income Applicable to Common Shares</b> | <b>248</b>                      | <b>175</b> | <b>658</b>                     | <b>567</b> |

## Transmission

The Transmission business generated net earnings of \$160 million and \$462 million for the three and nine months ended September 30, 2003, respectively, compared to \$154 million and \$491 million for the same periods in 2002.

### Transmission Results-at-a-Glance

| (unaudited)<br>(millions of dollars)       | Three months ended September 30 |            | Nine months ended September 30 |            |
|--|---------------------------------|------------|--------------------------------|------------|
|  | 2003                            | 2002       | 2003                           | 2002       |
| <b>Wholly-Owned Pipelines</b>              |                                 |            |                                |            |
| Alberta System                             | 50                              | 56         | 136                            | 158        |
| Canadian Mainline                          | 73                              | 72         | 215                            | 232        |
| Foothills*                                 | 5                               | 4          | 14                             | 13         |
| BC System                                  | -                               | 1          | 4                              | 4          |
|  | <b>128</b>                      | <b>133</b> | <b>369</b>                     | <b>407</b> |
| <b>North American Pipeline Ventures</b>    |                                 |            |                                |            |
| Great Lakes                                | 10                              | 13         | 38                             | 49         |
| Iroquois                                   | 4                               | 4          | 15                             | 15         |
| TC PipeLines, LP                           | 4                               | 4          | 11                             | 12         |
| Portland                                   | -                               | -          | 7                              | 2          |
| Ventures LP                                | 3                               | 2          | 7                              | 5          |
| Trans Québec & Maritimes                   | 2                               | 2          | 6                              | 6          |
| CrossAlta                                  | -                               | 2          | 4                              | 9          |
| TransGas de Occidente                      | 13                              | 3          | 20                             | 5          |
| Northern Development                       | (1)                             | (3)        | (2)                            | (5)        |
| General, administrative, support and other | (3)                             | (6)        | (13)                           | (14)       |
|  | <b>32</b>                       | <b>21</b>  | <b>93</b>                      | <b>84</b>  |
| Net earnings                               | <b>160</b>                      | <b>154</b> | <b>462</b>                     | <b>491</b> |

\* The remaining interests in Foothills, previously not held by TCPL, were acquired in August 2003. Amounts in this table reflect TCPL's proportionate interest in Foothills' earnings prior to the acquisition and 100 per cent interest thereafter.

### *Wholly-Owned Pipelines*

The Alberta System's net earnings of \$50 million in third quarter 2003 decreased \$6 million compared to \$56 million in the same quarter of 2002. Net earnings of \$136 million for the nine months ended September 30, 2003 decreased \$22 million compared to the same period in 2002. The decrease is primarily due to lower earnings from the one-year 2003 Alberta System Revenue Requirement Settlement (the 2003 Settlement) reached in February 2003. The 2003 Settlement includes a fixed revenue requirement component, before non-routine adjustments, of \$1.277 billion compared to \$1.347 billion in 2002. The Alberta System's annual net earnings in 2003, initially expected to be approximately \$40 million lower than 2002 annual net earnings of \$214 million, are now expected to be approximately \$30 million below 2002 net earnings. This improved outlook for 2003 net earnings is primarily attributable to lower financing and operating costs than initially anticipated.

The Canadian Mainline's net earnings have increased \$1 million and decreased \$17 million for the three and nine months ended September 30, 2003, respectively, when compared to the corresponding periods in 2002. The decrease in year-to-date 2003 net earnings as compared to net earnings in the same period in 2002 is mainly due to the NEB's Fair Return decision, which resulted in the recognition in June 2002 of \$16 million of net earnings related to the year ended December 31, 2001. Net earnings in 2003 reflect an increase in the approved rate of return on common equity from 9.53 per cent in 2002 to 9.79 per cent in 2003, offset by a lower average investment base.

In December 2002, the NEB approved TCPL's application to charge interim tolls for transportation service, effective January 1, 2003. In August 2003, the NEB approved interim tolls that the company will charge for the period September 1, 2003 to December 31, 2003. The NEB ordered that tolls will remain interim pending a decision from the Federal Court of Appeal on TCPL's Fair Return Review and Variance Application.

On August 15, 2003, TCPL acquired the remaining interests of Foothills Pipe Lines Ltd. (Foothills) and its subsidiaries from Duke Energy Gas Transmission (Duke) for \$259 million, including assumption of \$154 million of Duke's proportionate share of Foothills' corporate debt. The net earnings prior to the acquisition reflect TCPL's previous interests in Foothills. Prior to the acquisition, TCPL directly and indirectly owned 50 per cent of Foothills, 69.5 per cent of Foothills (Sask.), 74.5 per cent of Foothills (Alta.) and 74.5 per cent of Foothills (South B.C.).

### Operating Statistics

| Nine months ended September 30<br>(unaudited) | Alberta<br>System* |       | Canadian<br>Mainline** |       | Foothills*** |      | BC<br>System |      |
|---|--------------------|-------|------------------------|-------|--------------|------|--------------|------|
|   | 2003               | 2002  | 2003                   | 2002  | 2003         | 2002 | 2003         | 2002 |
| Average investment base (\$ millions)         | 4,909              | 5,089 | 8,601                  | 8,909 | 742          | ***  | 237          | 204  |
| Delivery volumes (Bcf)                        |                    |       |                        |       |              |      |              |      |
| Total   | 2,893              | 3,076 | 1,990                  | 1,950 | 813          | ***  | 227          | 270  |
| Average per day                               | 10.6               | 11.3  | 7.3                    | 7.1   | 3.0          | ***  | 0.8          | 1.0  |

\* Field receipt volumes for the Alberta System for the nine months ended September 30, 2003 were 2,926 Bcf (2002 - 3,094 Bcf); average per day was 10.7 Bcf (2002 - 11.3 Bcf).

\*\* Canadian Mainline deliveries originating at the Alberta border and in Saskatchewan for the nine months ended September 30, 2003 were 1,572 Bcf (2002 - 1,665 Bcf); average per day was 5.8 Bcf (2002 - 6.1 Bcf).

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

### North American Pipeline Ventures

TCPL's proportionate share of net earnings from its other Transmission businesses was \$32 million and \$93 million for the three and nine months ended September 30, 2003, respectively.

Net earnings for third quarter 2003 were \$11 million higher than the same quarter in 2002 primarily as a result of TCPL's \$11 million share of future income tax benefits recognized by TransGas de Occidente. In addition, there were higher operating earnings from Ventures LP, and lower spending on Northern Development. These increases were partially offset by lower contributions from CrossAlta, higher operating costs in Great Lakes and the impact of a weaker U.S. dollar.

The 2002 year-to-date results included TCPL's \$7 million share of a favourable ruling for Great Lakes related to Minnesota use tax paid in prior years. Excluding the impact of the Great Lakes ruling in 2002, net earnings for the nine months ended September 30, 2003 increased \$16 million compared to the same period in 2002. TCPL's share of Portland's net earnings has increased \$5

million for the nine months ended September 30, 2003 compared to the same period in 2002, primarily as a result of a rate settlement in early 2003 and a subsequent positive depreciation adjustment related to 2002 and recorded by TCPL in 2003. In addition, earnings from TransGas de Occidente were higher as a result of higher contractual tolls and recognition of future income tax benefits. These increases were offset by lower earnings from CrossAlta and a weaker U.S. dollar.

## Power

### Power Results-at-a-Glance

| (unaudited)<br>(millions of dollars)      | Three months ended September 30 |      | Nine months ended September 30 |      |
|---|---------------------------------|------|--------------------------------|------|
|   | 2003                            | 2002 | 2003                           | 2002 |
| Western operations                        | 26                              | 40   | 129                            | 101  |
| Northeastern U.S. operations              | 30                              | 27   | 91                             | 114  |
| Bruce Power L.P. investment               | 38                              | -    | 92                             | -    |
| Power LP investment                       | 8                               | 9    | 26                             | 27   |
| General, administrative and support costs | (23)                            | (17) | (66)                           | (48) |
| Operating and other income                | 79                              | 59   | 272                            | 194  |
| Financial charges                         | (2)                             | (3)  | (8)                            | (9)  |
| Income taxes                              | (27)                            | (21) | (88)                           | (69) |
| Net earnings                              | 50                              | 35   | 176                            | 116  |

Power's net earnings of \$50 million in third quarter 2003 increased \$15 million compared to \$35 million in third quarter 2002. Earnings from the recently acquired interest in Bruce Power was the primary reason for the increase. Partially offsetting this increase was a lower contribution from Western Operations and higher general, administrative and support costs.

Net earnings of \$176 million for the nine months ended September 30, 2003 were \$60 million higher when compared to the same period in 2002. Bruce Power earnings, a settlement in second quarter 2003 in Western Operations for the value of power forward contracts terminated with a former counterparty and the addition of the ManChief plant in late 2002 were the primary reasons for the increase. Partially offsetting the increase were lower earnings from the Northeastern U.S. Operations and higher general, administrative and support costs.

### *Western Operations*

Operating and other income in Western Operations for the three months ended September 30, 2003 of \$26 million was \$14 million lower compared to the same period in 2002. The decrease is due to lower prices achieved on power sales as well as higher cost of natural gas fuel at the carbon black facility in southern Alberta in 2003, partially offset by contribution from the ManChief plant.

Operating and other income in Western Operations for the nine months ended September 30, 2003 of \$129 million was \$28 million higher compared to the same period in 2002, mainly due to a \$31 million pre-tax (\$19 million after tax) positive earnings impact related to a June 2003 settlement with a former counterparty which defaulted in 2001 under power forward contracts. The ManChief acquisition in 2002 also contributed to higher operating income. Partially offsetting these increases were the effects in 2003 of lower prices achieved on the overall sale of power and higher cost of natural gas fuel at the carbon black facility.

*Northeastern U.S. Operations*

Operating and other income in Northeastern U.S. Operations of \$30 million for the three months ended September 30, 2003 increased \$3 million compared to the same period in 2002 primarily due to increased water flows through the Curtis Palmer hydroelectric facility.

Operating and other income in Northeastern U.S. Operations of \$91 million for the nine months ended September 30, 2003 decreased \$23 million compared to the same period in 2002 primarily due to the higher cost of natural gas fuel at Ocean State Power (OSP) resulting from an arbitration process, fewer market opportunities in the first half of 2003 than in 2002 and the unfavourable impact of a weaker U.S. dollar. OSP is currently in discussions with its natural gas fuel supplier regarding changes to the price of its fuel supply.

*Bruce Power L.P. Investment***Bruce Power L.P. (100 per cent basis)**

| (unaudited)<br>(millions of dollars)                       | Three months ended<br>September 30, 2003 | Nine months ended<br>September 30, 2003 |
|--|--|---|
| Revenues   | 297                                      | 939                                     |
| Operating expenses   | 196                                      | 599                                     |
| Operating income   | 101                                      | 340                                     |
| Financial charges  | 17                                       | 49                                      |
| Income before income taxes                                 | 84                                       | 291                                     |
| TCPL's interest in Bruce Power income before income taxes* | 27                                       | 66                                      |
| Adjustments**  | 11                                       | 26                                      |
| TCPL's income from Bruce Power before income taxes         | 38                                       | 92                                      |

\* TCPL acquired its interest in Bruce Power on February 14, 2003. Bruce Power's 100 per cent income before income taxes from February 14 to September 30, 2003 was \$210 million.

\*\* See Note 7 to the September 30, 2003 financial statements for an explanation of the purchase price amortizations.

Bruce Power contributed \$38 million of pre-tax equity income in third quarter 2003 compared to \$16 million in second quarter 2003. The increase reflected higher output compared to the second quarter 2003 when one of the Bruce B units was on a planned maintenance outage for almost the entire second quarter. Overall prices achieved during third quarter 2003 were \$45 per megawatt hour (MWh) which is consistent with second quarter 2003. The average price achieved for the nine months ended September 30, 2003 was approximately \$49 per MWh. Approximately 34 per cent of the output was sold into Ontario's wholesale spot market in third quarter 2003 with the remainder being sold under longer term contracts.

TCPL's share of power output for third quarter 2003 was 2,041 gigawatt hours (GWh) compared to 1,681 GWh in second quarter 2003. The Bruce B units ran at an average availability of 94 per cent for third quarter 2003. The average availability during TCPL's period of ownership ending September 30, 2003 was 88 per cent.

On October 7, 2003, Bruce A Unit 4 began producing electricity to the Ontario electricity grid. After performing and evaluating tests of the shutdown system, Bruce A Unit 4 is expected to reconnect to the grid and will begin ramping up to full power. Bruce Power is also working towards the removal of the Canadian Nuclear Safety Commission shutdown guarantees on Bruce A Unit 3. Following removal of the shutdown guarantees, Bruce A Unit 3 will undergo similar commissioning

tests and procedures as with Bruce A Unit 4. The cumulative restart cost incurred by Bruce Power to the end of September 2003 for the two Bruce A units was approximately \$688 million. Bruce Power has incurred approximately \$315 million on the two unit restart program in the first nine months of 2003, of which \$80 million was incurred in third quarter 2003. TCPL has a 31.6 per cent interest in Bruce Power.

Equity income from Bruce Power is directly impacted by fluctuations in wholesale spot market prices for electricity as well as overall plant availability, which in turn, is impacted by scheduled and unscheduled maintenance. Bruce B Unit 8 began scheduled maintenance on September 20, 2003 which is expected to continue into the middle of fourth quarter 2003. To reduce its exposure to spot market prices, Bruce Power has entered into fixed price sales contracts for approximately 1,850 megawatts (MW) of output for the remainder of 2003.

### *Power LP Investment*

Operating and other income of \$8 million and \$26 million for the three and nine months ended September 30, 2003, was consistent with the same periods in 2002.

### *General, Administrative and Support Costs*

General, administrative and support costs for the three and nine months ended September 30, 2003 increased \$6 million and \$18 million, respectively, compared to the same periods in 2002, mainly reflecting higher support costs as part of the company's continued investment in Power.

### **Power Sales Volumes\***

| (unaudited)<br>(GWh)          | Three months ended September 30 |              | Nine months ended September 30 |               |
|-------------------------------|---------------------------------|--------------|--------------------------------|---------------|
|                               | 2003                            | 2002         | 2003                           | 2002          |
| Western operations            | 3,068                           | 2,876        | 9,324                          | 9,201         |
| Northeastern U.S. operations  | 1,719                           | 1,542        | 5,112                          | 4,117         |
| Bruce Power L.P. investment** | 2,041                           | n/a          | 4,809                          | n/a           |
| Power LP investment           | 582                             | 651          | 1,604                          | 1,779         |
| <b>Total</b>                  | <b>7,410</b>                    | <b>5,069</b> | <b>20,849</b>                  | <b>15,097</b> |

\* Power sales volumes include TCPL's share of Bruce Power L.P. output (31.6 per cent) and the Sundance B power purchase arrangement (50 per cent).

\*\* Acquired in February 2003. Sales volumes reflect TCPL's share for the period February 14, 2003 to September 30, 2003.

### **Weighted Average Plant Availability\***

| (unaudited)                   | Three months ended September 30 |            | Nine months ended September 30 |            |
|-------------------------------|---------------------------------|------------|--------------------------------|------------|
|                               | 2003                            | 2002       | 2003                           | 2002       |
| Western operations            | 91%                             | 98%        | 93%                            | 97%        |
| Northeastern U.S. operations  | 99%                             | 99%        | 92%                            | 99%        |
| Bruce Power L.P. investment** | 94%                             | n/a        | 88%                            | n/a        |
| Power LP investment           | 99%                             | 98%        | 95%                            | 94%        |
| <b>All plants</b>             | <b>96%</b>                      | <b>99%</b> | <b>91%</b>                     | <b>97%</b> |

\* Plant availability is reduced by planned and unplanned outages.

\*\* Acquired in February 2003. TCPL's availability reflects the period February 14, 2003 to September 30, 2003 and refers only to the Bruce B units.

## Corporate

Net expenses were \$12 million and \$14 million for the three months ended September 30, 2003 and 2002, respectively. This \$2 million decrease in net expenses for third quarter 2003 is mainly due to lower general and administrative expenses related to services that support discontinued operations.

Net expenses were \$30 million for the nine months ended September 30, 2003 compared to \$40 million for the same period in 2002. This \$10 million decrease is primarily due to lower general and administrative expenses related to services that support discontinued operations, lower net interest costs and the positive impact of foreign exchange rates compared to the same period in the prior year.

## Discontinued Operations

The Board of Directors approved a plan in July 2001 to dispose of the company's Gas Marketing business. The company's exit from Gas Marketing was substantially completed by December 31, 2001. The company mitigated its exposures associated with the contingent liabilities related to the divested gas marketing operations by obtaining from a subsidiary of Mirant Corporation (Mirant) certain remaining contracts in June and July 2003, and simultaneously hedging the market price exposures of these contracts. The company remains contingently liable for certain residual obligations.

At September 30, 2003, TCPL reviewed the provision for loss on discontinued operations and the deferred gain, taking into consideration the impacts of Mirant's filing for bankruptcy protection in July 2003 and the mitigation of the contingent liabilities referred to above. As a result of this review, \$50 million of the original approximately \$100 million after-tax deferred gain was recognized in income in third quarter 2003. In addition, TCPL concluded that the remaining provision was adequate, and the deferral of the remaining approximately \$50 million of deferred after-tax gains related to the divested Gas Marketing business was appropriate.

## Liquidity and Capital Resources

### Funds Generated from Operations

Funds generated from continuing operations were \$516 million and \$1,407 million for the three and nine months ended September 30, 2003, respectively, compared with \$467 million and \$1,360 million for the same periods in 2002.

TCPL expects that its ability to generate sufficient amounts of cash in the short term and the long term when needed, and to maintain financial capacity and flexibility to provide for planned growth is adequate and remains substantially unchanged since December 31, 2002.

### Investing Activities

In the three and nine months ended September 30, 2003, capital expenditures, excluding acquisitions, totalled \$81 million (2002 - \$182 million) and \$264 million (2002 - \$397 million), respectively, and related primarily to Iroquois' ongoing Eastchester Expansion project into New York City, maintenance and capacity capital in wholly-owned pipelines and ongoing construction of the MacKay River power plant in Alberta.



Acquisitions for the nine months ended September 30, 2003 totalled \$547 million (2002 – \$19 million) and were primarily comprised of:

- in third quarter 2003, the acquisition of the remaining interests in Foothills for approximately \$105 million,
- in third quarter 2003, the increase in interest in Portland Natural Gas Transmission System (PNGTS) to 43.42 per cent for approximately US\$19.3 million, and
- in first quarter 2003, the acquisition of a 31.6 per cent interest in Bruce Power for approximately \$409 million including closing adjustments.

In addition, TCPL assumed \$154 million of debt on the Foothills acquisition.

### **Financing Activities**

TCPL used a portion of its cash resources to fund long-term debt maturities of \$386 million in the nine months ended September 30, 2003. In June 2003, the company issued U.S. \$350 million of ten year notes bearing interest at 4.00 per cent. For the nine months ended September 30, 2003, outstanding notes payable increased by \$279 million, while cash and short-term investments also increased by \$195 million.

In July 2003, TCPL redeemed all of its outstanding US\$160 million, 8.75 per cent Junior Subordinated Debentures, also known as Cumulative Trust Originated Preferred Securities. Holders of these debentures received US\$25.0122 per US\$25.00 of the principal amount, which included accrued and unpaid interest to the redemption date.

### *Dividends*

On October 28, 2003, TCPL's Board of Directors declared a dividend for the quarter ending December 31, 2003 in an aggregate amount equal to the aggregate quarterly dividend to be paid on January 30, 2004 by TransCanada Corporation on its issued and outstanding common shares as at the close of business on December 31, 2003. The Board also declared regular dividends on TCPL's preferred shares.

### **Risk Management**

With respect to continuing operations, TCPL's market, financial and counterparty risks remain substantially unchanged since December 31, 2002. See explanation for discontinued operations' risk management activity under Results of Operations – Discontinued Operations. For further information on risks, refer to Management's Discussion and Analysis in TransCanada PipeLines Limited's 2002 Annual Report.

The processes within TCPL's risk management function are designed to ensure that risks are properly identified, quantified, reported and managed. Risk management strategies, policies and limits are designed to ensure TCPL's risk-taking is consistent with its business objectives and risk tolerance. Risks are managed within limits ultimately established by the Board of Directors and implemented by senior management, monitored by risk management personnel and audited by internal audit personnel.

TCPL manages market and financial risk exposures in accordance with its corporate market risk policy and position limits. The company's primary market risks result from volatility in commodity

prices, interest rates and foreign currency exchange rates. TCPL's counterparty risk exposure results from the failure of a counterparty to meet its contractual financial obligations, and is managed in accordance with its corporate counterparty risk policy.

## **Controls and Procedures**

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

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

## **Critical Accounting Policy**

TCPL's critical accounting policy, which remains unchanged since December 31, 2002, is the use of regulatory accounting for its regulated operations. For further information on this critical accounting policy, refer to Management's Discussion and Analysis in TransCanada PipeLines Limited's 2002 Annual Report.

## **Critical Accounting Estimates**

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the company's consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. TCPL's critical accounting estimates from December 31, 2002 continue to be depreciation expense and certain deferred after-tax gains and remaining obligations related to the Gas Marketing business. For further information on these critical accounting estimates, refer to Results of Operations – Discontinued Operations and to Management's Discussion and Analysis in TransCanada PipeLines Limited's 2002 Annual Report.

## **Outlook**

The company expects higher Power net earnings in 2003 than originally anticipated as a result of the contribution from Bruce Power and the settlement with a former counterparty. The outlook for the Alberta System has improved since December 2002 as discussed under Results of Operations in the Transmission segment. The outlook for the company's other segments remains relatively unchanged since December 31, 2002. For further information on outlook, refer to Management's Discussion and Analysis in TransCanada PipeLines Limited's 2002 Annual Report.

The company's net earnings and cash flow combined with a strong balance sheet continue to provide the financial flexibility for TCPL to make disciplined investments in its core businesses of Transmission and Power. The strengthening of the Canadian dollar compared to the U.S. dollar in 2003 has not and is not expected to significantly impact TCPL's consolidated financial results. Credit ratings on TCPL's senior unsecured debt assigned by Dominion Bond Rating Service Limited (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's are currently A, A2 and A-,

respectively. DBRS and Moody's both maintain a 'stable' outlook on their ratings and Standard & Poor's maintains a 'negative' outlook on its rating.

## **Other Recent Developments**

### **Transmission**

#### *Wholly-Owned Pipelines*

##### *Alberta System*

In July 2003, TCPL, along with other utilities, filed evidence in the Generic Cost of Capital Proceeding with the Alberta Energy and Utilities Board (EUB). TCPL has requested a return on capital of 11 per cent based on a deemed common equity of 40 per cent in its Generic Cost of Capital Application. The EUB expects to adopt a standardized approach to determining the rate of return and capital structure for all utilities under its jurisdiction at the conclusion of this proceeding. This hearing is scheduled to commence on November 12, 2003.

In September 2003, TCPL filed with the EUB the first phase of the 2004 General Rate Application (GRA), consisting of evidence in support of the applied for rate base and revenue requirement. In the GRA, the company applied for a composite depreciation rate of 4.13 per cent compared to the current depreciation rate of 4.00 per cent. An EUB hearing to consider the 2004 GRA Phase One application is scheduled to commence on March 16, 2004 in Calgary. Phase Two of the application, dealing primarily with rate design and services, is expected to be filed with the EUB on November 14, 2003.

##### *Canadian Mainline*

In July 2003, the NEB issued its decision on TCPL's 2003 Mainline Tolls Application. In this decision, the NEB approved all key components of the application including an increase in the composite depreciation rate from 2.89 per cent to 3.42 per cent, introduction of a new tolling zone in southwestern Ontario, an increase to the Interruptible Transportation bid floor price and continuation of the Fuel Gas Incentive Program. The rates included in this decision are still considered interim pending the disposition of TCPL's appeal to the Federal Court of Appeal regarding the NEB's Review and Variance (RH-R-1-2002) decision.

In July 2003, TCPL filed a notice of appeal with the Federal Court of Appeal and served notice of appeal on interested parties of the Review and Variance application. The case is expected to be heard in an oral hearing late this year or in the first quarter of 2004.

##### *Foothills*

In August 2003, TCPL completed its purchase of the remaining interests of Foothills and its subsidiaries from Duke for \$259 million, including assumption of \$154 million of Duke's proportionate share of Foothills' corporate debt. As a result, TCPL now owns 100 per cent of Foothills and its subsidiaries. Foothills and its subsidiaries hold the certificates to build the Canadian portion of the Alaska Highway Project which would bring Prudhoe Bay natural gas from Alaska to markets in Canada and the United States. The "prebuild" portion of this project has been operating for more than 20 years, moving Alberta gas to U.S. markets in advance of flows from Alaska. Subsidiaries of Foothills and TCPL also hold certificates to build the Alaskan section of this project.

## *North American Pipeline Ventures*

### *Portland*

In third quarter 2003, TCPL exercised its contractual right to increase its ownership interest in PNGTS to 43.42 per cent from 33.29 per cent. On September 29, 2003, the additional interest was purchased from DTE East Coast Pipelines Company for approximately US\$47.1 million, including approximately US\$27.8 million of assumed debt.

On October 18, 2003, TCPL entered into an agreement to acquire El Paso Corporation's (El Paso) 29.64 per cent interest in PNGTS for approximately US\$137.2 million, including approximately US\$80.7 million of assumed debt. The transaction is expected to be completed by the end of this year and is subject to the satisfaction of various closing conditions including the right of first offer provisions.

Under the terms of the PNGTS partnership agreement, the other PNGTS partner, Gaz Métropolitain and Company, Limited Partnership (Gaz Métropolitain), has the right to acquire its pro rata share of El Paso's offered interest. This right is exercisable for a period of thirty days after receipt of formal notice from El Paso. Should this right of first offer not be exercised, TCPL's interest in Portland will increase to 73.06 per cent from 43.42 per cent. Should Gaz Métropolitain's right of first offer be exercised, TCPL's total interest will increase to 61.71 per cent. The purchase price paid by TCPL would be reduced proportionately.

PNGTS operates a 471 kilometer, 220 million cubic feet per day interstate natural gas pipeline which connects with the Trans Québec & Maritimes Pipeline (50 per cent owned by TCPL) near Pittsburg, New Hampshire.

### *Iroquois*

The Eastchester expansion project is experiencing construction delays, which has resulted in a postponement of the expected in-service date.

### *Liquefied Natural Gas*

In September 2003, TCPL and ConocoPhillips Company announced the Fairwinds partnership to jointly evaluate a site in Harpswell, Maine for the development of a liquefied natural gas (LNG) regasification facility. The residents of the Town of Harpswell have been asked to vote on leasing a town-owned site for the facility. If leasing of the site is approved and necessary regulatory approvals are subsequently received, construction of the LNG facility could begin in 2006 with the facility becoming operational in 2009. Natural gas from the LNG facility would be delivered by pipeline to markets in the northeast U.S.

## **Power**

In August 2003, TCPL successfully commenced operations under a fee for service power purchase arrangement with the Ontario government through the Ontario Electricity Financial Corporation (OEFC). Under the agreement, TCPL will supply 110 MW from a temporary facility adjacent to the Canadian Mainline near Cobourg, Ontario, for a period ending as early as December 31, 2003. The

OEFC retains an option to extend the service contract until April 30, 2004. The Cobourg facility was fully functional and in-service August 10, 2003.

A power blackout affecting much of Ontario and the northeastern U.S. on August 14, 2003 created unplanned outages for some of TCPL's power plants. Most facilities were brought back on-line within hours and TCPL was also able to deliver additional power to the Ontario market through its Cobourg facility. This power blackout did not have a material impact on TCPL's net earnings.

On October 24, 2003, TCPL and Grandview Cogeneration Corporation, an affiliate of Irving Oil Limited (Irving), announced an agreement to build a 90 MW natural gas-fired cogeneration power plant in Saint John, New Brunswick at an estimated capital cost of \$85 million. This cogeneration facility will be developed and owned by TCPL. Under a 20 year tolling arrangement, Irving will provide fuel for the plant and contract for 100 per cent of the plant's heat and electricity output. Pending regulatory approvals construction of the plant is expected to begin in November 2003 with an anticipated in-service date by the end of 2004.

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### **Forward-Looking Information**

Certain information in this quarterly report is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include, among other things, the ability of TCPL to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, regulatory decisions, competitive factors in the pipeline and power industry sectors, and the prevailing economic conditions in North America. For additional information on these and other factors, see the reports filed by TCPL with Canadian securities regulators and with the United States Securities and Exchange Commission. TCPL disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Consolidated Income**

| (unaudited)<br>(millions of dollars)                             | Three months ended September 30 |            | Nine months ended September 30 |              |
|--|---------------------------------|------------|--------------------------------|--------------|
|  | 2003                            | 2002       | 2003                           | 2002         |
| <b>Revenues</b>  | <b>1,391</b>                    | 1,285      | <b>4,038</b>                   | 3,876        |
| <b>Operating Expenses</b>  |                                 |            |                                |              |
| Cost of sales  | 164                             | 163        | 533                            | 466          |
| Other costs and expenses   | 439                             | 386        | 1,248                          | 1,123        |
| Depreciation   | 260                             | 211        | 692                            | 631          |
|  | <b>863</b>                      | <b>760</b> | <b>2,473</b>                   | <b>2,220</b> |
| <b>Operating Income</b>  | <b>528</b>                      | 525        | <b>1,565</b>                   | 1,656        |
| <b>Other Expenses/(Income)</b>                                   |                                 |            |                                |              |
| Financial charges  | 210                             | 213        | 619                            | 652          |
| Financial charges of joint ventures                              | 18                              | 22         | 63                             | 67           |
| Equity income  | (67)                            | (8)        | (151)                          | (26)         |
| Interest and other income  | (9)                             | (14)       | (44)                           | (36)         |
|  | <b>152</b>                      | <b>213</b> | <b>487</b>                     | <b>657</b>   |
| <b>Income from Continuing Operations before<br/>Income Taxes</b> | <b>376</b>                      | 312        | <b>1,078</b>                   | 999          |
| <b>Income Taxes - Current and Future</b>                         | <b>164</b>                      | 123        | <b>427</b>                     | 389          |
| <b>Net Income from Continuing Operations</b>                     | <b>212</b>                      | 189        | <b>651</b>                     | 610          |
| <b>Net Income from Discontinued Operations</b>                   | <b>50</b>                       | -          | <b>50</b>                      | -            |
| <b>Net Income</b>  | <b>262</b>                      | 189        | <b>701</b>                     | 610          |
| <b>Preferred Securities Charges</b>                              | <b>8</b>                        | 8          | <b>26</b>                      | 26           |
| <b>Preferred Share Dividends</b>                                 | <b>6</b>                        | 6          | <b>17</b>                      | 17           |
| <b>Net Income Applicable to Common Shares</b>                    | <b>248</b>                      | 175        | <b>658</b>                     | 567          |
| <b>Net Income Applicable to Common Shares</b>                    |                                 |            |                                |              |
| Continuing operations  | 198                             | 175        | 608                            | 567          |
| Discontinued operations  | 50                              | -          | 50                             | -            |
|  | <b>248</b>                      | <b>175</b> | <b>658</b>                     | <b>567</b>   |

See accompanying Notes to the Consolidated Financial Statements.

## Consolidated Cash Flows

| (unaudited)<br>(millions of dollars)                          | Three months ended September 30 |       | Nine months ended September 30 |       |
|---|---------------------------------|-------|--------------------------------|-------|
|   | 2003                            | 2002  | 2003                           | 2002  |
| <b>Cash Generated From Operations</b>                         |                                 |       |                                |       |
| Net income from continuing operations                         | 212                             | 189   | 651                            | 610   |
| Depreciation  | 260                             | 211   | 692                            | 631   |
| Future income taxes   | 121                             | 71    | 248                            | 180   |
| Equity income in excess of distributions received             | (66)                            | (1)   | (125)                          | (6)   |
| Other   | (11)                            | (3)   | (59)                           | (55)  |
| Funds generated from continuing operations                    | 516                             | 467   | 1,407                          | 1,360 |
| Decrease/(Increase) in operating working capital              | 65                              | (12)  | 90                             | (68)  |
| Net cash provided by continuing operations                    | 581                             | 455   | 1,497                          | 1,292 |
| Net cash (used in)/provided by discontinued operations        | 67                              | (21)  | (17)                           | 30    |
|   | 648                             | 434   | 1,480                          | 1,322 |
| <b>Investing Activities</b>                                   |                                 |       |                                |       |
| Capital expenditures  | (81)                            | (182) | (264)                          | (397) |
| Acquisitions, net of cash acquired                            | (135)                           | (19)  | (547)                          | (19)  |
| Disposition of assets   | -                               | -     | 5                              | -     |
| Deferred amounts and other                                    | (168)                           | 62    | (238)                          | (12)  |
| Net cash used in investing activities                         | (384)                           | (139) | (1,044)                        | (428) |
| <b>Financing Activities</b>                                   |                                 |       |                                |       |
| Dividends and preferred securities charges                    | (150)                           | (140) | (438)                          | (407) |
| Notes payable issued/(repaid), net                            | 361                             | 12    | 279                            | (228) |
| Long-term debt issued   | -                               | -     | 475                            | -     |
| Reduction of long-term debt                                   | (327)                           | (114) | (386)                          | (230) |
| Non-recourse debt of joint ventures issued                    | 14                              | 19    | 60                             | 24    |
| Reduction of non-recourse debt of joint ventures              | (7)                             | (9)   | (55)                           | (51)  |
| Redemption of junior subordinated debentures                  | (218)                           | -     | (218)                          | -     |
| Common shares issued  | -                               | 12    | 18                             | 43    |
| Net cash (used in)/provided by financing activities           | (327)                           | (220) | (265)                          | (849) |
| <b>(Decrease)/Increase in Cash and Short-Term Investments</b> | (63)                            | 75    | 171                            | 45    |
| <b>Cash and Short-Term Investments</b>                        |                                 |       |                                |       |
| Beginning of period   | 446                             | 269   | 212                            | 299   |
| <b>Cash and Short-Term Investments</b>                        |                                 |       |                                |       |
| End of period   | 383                             | 344   | 383                            | 344   |
| <b>Supplementary Cash Flow Information</b>                    |                                 |       |                                |       |
| Income taxes paid   | 68                              | 50    | 192                            | 205   |
| Interest paid   | 186                             | 217   | 618                            | 639   |

See accompanying Notes to the Consolidated Financial Statements.

## Consolidated Balance Sheet

| (millions of dollars)                                  | September 30, 2003<br>(unaudited) | December 31,<br>2002 |
|--|-----------------------------------|----------------------|
| <b>ASSETS</b>  |                                   |                      |
| <b>Current Assets</b>                                  |                                   |                      |
| Cash and short-term investments                        | 383                               | 212                  |
| Accounts receivable                                    | 548                               | 691                  |
| Inventories  | 174                               | 178                  |
| Other  | 83                                | 102                  |
|  | <u>1,188</u>                      | <u>1,183</u>         |
| <b>Long-Term Investments</b>                           | 792                               | 291                  |
| <b>Plant, Property and Equipment</b>                   | 17,076                            | 17,496               |
| <b>Other Assets</b>                                    | 1,246                             | 946                  |
|  | <u>20,302</u>                     | <u>19,916</u>        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>            |                                   |                      |
| <b>Current Liabilities</b>                             |                                   |                      |
| Notes payable  | 576                               | 297                  |
| Accounts payable                                       | 813                               | 902                  |
| Accrued interest                                       | 229                               | 227                  |
| Current portion of long-term debt                      | 526                               | 517                  |
| Current portion of non-recourse debt of joint ventures | 20                                | 75                   |
| Provision for loss on discontinued operations          | 168                               | 234                  |
|  | <u>2,332</u>                      | <u>2,252</u>         |
| <b>Deferred Amounts</b>                                | 424                               | 353                  |
| <b>Long-Term Debt</b>                                  | 9,233                             | 8,815                |
| <b>Future Income Taxes</b>                             | 434                               | 226                  |
| <b>Non-Recourse Debt of Joint Ventures</b>             | 803                               | 1,222                |
| <b>Junior Subordinated Debentures</b>                  | 21                                | 238                  |
|  | <u>13,247</u>                     | <u>13,106</u>        |
| <b>Shareholders' Equity</b>                            |                                   |                      |
| Preferred securities                                   | 673                               | 674                  |
| Preferred shares                                       | 389                               | 389                  |
| Common shares  | 4,632                             | 4,614                |
| Contributed surplus                                    | 267                               | 265                  |
| Retained earnings                                      | 1,123                             | 854                  |
| Foreign exchange adjustment                            | (29)                              | 14                   |
|  | <u>7,055</u>                      | <u>6,810</u>         |
|  | <u>20,302</u>                     | <u>19,916</u>        |

See accompanying Notes to the Consolidated Financial Statements.



**Consolidated Retained Earnings**

| (unaudited)<br>(millions of dollars) | Nine months ended September 30 |            |
|--------------------------------------|--------------------------------|------------|
|                                      | 2003                           | 2002       |
| Balance at beginning of period       | 854                            | 586        |
| Net income                           | 701                            | 610        |
| Preferred securities charges         | (26)                           | (26)       |
| Preferred share dividends            | (17)                           | (17)       |
| Common share dividends               | (389)                          | (359)      |
|                                      | <b>1,123</b>                   | <b>794</b> |

See accompanying Notes to the Consolidated Financial Statements.

## **Notes to Consolidated Financial Statements (Unaudited)**

### **1. Basis of Presentation**

Pursuant to a plan of arrangement, effective May 15, 2003, common shares of TransCanada PipeLines Limited (TCPL or the company) were exchanged on a one-to-one basis for common shares of TransCanada Corporation (TransCanada). As a result, TCPL became a wholly-owned subsidiary of TransCanada. The consolidated financial statements for the nine months ended September 30, 2003 include the accounts of TCPL and the consolidated accounts of all its subsidiaries.

### **2. Significant Accounting Policies**

The consolidated financial statements of TCPL have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies applied are consistent with those outlined in TCPL's annual financial statements for the year ended December 31, 2002. These consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. These consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements included in TransCanada PipeLines Limited's 2002 Annual Report. Amounts are stated in Canadian dollars unless otherwise indicated. Certain comparative figures have been reclassified to conform with the current period's presentation.

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

### 3. Segmented Information

| Three months ended September 30<br>(unaudited - millions of dollars) | Transmission |       | Power |       | Corporate |      | Total      |            |
|--|--------------|-------|-------|-------|-----------|------|------------|------------|
|  | 2003         | 2002  | 2003  | 2002  | 2003      | 2002 | 2003       | 2002       |
| Revenues   | 1,070        | 971   | 321   | 314   | -         | -    | 1,391      | 1,285      |
| Cost of sales  | -            | -     | (164) | (163) | -         | -    | (164)      | (163)      |
| Other costs and expenses   | (339)        | (301) | (99)  | (81)  | (1)       | (4)  | (439)      | (386)      |
| Depreciation   | (240)        | (196) | (19)  | (15)  | (1)       | -    | (260)      | (211)      |
| Operating income/(loss)  | 491          | 474   | 39    | 55    | (2)       | (4)  | 528        | 525        |
| Financial and preferred equity charges                               | (198)        | (202) | (2)   | (3)   | (24)      | (22) | (224)      | (227)      |
| Financial charges of joint ventures                                  | (18)         | (22)  | -     | -     | -         | -    | (18)       | (22)       |
| Equity income  | 29           | 8     | 38    | -     | -         | -    | 67         | 8          |
| Interest and other income  | 3            | 6     | 2     | 4     | 4         | 4    | 9          | 14         |
| Income taxes   | (147)        | (110) | (27)  | (21)  | 10        | 8    | (164)      | (123)      |
| Continuing operations  | 160          | 154   | 50    | 35    | (12)      | (14) | 198        | 175        |
| Discontinued operations  |              |       |       |       |           |      | 50         | -          |
| <b>Net Income Applicable to<br/>Common Shares</b>                    |              |       |       |       |           |      | <b>248</b> | <b>175</b> |

| Nine months ended September 30<br>(unaudited - millions of dollars) | Transmission |       | Power |       | Corporate |      | Total      |            |
|---|--------------|-------|-------|-------|-----------|------|------------|------------|
|   | 2003         | 2002  | 2003  | 2002  | 2003      | 2002 | 2003       | 2002       |
| Revenues  | 2,974        | 2,914 | 1,064 | 962   | -         | -    | 4,038      | 3,876      |
| Cost of sales   | -            | -     | (533) | (466) | -         | -    | (533)      | (466)      |
| Other costs and expenses  | (944)        | (847) | (299) | (268) | (5)       | (8)  | (1,248)    | (1,123)    |
| Depreciation  | (629)        | (586) | (62)  | (45)  | (1)       | -    | (692)      | (631)      |
| Operating income/(loss)   | 1,401        | 1,481 | 170   | 183   | (6)       | (8)  | 1,565      | 1,656      |
| Financial and preferred equity charges                              | (588)        | (616) | (7)   | (9)   | (67)      | (70) | (662)      | (695)      |
| Financial charges of joint ventures                                 | (62)         | (67)  | (1)   | -     | -         | -    | (63)       | (67)       |
| Equity income   | 59           | 26    | 92    | -     | -         | -    | 151        | 26         |
| Interest and other income   | 11           | 12    | 10    | 11    | 23        | 13   | 44         | 36         |
| Income taxes  | (359)        | (345) | (88)  | (69)  | 20        | 25   | (427)      | (389)      |
| Continuing operations   | 462          | 491   | 176   | 116   | (30)      | (40) | 608        | 567        |
| Discontinued operations   |              |       |       |       |           |      | 50         | -          |
| <b>Net Income Applicable to<br/>Common Shares</b>                   |              |       |       |       |           |      | <b>658</b> | <b>567</b> |

| Total Assets<br>(millions of dollars) | September 30, 2003<br>(unaudited) | December 31,<br>2002 |
|---------------------------------------|-----------------------------------|----------------------|
| Transmission                          | 16,667                            | 16,979               |
| Power                                 | 2,675                             | 2,292                |
| Corporate                             | 830                               | 457                  |
| Continuing operations                 | 20,172                            | 19,728               |
| Discontinued operations               | 130                               | 188                  |
|                                       | <b>20,302</b>                     | <b>19,916</b>        |

#### 4. Junior Subordinated Debentures

On July 3, 2003, the company redeemed the US\$160 million 8.75 per cent Junior Subordinated Debentures. Holders of these debentures received US\$25.0122 per US\$25.00 of the principal amount, which included accrued and unpaid interest to the redemption date, without premium or penalty.

#### 5. Risk Management and Financial Instruments

The following represents the significant changes to the company's risk management and financial instruments since December 31, 2002.

##### *Foreign Investments*

At September 30, 2003 and December 31, 2002, the company had foreign currency denominated assets and liabilities which created an exposure to changes in exchange rates. The company uses foreign currency derivatives to hedge this net exposure on an after-tax basis. The company's portfolio of foreign investment derivatives is comprised of contracts for periods up to four years. The fair values shown in the table below for foreign exchange risk are offset by translation gains or losses on the net assets and are recorded in the foreign exchange adjustment in Shareholders' Equity.

| Asset/(Liability)<br>(millions of dollars) | September 30, 2003<br>(unaudited) |               | December 31, 2002  |               |
|--|-----------------------------------|---------------|--------------------|---------------|
|  | Carrying<br>Amount                | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
|  | <b>Foreign Exchange Value</b>     |               |                    |               |
| Cross-currency swaps                       |                                   |               |                    |               |
| U.S. dollars                               | 51                                | 51            | (8)                | (8)           |

At September 30, 2003, the notional principal amount of cross-currency swaps was US\$250 million (December 31, 2002 - US\$350 million).

| Reconciliation of Foreign Exchange Adjustment<br>(millions of dollars) | September 30, 2003<br>(unaudited) | December 31,<br>2002 |
|--|-----------------------------------|----------------------|
| Balance at beginning of period   | 14                                | 13                   |
| Translation (losses)/gains on foreign currency denominated net assets  | (115)                             | 3                    |
| Foreign exchange gains/(losses) on derivatives, and other              | 72                                | (2)                  |
| Balance at end of period   | (29)                              | 14                   |

## 6. Discontinued Operations

In July 2001, the Board of Directors approved a plan to dispose of the company's Gas Marketing business. In December 1999, the Board of Directors approved a plan (December Plan) to dispose of the company's International, Canadian Midstream and certain other businesses. The company's disposals under both plans were substantially completed at December 31, 2001.

The company mitigated its exposures associated with the contingent liabilities related to the divested gas marketing operations by obtaining from a subsidiary of Mirant Corporation (Mirant) certain remaining contracts in June and July 2003, and simultaneously hedging the market price exposures of these contracts. The company remains contingently liable for certain residual obligations.

At September 30, 2003, TCPL reviewed the provision for loss on discontinued operations and the deferred gain, taking into consideration the impacts of Mirant's filing for bankruptcy protection in July 2003 and the mitigation of the contingent liabilities referred to above. As a result of this review, \$50 million of the original approximately \$100 million after-tax deferred gain was recognized in income in third quarter 2003. In addition, TCPL concluded that the remaining provision was adequate, and the deferral of the remaining approximately \$50 million of deferred after-tax gains related to the Gas Marketing business was appropriate.

Net income from discontinued operations was \$50 million, net of \$29 million in taxes, for the three and nine months ended September 30, 2003 compared to nil for the same periods in 2002. The provision for loss on discontinued operations at September 30, 2003 was \$168 million (December 31, 2002 - \$234 million). The net assets of discontinued operations included in the consolidated balance sheet at September 30, 2003 were \$94 million (December 31, 2002 - \$90 million).

## 7. Investment in Bruce Power L.P.

On February 14, 2003, TCPL acquired a 31.6 per cent interest in Bruce Power L.P. (Bruce Power) for approximately \$409 million, including closing adjustments. As part of the acquisition, TCPL also funded a one-third share (\$75 million) of a \$225 million accelerated deferred rent payment to Ontario Power Generation, which is recorded in Other Assets.

The purchase price of TCPL's 31.6 per cent interest in Bruce Power has been allocated as follows.

### Purchase Price Allocation

(unaudited)

(millions of dollars)

|   |       |
|---|-------|
| Net book value of assets acquired                                 | 281   |
| Valuation of Bruce Power sales agreements                         | (131) |
| Excess of fair value over book value of other net assets acquired | 259   |
|   | 409   |

The amount allocated to the investment in Bruce Power includes an excess purchase price of approximately \$259 million over TCPL's share of the book value of the underlying net assets, other than

the Bruce Power sales agreements. This amount will be primarily assigned to the capital lease of the Bruce plant and will be amortized on a straight-line basis over the lease term which extends to 2018, resulting in an annual amortization expense of approximately \$16 million. The value, being \$131 million, allocated to the Bruce Power sales agreements will be amortized to income over the remaining term of the underlying sales contracts. The approximate amount of income relating to the amortization of the fair value allocated to these contracts is: 2003 - \$38 million; 2004 - \$37 million; 2005 - \$25 million; 2006 - \$29 million; and 2007 - \$2 million. The investment in Bruce Power L.P. is recorded in Long-Term Investments.

## 8. Commitment

On June 18, 2003, an agreement was reached among the Mackenzie Delta gas producers, the Aboriginal Pipeline Group (APG) and TCPL which governs TCPL's role in the Mackenzie Gas Pipeline Project. The Mackenzie Gas Pipeline Project would result in a natural gas pipeline being constructed from Inuvik, Northwest Territories to the northern border of Alberta, where it would then connect with the Alberta System. Under the agreement, TCPL has agreed to finance the APG for its one-third share of project definition phase costs; this share is estimated to be \$80 million over three years. If the pipeline is approved and becomes operational, this loan will be repaid from APG's share of pipeline revenues.

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

Investor Relations, at 1-800-361-6522 (Canada and U.S. Mainland) or direct dial David Moneta/Debbie Stein at (403) 920-7911. The investor fax line is (403) 920-2457. Media Relations: Glenn Herchak/Hejdi Feick at (403) 920-7877.

Visit TransCanada's Internet site at: <http://www.transcanada.com>