TRANSCANADA PIPELINES LIMITED 1998 ANNUAL REPORT

AT TRANSCANADA, WE FIND SAFE, ECONOMICAL ENERGY SOLUTIONS FOR OUR CUSTOMERS ACROSS NORTH AMERICA AND AROUND THE WORLD. WHETHER WE'RE NEEDED TO TRANSPORT NATURAL GAS OR CRUDE OIL, PROCESS OR MARKET AN ENERGY PRODUCT, OR DEVELOP THE INFRASTRUCTURE TO SERVE AN ENERGY-HUNGRY WORLD, WE MAKE IT LOOK EASY.

IN OUR 1998 ANNUAL REPORT, YOU'RE GOING TO MEET SOME OF THE PEOPLE WHO HELP DEVELOP TRANSCANADA'S ENERGY SOLUTIONS. TALENTED PEOPLE WHO RESPOND TO TOUGH PROBLEMS WITH CREATIVE, OCCASIONALLY SURPRISING, ANSWERS. WE THINK YOU'LL ENJOY LEARNING A LITTLE MORE ABOUT HOW WE DEVELOP ENERGY SOLUTIONS; IT'S WHAT WE DO BEST.

About the Cover HERE ARE SEVERAL MEMBERS OF TRANSCANADA'S ENERGY SOLUTIONS TEAM. YOU CAN MEET THEM ON PAGES 11, 13 AND 42.

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HOWARD ROSS LIBRARY OF MANAGEMENT
McGILL UNIVERSITY

Corporate Profile TRANSCANADA IS A LEADING NORTH AMERICAN ENERGY SOLUTIONS COMPANY WITH BUSINESSES IN TRANSMISSION, MARKETING AND PROCESSING. THE COMPANY, THROUGH ITS $26 BILLION ASSET BASE, PROVIDES HIGH VALUE-ADDED ENERGY SERVICE SOLUTIONS TO THE NORTH AMERICAN AND INTERNATIONAL MARKETPLACES. COMMON SHARES TRADE UNDER THE SYMBOL TRP, PRIMARILY ON THE TORONTO, MONTREAL AND NEW YORK STOCK EXCHANGES.

FINANCIAL HIGHLIGHTS

(millions of dollars except per share amounts)	**1998**	1997	1996
Revenues	**17,228**	16,783	12,701
Net Income From Continuing Operations			
Before unusual charges	**646**	678	634
After unusual charges	**426**	580	634
Net Income Per Share From Continuing Operations			
Before unusual charges	**$1.25**	$1.36	$1.30
After unusual charges	**$0.77**	$1.14	$1.30
Funds Generated From Operations	**1,241**	1,237	1,251
Capital Expenditures			
Energy transmission	**2,415**	1,806	1,288
Other	**967**	622	537
Total Assets	**25,561**	23,294	20,827
Total Shareholders' Equity	**7,235**	8,278	7,868

ntegrated energy solutions on a worldwide basis.

Our energy transmission assets include the wholly-owned Alberta System, Canadian Mainline, and ANG Pipeline, and ownership interests in the Great Lakes, Northern Border, Iroquois, Tuscarora, Foothills, TQM and Portland natural gas pipelines and the Express crude oil pipeline.

Strategy We are resolved to remain the low-cost energy transporter of choice to premium markets across North America. We will do this by simplifying our business practices, reducing duplication, tightening our management structure, and exploring innovative, economical solutions to meet producer and consumer needs.

108 million barrels of crude oil, 87 million barrels of refined products and 22 million barrels of natural gas liquids in Canada and the United States.

Strategy We are expanding the services we offer in our energy marketing business throughout North America. This not only contributes to net income but also enables us to gather intelligence that helps us to evaluate the potential of developing more profitable energy businesses.

Strategy In our Canadian gas gathering and processing businesses, we are adding value to our existing extensive asset position as a means of providing cost-effective processing solutions to our customers. In the southern United States, we are working to improve and strengthen our gas processing business to ensure it will return to profitability and be ready to capture opportunities we believe will be presented by renewed exploration and production activities in the region.

We are working to become the competitive generator and marketer of electrical energy in core market regions by tapping our energy transmission and processing expertise to help us generate environmentally clean, economical and reliable electricity.

To meet growing world-wide demand for thermal carbon black, we are expanding Cancarb, our specialty chemical business located in Medicine Hat, Alberta.

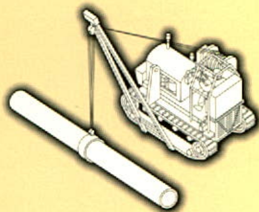
TransCanada has international businesses located in Colombia, Venezuela, Argentina, Chile, Mexico, The Netherlands, Barbados, Singapore, Indonesia, Malaysia, Tanzania, Thailand and Australia.

Strategy Although the weak energy prices and volatility in world financial markets which characterized 1998 are expected to continue into 1999, acquisitions and greenfield development in recent years provide TransCanada with a solid base for continued strong earnings growth. Our strengths in energy transmission and processing, strong partner and government relationships, established beachheads in key markets and financial and analytical capabilities give us a strong basis from which to thrive, even in challenging markets. TransCanada has established a set of key international businesses that provide a foundation for prudent and managed growth in the future.

MISSION STATEMENT

Our vision is to be the pre-eminent provider of high, value-adde

ENERGY TRANSMISSION



Description In most of Canada and much of North America, TransCanada's extensive network of pipelines is the link between the energy producer and the energy consumer.

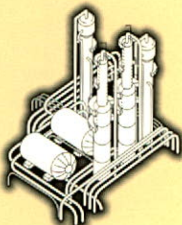
Our pipeline system originates in an extraordinary resource – the Western Canadian Sedimentary Basin (WCSB). Boasting one of the lowest finding and development costs for natural gas in all of North America, the WCSB is one of the continent's most competitive sources of energy. And, for most of the natural gas leaving the WCSB, TransCanada is the conduit. Our Alberta System gathers natural gas from the wellhead and connects to TransCanada's Canadian Mainline, ANG Pipeline and an intricate web of other pipelines, delivering energy to premium markets in eastern Canada, California, and the eastern and midwestern United States.

ENERGY MARKETING

Description Our marketing team buys and sells natural gas, natural gas liquids, crude oil and refined products and helps shield our processing businesses from shifting market conditions. Our marketers help predict where and when energy demand will surge or contract, and apply their risk management techniques to hedge against commodity price fluctuations.

Increasingly, TransCanada competes for the product we transport through our pipelines or process in our facilities. We strive to deliver energy to consumers quickly and economically. We deploy our marketing team to gather competitive intelligence on market trends. In 1998, our marketing businesses sold 2.0 trillion cubic feet of natural gas,

ENERGY PROCESSING



Description Over the years, as we have gathered and transported energy from the WCSB, we have come to realize the potential profit in helping to transform that raw material into secondary products. Today we gather and process natural gas for the producing industry and we extract natural gas liquids. TransCanada produces specialty chemicals and electricity in Canada and the United States. By providing these services, we enable producers to get back to the business of finding and extracting hydrocarbons.

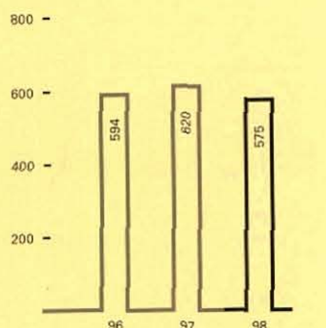
Our energy processing businesses consist of Canadian and U.S. gas gathering and processing, specialty chemicals manufacturing and power operations.

INTERNATIONAL

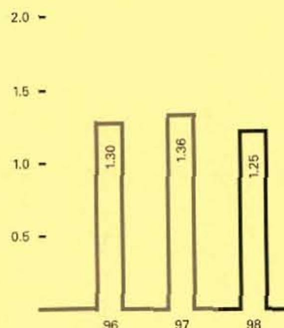
Description TransCanada provides energy solutions to customers in target regions throughout the world.

In-house, we can tap the services of product specialists in natural gas, natural gas liquids, crude oil, and refined products, and experts in pipeline and processing design, construction and operation. We also provide consulting and contracting services to assist industrializing countries with the development of their indigenous energy resources. Locally and internationally, we work with our customers and partners to provide safe, reliable and economical energy solutions, while protecting and building

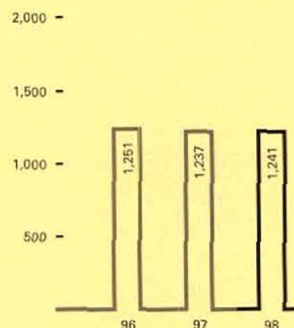
TRANSCANADA ACHIEVED NET INCOME PER SHARE FROM CONTINUING OPERATIONS, BEFORE UNUSUAL CHARGES, OF $1.25 IN 1998. TOTAL ASSETS HAVE GROWN TO $25.6 BILLION DURING 1998, REPRESENTING A 10 PER CENT INCREASE OVER 1997. WE ARE MOVING FORWARD AS A NEW, VIBRANT ENERGY SOLUTIONS COMPANY WITH THE FINANCIAL STRENGTH AND ASSET BASE TO TAKE ADVANTAGE OF THE OPPORTUNITIES OFFERED BY OUR CURRENT BUSINESS ENVIRONMENT.



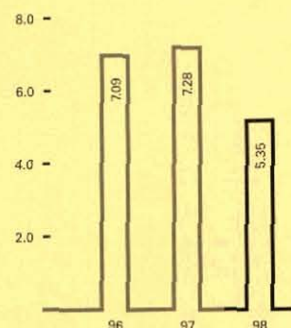
(millions of dollars)
Net Income to Common Shares *from Continuing Operations* before Unusual Charges



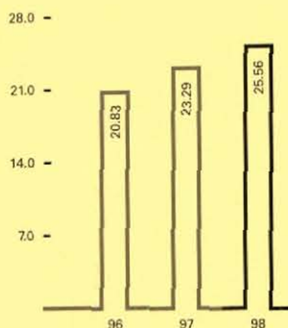
(dollars)
Net Income Per Share from Continuing Operations before Unusual Charges



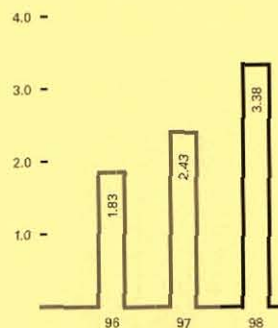
(millions of dollars)
Funds Generated from Operations



(billions of dollars)
Common Shareholders' Equity decreased in 1998 primarily as a result of the split off of the commodity chemicals business



(billions of dollars)
Total Assets *increased* 10% compared to 1997



(billions of dollars)
Capital Expenditures increased 39% compared to 1997

Q & A: EXPLORING CORPORATE STRATEGY

Q: With earnings per share of $1.25 in 1998 before unusual charges, the current dividend rate of $1.12 per share represents a 90 per cent payout ratio. Can you maintain the dividend at this level?

A: Yes. As we deliver on our target of low double-digit earnings growth, the payout ratio will decline. As well, approximately 35 per cent of the dividends paid are reinvested in additional shares of the company through the dividend reinvestment and share purchase plan, making the payout ratio significantly less than it appears.

1998 was an extraordinary, challenging year for TransCanada. Extraordinary because we completed the largest merger in Canadian corporate history, while leading the transformation of the North American energy industry. Challenging because we rationalized and restructured our energy businesses to make them more competitive on the continent and around the world. Challenging because of the dramatic downturn in energy commodity prices and world financial markets, and the falling prospects for many of the world's economies that have affected the global energy industry. And extraordinary because while our 1998 financial results reflect the integration costs associated with the merger with NOVA and impairments related to our United States gas gathering and processing assets, they don't tell the full story.

Despite all the turbulence of the past twelve months, TransCanada achieved net earnings of $1.25 per share before the integration costs and asset impairment charges – strong evidence of our potential for 1999 and beyond. By reducing our costs, eliminating duplication of service, tightening our management structure, creating economies of scale, and integrating all of our businesses to tap synergies, we have created a strong base for continued earnings growth. And from this stronger, more focussed base, we are targeting earnings of $2.00 per share by 2003 – implying low double-digit earnings growth over the next few years. With the work we have completed over the past year, we are proud to announce today's TransCanada is trim, nimble and ready to profit in a volatile industry.

In the business of solutions At TransCanada we don't focus on drilling for oil or exploring for natural gas; we develop energy solutions. And TransCanada is as integral a component in the energy value chain as the producers who risk their capital to find the energy we gather, process, transport and market.

Q: Your earnings per share target of $2.00 in 2003 implies low double-digit earnings growth over the next five years. Where will this growth come from?

A: It will come from providing high value-added, integrated energy solutions to our customers, at the lowest possible cost. Going forward, we see enhanced growth opportunities in all facets of our business. It will come from the expansion of customer services and the creation of new services in our transmission businesses; improved opportunities in our energy processing businesses; and a stronger international presence. And it will come as we realize the $100 million in operating cost savings we promised at the time of the merger.

In much of North America, our assets physically link energy producers with energy consumers, our customers at both ends of the energy value chain. Our business originates in the Western Canadian Sedimentary Basin (WCSB), one of the largest, most cost-competitive sources of oil and natural gas in the world. With a massive collection of physical assets connected to the WCSB, we are geographically positioned to gather, process and transport energy for markets throughout North America.

Through our various ownership interests in North American pipelines, we supply energy to population centres in eastern Canada, the northeastern and midwestern United States, California and the Pacific northwest. We do this by creatively integrating existing assets, contractual arrangements and arbitrage opportunities. We can do this because we are more than a pipeline company, or even an energy company – we are an energy solutions company. An energy solutions company that deploys intellectual capital to extract the highest value from an array of physical assets stretching from the producing field to the city gate. An energy solutions company that quickly, efficiently and economically sources and delivers the energy our customers need, when and where they need it.

By 2007, North American natural gas demand is expected to grow from 25 trillion cubic feet (Tcf) annually today to almost 30 Tcf annually – driven mainly by industrial growth and gas-fired power generation. By developing integrated, customized services and solutions at the lowest possible cost – with the highest possible value added – TransCanada will profit from serving those growing markets.

Transmission TransCanada's extensive web of pipeline moves approximately 80 per cent of Canada's natural gas to market. Our pipeline grid, the largest in North America (and second largest in the world), ties directly into four of the five major North American growth markets – eastern Canada, and the northeastern, midwestern, and western United States. TransCanada's existing grid not only spans these premier markets, but, based on current information we have, we believe it also has a significant delivery cost advantage over planned competitive systems.

Q: What are you doing to ensure that the Alberta System and the Canadian Mainline will be successful in an increasingly competitive world?

A: We have recognized for a number of years that increased competition in the natural gas transmission industry was inevitable. In fact, the Accord with producers reflects TransCanada's support for an increasingly competitive marketplace. We are confident this will enable us to introduce new products and services that will allow us to compete successfully in this new business environment. Our proposed pricing structure for the Alberta system is an example of this. Going forward, our customer service orientation, diverse supply and market access and lower operating costs will position us to compete – and compete to win.

Our energy transmission business is healthy and profitable, although there are challenges in the business. Many of our customers have the right to renew their transportation contracts one year at a time, with six months cancellation notice. In response, we are developing economic incentives for our customers to contract for longer periods to help us fully utilize our pipeline assets, plan for new capacity, and decrease long-term uncertainty.

Last April, TransCanada and the Canadian producing community fashioned an agreement (the Accord) that embraces competition and negotiation, rather than regulation, to resolve conflict between partners in Canada's energy industry. The Accord provides for the ability to earn increased revenues and benefit from decreased costs, acknowledges the need to construct competitive, incremental pipeline capacity from western Canada by both new and existing pipelines and accepts the need for regulatory changes that will provide existing and new pipelines with an equal opportunity to compete. Most importantly, the Accord signals the dawn of an era of consultation and cooperation between TransCanada and the producing community, a new spirit we believe will ultimately enhance the competitiveness of the WCSB.

Many of these principles are embodied in the Alberta System's proposed new pricing structure, a departure from postage-stamp tolling under which customers paid the same toll regardless of how far the natural gas was transported. The new structure, announced in October 1998, will make tolling more reflective of actual transportation costs, making our customers and ourselves more competitive. It is major evidence that today's answers are to be found in the marketplace.

This represents a new way of doing business, which provides us with the incentive to develop new and innovative services for the benefit of our customers and our shareholders. And there will be opportunity to do just that. Competition is a driving force in our industry and the Accord is a tool that will help level the playing field and allow us to compete equally – and compete to win.

Q: Energy Marketing appears to be a low return, high risk business. Why are you in it?

A: Energy Marketing provides direct and indirect returns to TransCanada. Direct returns are reasonable, considering that Marketing uses very little long-term capital. Indirect returns arise from dovetailing activities with other businesses within TransCanada. For example, Marketing uses its expertise to assist our other businesses to operate efficiently, and helps them to identify profitable business opportunities. As with any business, Marketing faces risks; however, the risks are closely managed. Commodity risk, which includes weather impact on demand or supply, is managed through a portfolio of supply, storage, transportation and sales operations throughout North America. Price risk is managed by matching physical purchases and sales or by using hedging instruments. The failure by a third party to meet its obligations, or counterparty risk, is managed by dealing with creditworthy counterparties, by setting exposure limits and monitoring performance against limits, and by seeking financial assurances, if necessary.

Marketing Our marketing team provides the strategic intelligence we need to protect and grow all of our businesses. While marketing contributes only a small component of TransCanada's earnings, it is the return on our intellectual capital that makes this business integral to our success as an energy solutions company.

TransCanada is the most significant marketer of natural gas in Canada and the northern tier of the United States; our marketers buy and sell 5.6 billion cubic feet (Bcf) per day of natural gas.

With offices located in Canada and the United States, our marketing team is geographically positioned to continually survey the ebb and flow of energy supply and demand. Expert in risk management and skilled in market risk analysis, this team is also helping to shield our processing and international businesses from commodity price fluctuations that affect their profitability.

Processing Our processing businesses, comprised of gas gathering and processing assets, specialty chemicals manufacturing and power operations, are an essential element in our energy solutions portfolio.

Our power operations are a stellar example of how we have integrated our expertise to develop safe, economical energy solutions. Not only do we have the in-house talent to build and manage the assets in this business, we tap our marketing expertise to ensure the most cost-effective fuel supply to the facilities and to survey market potential and sell the electricity generated. By locating power generation facilities adjacent to our pipeline compressor stations, we can fuel these facilities with waste heat from compressors that would otherwise be vented into the atmosphere – an environmentally sound, economical solution to emissions management.

Raw gas from the wellhead, before it is saleable, must be cleaned and stripped to remove impurities. Some of these impurities, such as natural gas liquids, can be processed into valuable commodities like propane, butane and ethane. By contracting with TransCanada's processing businesses, located in western Canada and the southern United States, to clean their raw product and market the commodities,

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Q: What is your outlook for the gathering and processing business in light of the disappointing results in 1998?

We believe the gas gathering and processing business has long-term growth potential. With assets servicing the WCSB and the U.S. Gulf Coast, we are well-positioned to capture the opportunities that will be available as energy prices stabilize and the demand for natural gas increases in North America. Our goal is to ensure that this business is profitable in good times and bad. We will do this by reducing our cost structure, managing the fluctuation in commodity prices through an effective risk management program and by re-balancing revenue sources between fee-based and commodity-based businesses.

producers free up their capital and physical resources to explore for new sources of energy. Approximately 75 per cent of our Canadian gas processing business and 40 per cent of the United States' business receives a fee for this service.

The remainder of the Canadian and United States' gathering and processing business purchase natural gas to process into natural gas liquids which is then sold. The major risk in this business is the difference between the cost of the raw gas and the price of the final product, or fractionation spread; we are applying our risk management expertise, combined with the market intelligence and trading capability of our marketing team, to mitigate this commodity price risk.

We are rationalizing our assets and reducing our costs in our gathering and processing businesses to ensure they are lean, competitive and profitable, in good times and bad.

International Despite the downturn in the global economy, our international businesses earned $39 million in 1998; testifying to the inherent strength of the business we have built. Our international areas of focus incorporate Latin America-north and Latin America-south, Europe and Asia Pacific – four regions that cover half the world's energy market and touch 75 per cent of the world's population.

In the past year, in response to both internal and external challenges, we have worked to strengthen a business already positioned to provide energy solutions to a rapidly industrializing world. Using worldwide best practices to benchmark our cost efficiency and environmental and safety practices, we dramatically reduced our costs, consolidated our support services, optimized our asset base and added high value-added investments to that base in Venezuela, the Netherlands and Thailand. Now leaner and more agile than ever, we will continue to lever our assets and expertise to build and expand these businesses, and provide our customers the most economical, safe and efficient energy solutions money can buy.

Q: Will you continue to pursue international business opportunities given the falling prospects for many of the world's economies?

A: Yes. It's been a turbulent year, but most of the world's energy is consumed outside of North America, in regions where the energy sector is underdeveloped. This creates opportunities. Our challenge is to ensure the potential returns from international investment compensate for the risks associated with foreign operations. We do this by managing risk through an analysis of political, economic, social, legal and regulatory issues; by holding a diversified country and business portfolio; by sharing risk through joint ventures; and by denominating revenues in U.S. dollars whenever possible. We will continue this focussed, prudent approach to building international businesses.

1999 and beyond TransCanada closed 1998 fit, strong and competitive. During the year, we sharpened our vision for the future. We forged new cooperative relationships with our producer partners and consumer customers throughout North America. We restructured and rationalized our businesses to operate more economically. We refocussed. We crafted surprising energy solutions for the marketplace. We tapped the expertise of our employees to maximize value from all of our businesses. And we realized that while we've accomplished a lot, we can still do more.

With energy commodity prices at their lowest level in decades, we must do business as efficiently as possible. This is why our cost cutting and restructuring will continue in 1999 and beyond. We are working hard to cut our operating costs, and by the end of 2000, we anticipate we will have reduced these costs by the $100 million promised at the time of the merger. We will sell businesses that don't fit with our vision of energy solutions, for example ANGUS Chemical Company. We will seek optimum ways to finance and hold assets over which we provide management service, for example through limited partnerships. We will continue to evaluate and integrate our businesses to ensure we generate the greatest value possible from each of them.

In 1998 TransCanada made history, and making history takes hard work. On behalf of all shareholders, we thank TransCanada's directors for their hard work during a year of such dramatic change. And we thank our retiring directors, in particular our retiring Chairman Emeritus Gerald Maier, for making the merger a reality and for helping us build the new TransCanada. Finally, our employees have made extraordinary efforts in difficult, turbulent times, and we thank them for their continued support and belief in the possibilities for our company.

George W. Watson
President and
Chief Executive Officer

Richard F. Haskayne
Chairman of the Board of Directors

March 2, 1999

98 AR

Nº 1

CASE STUDY

GOAL: **Provide premium, economical energy transmission, marketing and processing services**

STRATEGY: **TransCanada's merger with NOVA Corporation**

CHALLENGE At TransCanada, from the early 1990s, we have recognized the forces reshaping our industry: falling borders; the free flow of capital; globalization of markets and deregulation, not only in Canada, but also in countries where energy industries have historically been tightly controlled by governments.

These new political and economic realities are layered atop the traditional challenges in our industry: finding an elusive fuel buried deep within the earth, pulling it out of the ground, transforming it and transporting it thousands of miles to get it where it's needed, safely and economically; providing our customers optimum service at the lowest possible cost; and providing our shareholders optimum returns on their investment. In every challenge, we recognized opportunity.

SOLUTION We understood that by merging TransCanada and NOVA Corporation, we could create a seamless economic energy delivery, processing and marketing system from the wellhead to the market.

We created the opportunity to lower costs, reduce duplication, increase efficiency, and tap our human resources and physical assets to create value for our customers, and ultimately our shareholders. We believed in the opportunity to forge cooperative relationships with energy producers in the WCSB. We foresaw the opportunity to develop new products and services for producers and consumers, and expand our business.

By 2000 we expect to see savings of $100 million from operating efficiencies. Eventually these cost reductions will result in lower transmission tolls, improving the competitiveness of the WCSB – a win/win for producers, consumers and our shareholders.

Dick Haskayne and George Watson, creating an economical energy delivery system, from the wellhead to the market.

98 AR

No. 2

CASE STUDY

GOAL: **Conserve the WCSB's position as one of the most economic sources of energy on the continent**

STRATEGY: **Develop economical, value-added products and services to increase the WCSB's competitiveness**

CHALLENGE In an era of heightened competition and economic deregulation in all sectors of the energy industry, TransCanada is allying with producers to preserve and enhance the extraordinary productivity and competitiveness of the WCSB.

SOLUTION Recognizing our common interests with the producers who risk their capital to find the energy TransCanada processes, transports, and markets, in April 1998 we took the lead in crafting an historic accord (the Accord) that promises to transform Canada's natural gas industry. Promoting a competitive environment, greater customer choice and alignment of interest in the WCSB, the Accord embraces the principle of economic deregulation and the desirability of negotiation versus regulation. In October 1998, in one of the first outcomes of the Accord, TransCanada and our producer partners unveiled a framework we believe will lead to industry consensus on a new pricing structure and settlement proposal for gas transportation tolls on the Alberta System. A departure from traditional postage-stamp tolling, in which customers paid the same toll regardless of how far natural gas was transported, the new pricing structure is more reflective of actual transportation costs. We believe this proposed new pricing structure will allow both TransCanada and producers to compete more effectively; it will benefit energy consumers by establishing more equitable transportation prices; and it heralds the new spirit of consultation and cooperation within our industry.

Ron Turner and Bob Reid, establishing cooperative relationships with our partners in the WCSB.

98 AR

No. 3

CASE STUDY

GOAL: Expand production of thermal carbon black to meet increasing world demand

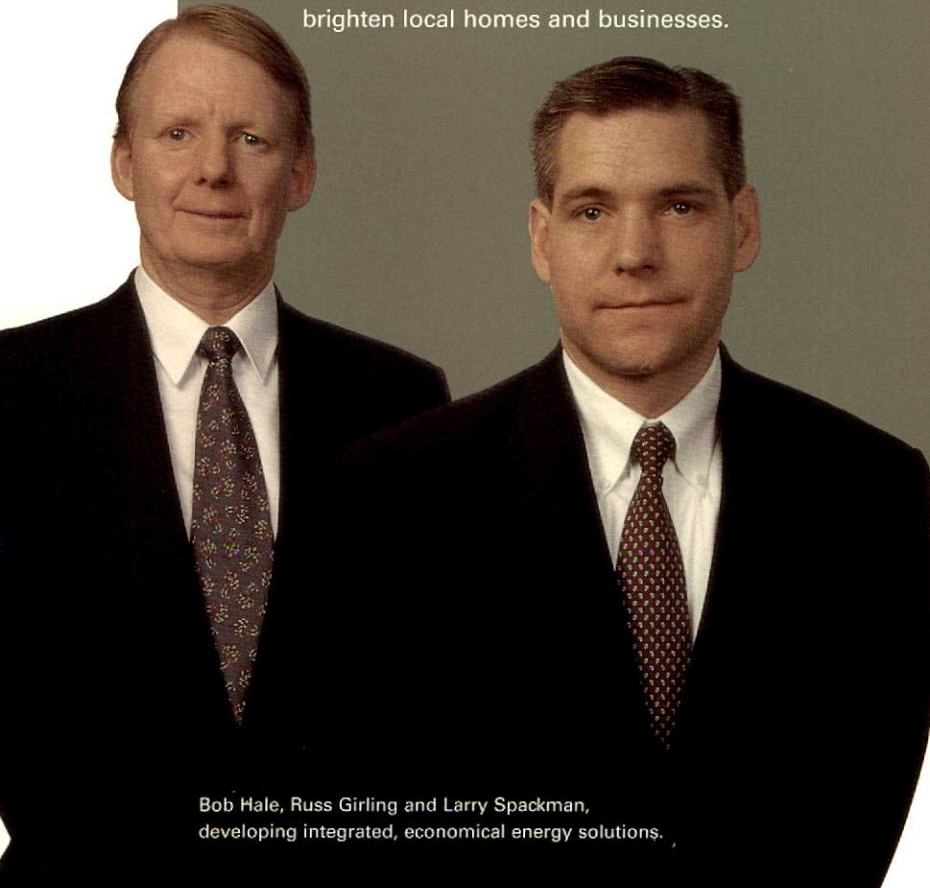
STRATEGY: Tap our energy processing, marketing and transmission expertise to develop the most economical solution

CHALLENGE Cancarb, the world's leading manufacturer of thermal carbon black, must expand to meet growing worldwide demand for their product. Cancarb actively seeks the most cost-effective alternative for new capacity, including re-locating for proximity to overseas markets.

SOLUTION We are expanding Cancarb's Medicine Hat facility, and constructing a new power plant that captures waste heat from increased operations to generate electricity for sale to the local market.

Fuelled by waste heat that would otherwise vent into the atmosphere, the planned 38-megawatt power plant will be built adjacent to the expanded Cancarb facility. TransCanada will then sell the electricity to the City of Medicine Hat under a 20-year power purchase agreement and buy the natural gas that would have been used to generate electricity at the city's power plants for use as feedstock at Cancarb and for resale to other markets. In this deal, TransCanada acts as fuel supplier, consumer, generator and marketer in one concentrated region.

Neither project was cost-effective on a stand-alone basis, but developing an integrated solution transformed the economics. Now jobs that might have been lost to an overseas expansion will stay in Alberta, and waste heat that would have otherwise been vented into the atmosphere will be used to brighten local homes and businesses.



Bob Hale, Russ Girling and Larry Spackman, developing integrated, economical energy solutions.

98 AR
No. 4
CASE STUDY

GOAL: **Maximize value from the WCSB by developing new value-added products and services**

STRATEGY: **Partner with producers to provide consumers with economic, safe and environmentally friendly energy**

CHALLENGE Integrated energy player Suncor Energy Inc. (Suncor) is aggressively expanding its oil sands business in northeastern Alberta, and is looking for ways to achieve its growth targets as cost-effectively as possible. TransCanada is working with Suncor to provide value-added energy solutions.

SOLUTION TransCanada has entered into an agreement with Suncor to develop a $205 million project that will extract and separate the valuable natural gas liquids and olefins from the offgas produced by Suncor's oil sands facility in northeastern Alberta. Suncor will supply the project with offgas from its oil sands facility near Fort McMurray and TransCanada will build an extraction facility near Suncor's oil sands operation to remove natural gas liquids and olefins from the offgas.

The recovered liquids and olefins will then be transported in batches to TransCanada's Redwater fractionation facility where they will be separated into commercial products such as propane, propylene, butane and condensate.

Initially, TransCanada expects to recover and market an estimated 11,000 barrels per day of natural gas liquids and olefins beginning in 2001. Volumes are expected to double with the further extraction of ethane and ethylene.

Currently, the offgas, including natural gas liquids and olefins, is used as an energy source for the oil sands upgrading process. With the extraction of natural gas liquids and olefins from the offgas, as well as Suncor's planned $2.2 billion expansion of its oil sands facility, Suncor has additional fuel requirements. With the construction of a new $50 million, 110-kilometre natural gas pipeline by TransCanada, which will deliver natural gas from the Alberta System, Suncor will replace the offgas with cleaner-burning natural gas as an energy source for the company's oil sands operations.

Randy Findlay and David Chappell, delivering value-added products and services to optimize the WCSB.

Nº. 5 CASE STUDY

GOAL: Improve and expand our energy solutions portfolio to provide economical service to our customers

STRATEGY: Develop innovative techniques that ensure a safe, economical and reliable supply of energy to our downstream customers

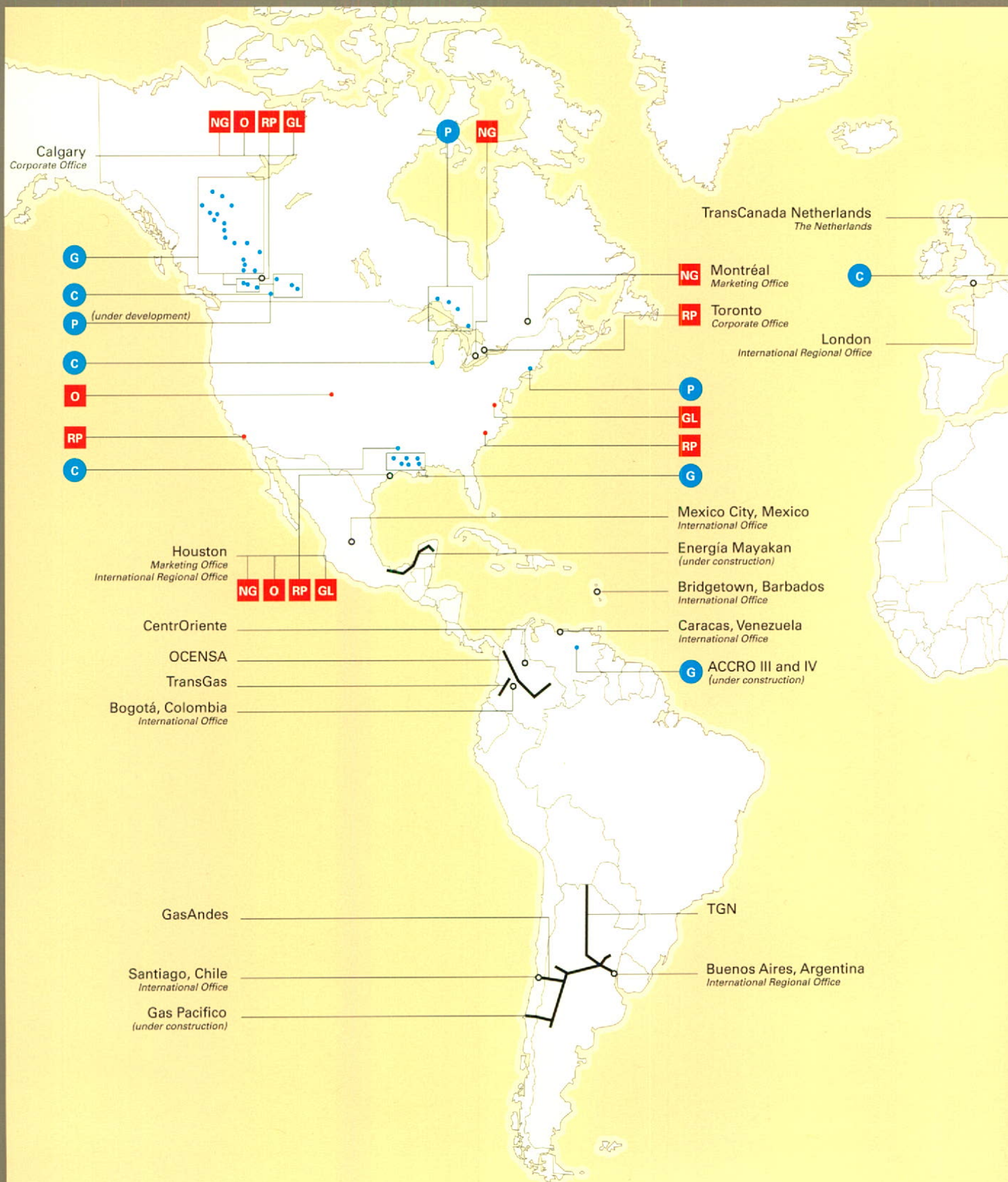
CHALLENGE As technological change creates the opportunity for greater choice for energy consumers, and competition between fuels and fuel suppliers in North America and around the world escalates, our end-use customers demand premium service at the lowest possible cost. To compete successfully, TransCanada must develop and deliver energy solutions that anticipate and answer the needs of our downstream customers.

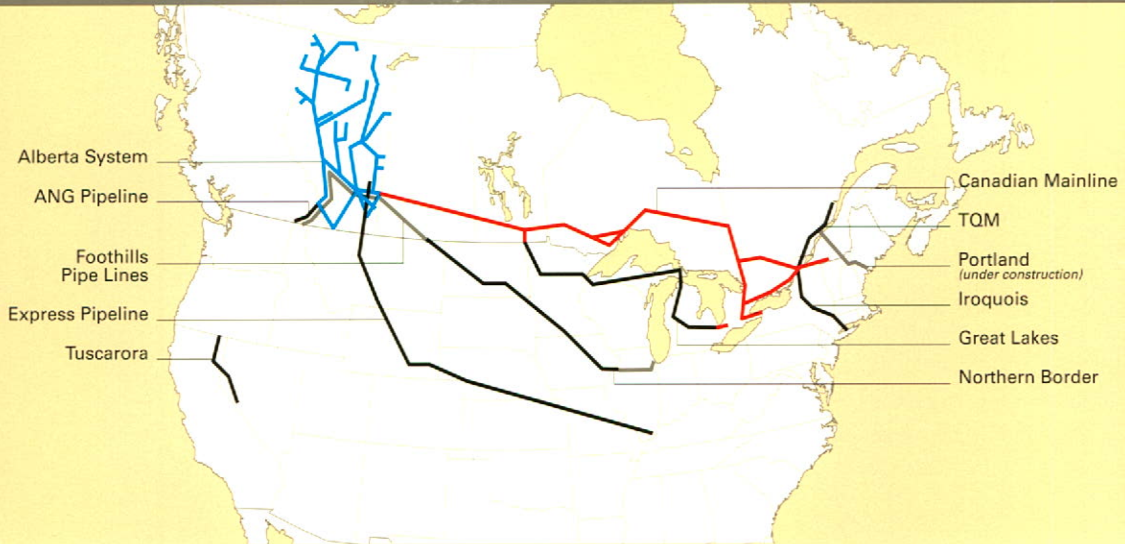
SOLUTION Today, we are creating customized risk management portfolios for our end-use customers, allowing them to manage their exposure to fluctuating energy prices. Over the years, we have developed an internal analytical process that aligns our market risk exposure with our corporate goals to protect and enhance shareholder value. Using sophisticated, quantitatively-based software and research systems, TransCanada's risk management professionals evaluate the company's market risk portfolio to determine the potential impact of changing market conditions and interest rate, commodity price and foreign exchange rate fluctuations on earnings and our capital structure.

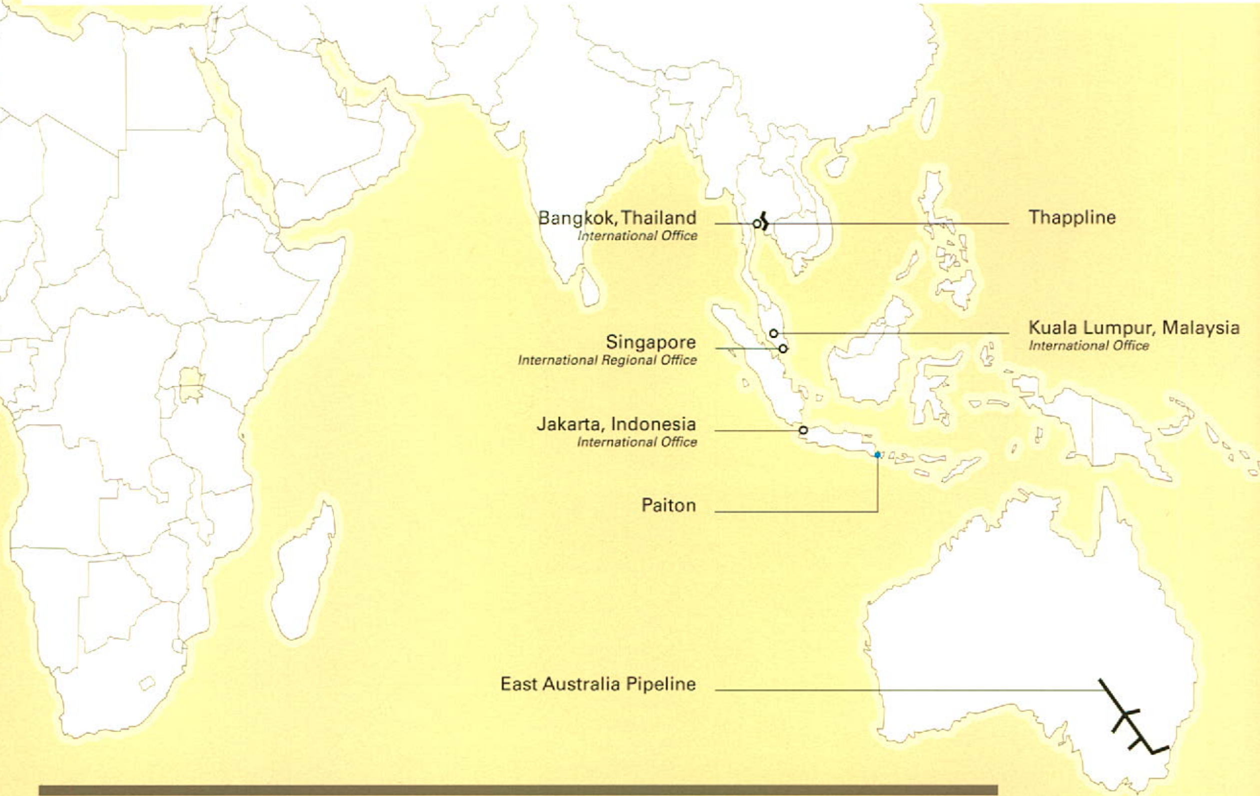
Now we are working with our customers to manage their risk exposure and help them to stabilize their energy costs. We are also pooling the energy requirements of many of our commercial and industrial customers in eastern Canada to tap economies of scale and reduce their costs. In an increasingly competitive world, we believe it is solutions like these that will make TransCanada the energy supplier of choice for 1999 and beyond.

Rob Schaefer, Dean Beacon and Karyn Brooks, managing risk to provide premium service to our customers.

TRANSCANADA'S WORLD AT-A-GLANCE







Energy Marketing

- NG Natural Gas
- O Crude Oil

Energy Marketing

- RP Refined Products
- GL Natural Gas Liquids

Energy Processing

- P Power Plants
- C Specialty Chemicals
- G Gas Gathering & Processing

EARNINGS AT-A-GLANCE

1998 business unit net earnings, before unusual charges:

Energy Transmission

$571 million

Energy Marketing

$13 million

Energy Processing

$11 million

International

$39 million

TransCanada PipeLines Limited (TransCanada) entered into a business combination with NOVA Corporation (NOVA), effective July 2, 1998. Our Consolidated Financial Statements and this Management's Discussion and Analysis of financial results for the three years ended December 31, 1998, have been prepared as if TransCanada and NOVA had always been combined. The business combination, which has been accounted for using the pooling of interests method, is described in the section on Business Combination with NOVA on page 42 and in Note 2 to the Consolidated Financial Statements.

Consolidated Financial Review

TransCanada's 1998 financial results reflect the impact of integration costs associated with the merger with NOVA and impairments related to our United States gas gathering and processing assets. Before these integration and asset impairment charges, we achieved 1998 net income applicable to common shares (net earnings) from continuing operations of $1.25 per share.

TransCanada's 1998 consolidated net earnings from continuing operations, before unusual charges, were **$575** million.

Net earnings from continuing operations, after unusual charges, for the year ended December 31, 1998 were $355 million or $0.77 per share compared to $522 million or $1.14 per share for the year ended December 31, 1997.

Solid performances from our Energy Transmission and International businesses, when compared to 1997, were more than offset by a decreased contribution from Energy Processing. The decreased Energy Processing contribution, before the charge for asset impairments, results from reduced margins due to the downward pressure on crude oil prices and relatively high natural gas prices throughout 1998.

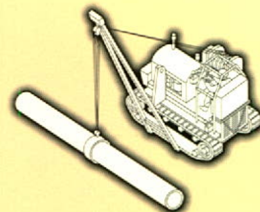
TransCanada recorded integration costs of $166 million, after tax, related to the merger with NOVA in 1998. These costs include amounts related to the reduction in value of certain assets, which became redundant as a result of the merger, and restructuring costs. The impairments of the gas gathering and processing assets amounted to $54 million, after tax.

Fiscal 1997 results include an unusual charge of $98 million related to a reduction in the value of Pan-Alberta Gas Ltd.'s (Pan-Alberta) assets and losses on certain contracts. Pan-Alberta was sold to its natural gas pool producers on December 22, 1998.

When comparing the results of 1997 with 1996, before unusual charges, strong contributions from the Energy Transmission and Energy Processing businesses were partially offset by a deterioration in petroleum and products prices, which produced a decline in earnings for the Energy Marketing business.

Year ended December 31 (millions of dollars except per share amounts)	**1998**	1997	1996
Net income to common from continuing operations			
Before unusual charges	**575**	620	594
After unusual charges	**355**	522	594
Net income per share from continuing operations			
Before unusual charges	**$1.25**	$1.36	$1.30
After unusual charges	**$0.77**	$1.14	$1.30

ENERGY TRANSMISSION



Energy Transmission includes:

Alberta System

Canadian Mainline

North American Pipeline Investments

The majority of TransCanada's net earnings continue to be generated by our Energy Transmission business. Fiscal 1998 net earnings of $571 million from this segment represent increases of $24 million and $47 million, respectively, compared to 1997 and 1996.

In 1998, the Energy Transmission business achieved success in creating a single organization to manage TransCanada's wholly-owned pipelines and its investments in its North American pipelines. This business owns and operates the largest natural gas transmission system in North America, including the system in Alberta (Alberta System) and the system that extends from the Alberta border east to Québec (Canadian Mainline).

In April 1998, TransCanada, NOVA, NOVA Gas Transmission Ltd., the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC) reached an agreement (the Accord) to promote a competitive environment, greater customer choice and alignment of interests in the Western Canadian Sedimentary Basin (WCSB). TransCanada continues to work with our industry partners to develop a strategy and process for implementing the new regulatory framework envisioned in the Accord.

Wholly-Owned Pipelines

Alberta System Net earnings of $201 million in 1998 are slightly higher than 1997 and are $20 million higher than 1996. These increases reflect higher earnings on the growth in average investment base

1998 net earnings from the Energy Transmission business were $571 million.

THE LARGEST VOLUME CARRIER OF NATURAL GAS IN NORTH AMERICA, TRANSCANADA'S ALBERTA SYSTEM DELIVERED 4.55 TCF OF PRODUCT IN 1998, MUCH OF IT TO OUR CANADIAN MAINLINE FOR DELIVERY TO EASTERN CANADA AND THE NORTHEASTERN AND MIDWESTERN UNITED STATES.

and strong performance under the Alberta System's incentive regulation structure. The 1998 results were impacted by a charge to reflect a settlement on a rate dispute with customers relating to a previous year. The realized return on common equity was 12.26 per cent in 1998, compared with 12.58 per cent in 1997 and 11.75 per cent in 1996.

As the largest volume carrier of natural gas in North America, the Alberta System delivered 4,552 billion cubic feet (Bcf) in 1998, representing the twelfth consecutive year of increased natural gas throughput volumes and an increase of two per cent over 1997 deliveries of 4,476 Bcf. The 1998 volumes delivered on the Alberta System comprise approximately 18 per cent of total annual North American natural gas production and about 80 per cent of the natural gas produced in the WCSB.

The Alberta System is regulated by the Alberta Energy and Utilities Board (EUB) under the Gas Utilities Act (Alberta) (GUA). Under the GUA, the rates, tolls and other charges and terms and conditions of service are subject to the approval of the EUB. The rate of return on deemed common equity for the Alberta System is reset annually and is based on the mechanism established in the Cost-efficiency Incentive Settlement (CEIS) approved by the EUB.

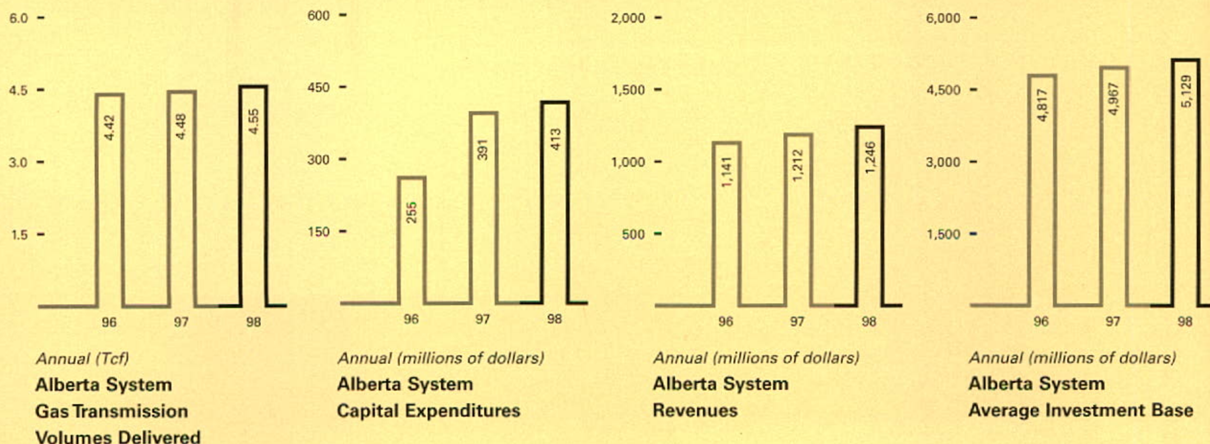
Incentive Regulation

The CEIS was approved by the EUB in December 1996 and expires at the end of 2000. This incentive-based agreement links costs to incentives and encourages cost-efficient pipeline operation and expansion. In addition, a capital efficiency mechanism for the Alberta System was approved in 1997 and extends through to 2000.

In 1998, the Alberta System shared operating and financing cost savings of $37 million, before tax, equally with its customers. This compares to savings of $56 million in 1997. The efficient use of capital generated earnings of $5 million and $2 million, before tax, in 1998 and 1997, respectively.

Rate Design

In October 1998, CAPP, SEPAC and TransCanada unveiled a framework that is expected to lead to industry consensus on a new pricing structure and settlement proposal for gas transportation tolls on the Alberta System. The proposed toll design, which requires approval by the EUB, represents a departure from traditional postage-stamp tolling, where customers paid the same toll regardless of how far the product was transported. The new pricing structure is more reflective of actual transportation costs. TransCanada is currently working



Annual (Tcf)
Alberta System Gas Transmission Volumes Delivered

Annual (millions of dollars)
Alberta System Capital Expenditures

Annual (millions of dollars)
Alberta System Revenues

Annual (millions of dollars)
Alberta System Average Investment Base

with its Alberta System customers to develop this new products and pricing arrangement.

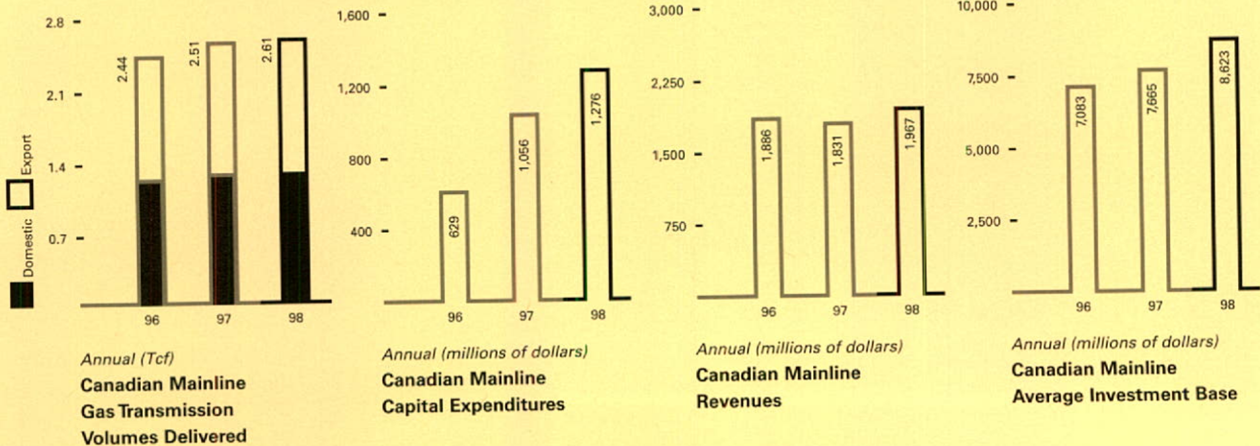
Canadian Mainline The Canadian Mainline generated net earnings of $278 million in 1998, a $20 million increase compared to 1997, and is the major contributor to the higher net earnings realized by the Energy Transmission business. The continued financial success of the Canadian Mainline was achieved despite the 46 basis point reduction in the approved rate of return on common equity from 10.67 per cent in 1997 to 10.21 per cent in 1998. Lower earnings due to the reduction in the rate of return were more than offset by higher earnings from the increase in average investment base.

Net earnings from the Canadian Mainline of $258 million in 1997 represent a $7 million increase over 1996. Higher earnings from the increase in average investment base in 1997, when compared to 1996, offset the year-over-year reduction in rate of return.

Annual deliveries of natural gas on the Canadian Mainline totalled 2,610 Bcf in 1998, an increase of four per cent over 1997 volumes of 2,506 Bcf. The 1998 transportation volumes represent the eleventh consecutive year of record volumes, a reflection of the construction of new facilities to provide additional services to our customers. In 1998, export deliveries comprised 49 per cent of total deliveries, compared to 47 per cent and 48 per cent in 1997 and 1996, respectively.

During 1998, the Canadian Mainline met firm service requirements and completed another significant construction program, adding 417 million cubic feet (MMcf) per day to its pipeline system.

The Canadian Mainline is regulated by the National Energy Board (NEB). The NEB sets tolls which allow TransCanada to recover projected costs of transporting natural gas and provide a return on the Canadian Mainline investment base. Approved tolls set by the NEB are based on TransCanada's



Annual (Tcf)
Canadian Mainline Gas Transmission Volumes Delivered

Annual (millions of dollars)
Canadian Mainline Capital Expenditures

Annual (millions of dollars)
Canadian Mainline Revenues

Annual (millions of dollars)
Canadian Mainline Average Investment Base

Incentive Cost Recovery and Revenue Sharing Settlement (Incentive Agreement) described below. New facilities are approved by the NEB before construction begins. Changes in investment base or the return on common equity affect the contribution to net income from the Canadian Mainline. Most of the operating and financing costs of the Canadian Mainline are fixed and are recovered monthly from customers.

Incentive Regulation

The Incentive Agreement, approved by the NEB in February 1996, has a term of four years and expires on December 31, 1999. The Incentive Agreement was developed via a multi-party negotiation process with the Canadian Mainline's major domestic and export customers and suppliers and provides an incentive to minimize costs, maximize revenues from discretionary services and manage foreign exchange and interest costs.

In 1998, TransCanada generated revenues from discretionary services and managed costs to earn a rate of return on common equity for the Canadian Mainline of 10.73 per cent – 52 basis points greater than the approved regulatory rate of return of 10.21 per cent. This increase is comparable to 1997 when we achieved an increase of 58 basis points above the 1997 approved rate of return of 10.67 per cent. In 1996, TransCanada earned a rate of return of 11.85 per cent, representing a 60 basis point increase over the 1996 approved rate. Under the terms of the Incentive Agreement, customers will receive their share of revenues from discretionary services earned in 1998 – estimated to be approximately $24 million – through a reduction to the cost of service in 1999.

Wholly-Owned Pipelines Outlook

The business environment for Energy Transmission is evolving to one where competition is embraced. TransCanada accepts, and is committed to, this change and has created an organization of skilled resources to capitalize on the opportunities that we believe this change will present. The challenge for 1999 is to successfully start to build a path to the new competitive environment.

In addition, Energy Transmission is committed to delivering a significant portion of the cost savings related to the merger with NOVA. Any savings that are achieved will be shared with customers. We plan to achieve these savings over two years, through a single organization that provides low-cost service using simplified business processes.

Alberta System – 100% owned

The 22,400-kilometre Alberta System transports natural gas for use within Alberta, and to provincial boundary points for connection with TransCanada's other pipeline assets, to serve markets in Canada and the United States.

Canadian Mainline – 100% owned

The 14,800-kilometre Canadian Mainline stretches from the Alberta/Saskatchewan border to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the United States.

Rate of Return The allowed rate of return on common equity in 1999 is 9.58 per cent on a deemed common equity ratio of 32 per cent for the Alberta System and 30 per cent for the Canadian Mainline.

The net earnings of the Alberta System are expected to be slightly higher in 1999 than in 1998. The CEIS fixed the rate of return on common equity on the amount of investment base at the beginning of 1996, the first year of the incentive arrangement. The allowed rate of return on increases in capacity capital after that date is the same as the rate of return resulting from the NEB's 1995 Multi-Pipeline Cost of Capital Decision. The decrease in this return will result in a decrease in net earnings for the Alberta System of approximately $2 million. Earnings on the increase in average investment base are expected to more than offset the effect of the decline in the rate of return. The proposed new products and pricing arrangement is not expected to be in place until later in 1999. TransCanada has agreed to contribute $25 million, before tax, for each of the first two years toward the transition to the new rates.

The rate of return for the Canadian Mainline is based on the predetermined adjustment mechanism in the Multi-Pipeline Cost of Capital Decision. The decrease in the return of 63 basis points, when compared to 1998, will reduce net earnings of the Canadian Mainline in 1999 by approximately $18 million. Earnings are also expected to decrease due to lower revenues from discretionary services, which are shared with shippers. However, these decreases are expected to be offset by increased earnings of approximately $21 million on higher average investment base.

Capital Expenditures The Alberta System and the Canadian Mainline expect to spend about $414 million and $686 million, respectively, on capital expenditures in 1999.

These capital expenditures reflect the completion of a two-year program to expand delivery capacity. The forecast for capital spending beyond 1999 is subject to the uncertainty surrounding market demand and pricing for natural gas and our customers' need for new capacity.

TRANSCANADA AND OUR PRODUCER PARTNERS HAVE UNVEILED THE FRAMEWORK FOR A NEW TOLLS STRUCTURE ON THE ALBERTA SYSTEM. THE PROPOSED DESIGN REPRESENTS A DEPARTURE FROM TRADITIONAL POSTAGE-STAMP TOLLING, TO ONE MORE REFLECTIVE OF ACTUAL TRANSPORTATION COSTS.

In December 1998, the NEB approved TransCanada's 1999 facilities application to increase pipeline capacity on the Canadian Mainline by 100 MMcf per day. The estimated capital cost of the facilities, planned to be in service by November 1999, is approximately $400 million.

Upon completion of the approved facilities, TransCanada will have expanded its Canadian Mainline delivery capability by about 1.0 Bcf per day since November 1996. Combined with the 700 MMcf per day expansion into Chicago by Northern Border Pipeline Company (Northern Border), these expansions will have increased delivery capability from the WCSB by 1.8 Bcf per day between 1996 and 1999.

Wholly-Owned Pipelines Business Risks

Competition Increased competition in the natural gas transmission industry is inevitable. It is anticipated that Alliance Pipeline (Alliance) will commence construction of a 3,000-kilometre pipeline from northeast British Columbia to the Chicago area in the second quarter of 1999. Alliance is currently forecast to be in service in late 2000 and has received all required NEB and Federal Energy Regulatory Commission (FERC) approvals necessary for its construction. When completed, Alliance will compete directly with the Alberta System, the Canadian Mainline and Northern Border. This increased competition may result in decreased utilization on TransCanada's pipelines.

TransCanada's support for an increasingly competitive marketplace is reflected in the Accord. We believe that we are well positioned to compete on price. In addition to the development of new products and services, our customer service orientation and diverse supply and market access should position us to compete successfully. Imperative to this success, however, will be continued work with all interested parties to ensure a level playing field for all competitors.

Safety Public safety is a top priority at TransCanada. The pipeline integrity program for the Canadian Mainline was accelerated after line breaks caused by general corrosion and stress corrosion cracking occurred in recent years. The Canadian Mainline has completed the second year of a three-year program to verify the integrity of the non-fusion bond epoxy coated portion of the system. A variety of methods are being employed, including in-line electronic inspection and hydrostatic testing. While fusion bond epoxy (FBE) coatings are state-of-the-art in terms of resistance to asset degradation, a concurrent effort to condition monitor FBE coated pipe is underway. The Alberta System is being assessed with a stronger emphasis on condition monitoring. In areas where integrity concerns have been identified, mitigation initiatives are underway or are being formulated.

Gas supply Based on 1997 year end estimates, the WCSB had remaining established reserves of natural gas of 65 trillion cubic feet (Tcf) with a remaining reserves to production ratio of approximately 11 years at current levels of production. Production of natural gas from the WCSB has increased six per cent since 1995. TransCanada believes that supply can be expected to meet domestic and export demands for the foreseeable future. With the expansion of our transportation capacity over the last few years and the impact of Alliance, there could be some amount of excess pipeline capacity for the next three to five years.

Contract terms Historically, transportation capacity has been built on the basis of long-term contracts. However, the trend in recent years to renew these contracts on much shorter terms has reduced the weighted average remaining term of transportation contracts to 3.6 years for the Alberta System and 5.8 years for the Canadian Mainline. The proposed new products and pricing arrangement for the Alberta System and ongoing discussions with Canadian Mainline stakeholders include such items as term differential pricing.

Expiry of incentive agreements The incentive regulation agreements which provide for the sharing of cost savings and certain revenues from discretionary services for the Alberta System and the Canadian Mainline expire at the end of 2000 and 1999, respectively. TransCanada is currently working with its stakeholders to develop a framework that will extend or replace the existing incentive agreements.

ANG Pipeline – 100% owned

ANG Pipeline carries gas from Alberta's western border through British Columbia to the U.S. border, where it connects with PG&E Gas Transmission - Northwest system (PGTN).

Great Lakes – 50% owned

Great Lakes connects with the Canadian Mainline at Emerson, Manitoba and carries gas to markets in central Canada and the eastern and midwestern U.S.

Northern Border – 30% owned

Northern Border connects with Foothills and carries gas to U.S. midwest markets.

Iroquois – 29% owned (35% effective February 1999)

Iroquois connects with the Canadian Mainline in eastern Ontario and carries gas across the St. Lawrence River to customers in the U.S. northeast.

Tuscarora – 50% owned

Tuscarora Gas Transmission Company (Tuscarora) transports gas from Oregon to markets in northeastern California and Nevada.

North American Pipeline Investments

TransCanada's proportionate share of net earnings from its North American pipeline investments was $92 million in 1998, compared to $89 million and $92 million in 1997 and 1996, respectively. Fiscal 1998 results reflect the strong operating performance from Northern Border, Great Lakes Gas Transmission Company (Great Lakes), and Trans Québec & Maritimes Pipeline Inc. (TQM) and the impact of the weakening Canadian dollar relative to the United States dollar during the year. Increased losses incurred on the Express crude oil pipeline system (Express Pipeline) and start-up costs associated with TransCanada PipeLines Services Ltd. (TransCanada PipeLines Services) partially offset these increases.

The results from Express Pipeline were negatively affected by reduced throughput on the section that runs from Casper, Wyoming to Wood River, Illinois. Throughput was reduced by 25,000 barrels per day due to an order imposed by the U.S. Office of Pipeline Safety (OPS) following a line break in July 1997. The after-tax loss incurred by Express Pipeline in 1998 was approximately $12 million, compared to $9 million in 1997.

North American pipeline project development costs decreased $4 million to $13 million, before tax, for the year ended December 31, 1998. The project development costs in 1998 and 1997 primarily relate to the Viking Voyageur and Millennium pipeline projects.

North American Pipeline Investments Outlook

In 1999, we will continue to look for opportunities to expand and realize additional value from our North American pipelines, and look for new, complementary investments.

TransCanada expects to invest over $100 million in its North American pipeline investments in 1999. These cash injections will contribute to the financing of the capital programs of these pipelines.

Great Lakes In 1998, Great Lakes constructed approximately 71 miles of pipeline loop and added two compressor units, resulting in an additional 126 MMcf per day of long haul capacity from Emerson, Manitoba to St. Clair, Michigan. The in-service date was November 1998. Fiscal 1999 earnings are expected to benefit from the addition of this new capacity.

Foothills Pipe Lines Ltd. (Foothills)

Foothills carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest and California. The three operating pipelines, Foothills (Alta.), Foothills (Sask.) and Foothills (South B.C.) are owned 74.5%, 69.5% and 74.5% by TransCanada, respectively.

TQM – 50% owned

TQM connects with the Canadian Mainline and transports natural gas from Montréal to Québec City.

Express Pipeline – 50% owned

Express Pipeline moves crude oil from Hardisty, Alberta to Wood River, Illinois.

Portland – 21.4% owned

(under construction)

Portland interconnects with TQM and will carry western Canadian natural gas to growing markets in the north-eastern United States.

TRANSCANADA HAS STARTED CONSTRUCTION ON A PIPELINE THAT WILL PROVIDE NATURAL GAS SERVICE TO SUNCOR'S FORT MCMURRAY OIL SANDS REGION. ONCE BUILT, THE PIPELINE WILL DELIVER PRODUCT TO REPLACE OFFGAS WITH A CLEANER BURNING FUEL AS AN ENERGY SOURCE FOR SUNCOR'S OPERATIONS.

Northern Border Northern Border's Chicago Project began gas deliveries on December 22, 1998. The Chicago Project provides an additional 700 MMcf per day of transportation capacity for new Canadian natural gas supplies to U.S. markets and extends Northern Border's delivery service to the Chicago market area.

TC PipeLines, LP (PipeLines LP) was formed to acquire, own and participate in the management of United States-based pipeline assets. On December 30, 1998, PipeLines LP filed a registration statement with the U.S. Securities and Exchange Commission (SEC) offering for sale to the public 15,640,000 common units representing an approximate 78.2 per cent effective interest in PipeLines LP. The offering will be made only through a prospectus filed with the SEC. If the offering is completed, PipeLines LP will become the owner of TransCanada's 30 per cent interest in Northern Border.

Iroquois In July 1998, Iroquois Gas Transmission System's (Iroquois) rate of return on equity was reduced to 12.38 per cent, with a debt/equity ratio of 68/32. The resulting new rate was prospectively applied starting in September 1998. Operating results will be reduced in 1999 for the full year application of this new rate.

In February 1999, TransCanada acquired Alberta Energy Company's six per cent interest in Iroquois. This acquisition brings TransCanada's total ownership interest in Iroquois to 35 per cent.

TransCanada Pipeline Ventures Ltd. – 100% owned

This business provides non-traditional energy solutions for its customers in the WCSB.

TransCanada PipeLines Services – 100% owned

This business specializes in providing pipeline solutions throughout the energy value chain by turning core competencies within TransCanada into new business opportunities. Current activities include: participation in a turbine repair and overhaul facility; construction of a gas measurement calibration and testing facility; and providing hot tapping services.

Foothills Foothills announced a commitment to a 22 per cent interest in the Alaskan North Slope (ANS) Gas Project Sponsor Agreement. This venture is dedicated to identifying a viable project for transporting and processing a portion of the ANS gas reserves in the form of liquid natural gas to markets in East Asia.

TQM TQM has constructed a 213-kilometre extension of its system from Lachenaie, Québec to East Hereford at the New Hampshire border. The extension will connect to the Portland Natural Gas Transmission System (Portland). The proposed extension is designed to deliver about 170 MMcf per day and is expected to be in service in the first quarter of 1999.

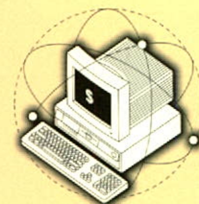
Portland Portland will interconnect with TQM at the U.S./Canadian border in Pittsburg, New Hampshire and with Tennessee Gas Pipeline in Haverhill and Dracut, Massachusetts. The pipeline is expected to be in service in the first quarter of 1999. This date is later than originally planned due to wet weather experienced in the northeastern United States in the summer of 1998.

Millennium Pipeline (21% owned) Millennium Pipeline is a proposed 425-mile pipeline extending from a proposed interconnect with the Canadian Mainline in Lake Erie to Mt. Vernon, New York. If built, the pipeline will have a capacity of up to 700 MMcf per day with an anticipated cost of approximately US$685 million. A preliminary determination is being sought from the FERC.

The Canadian Mainline filed an application for the Lake Erie Crossing with the NEB in December 1998. The application proposes an extension of the Canadian Mainline from the Ontario shoreline of Lake Erie to the Canadian/U.S. border in the lake. The facilities are proposed to be in service by November 1, 2000.

Express Pipeline In December 1998, the OPS reinstated the pressure on 225 miles of pipe which has been the subject of a pressure reduction order since July 1997. The remaining one-third of pipe will be tested and repaired during the first quarter of 1999. All of the pressure reduction orders are expected to be removed by the end of March 1999.

	Length (kilometres)	**1998 Deliveries (Bcf)**	1997 Deliveries(Bcf)
ANG Pipeline	177	**529**	511
Great Lakes	3,387	**931**	921
Northern Border	1,956	**826**	633
Foothills	927	**938**	934
Iroquois	604	**330**	329
TQM	355	**111**	120
Tuscarora	369	**25**	22



Energy Marketing includes:

Natural Gas Marketing

Petroleum and Products Marketing

Energy Marketing buys and sells energy commodities, including natural gas, natural gas liquids, crude oil and refined products and provides a selection of supply, storage and transportation services to its customers. These services are provided in both Canada and the United States.

TransCanada's Energy Marketing business contributed net earnings of $13 million in 1998, compared to $12 million and $35 million, before unusual charges, in 1997 and 1996, respectively. Net earnings for 1998 reflect improved results from the petroleum and products marketing business compared to 1997, offset by lower net earnings from the gas marketing business. Higher inventory levels in the marketplace and the absence of significant weather impact on demand during 1998 were key factors influencing the reduced contribution from TransCanada's gas marketing business. An unusual charge of $98 million was recorded in 1997 to reflect a reduction in the value of Pan-Alberta's assets and losses on certain contracts. Pan-Alberta was sold to its natural gas pool producers on December 22, 1998.

The decrease in earnings in 1997, when compared to 1996, is the result of a narrow movement in petroleum and products prices throughout most of 1997 and the decline in those prices in the month of December 1997.

Natural Gas

Stronger gas marketing financial performance in 1997 compared to 1998 resulted from our ability to capture opportunities presented by volatility in

1998 net earnings from the Energy Marketing business were $13 million.

WE HAVE DEVELOPED INNOVATIVE PRODUCTS AND SERVICES TO EXPAND OUR NATURAL GAS MARKETING BUSINESS. WE HAVE OBTAINED BETTER PRICES BY POOLING THE NATURAL GAS REQUIREMENTS FOR MANY OF OUR COMMERCIAL AND INDUSTRIAL CUSTOMERS IN EASTERN CANADA.

natural gas prices partly due to the severe winter conditions experienced in eastern Canada and the United States in the first quarter of 1997.

TransCanada is one of the largest marketers of natural gas in North America – in 1998 we marketed approximately 5.6 Bcf per day of natural gas, up from 5.0 Bcf per day in 1997. Our gas marketing business extends from Alberta throughout Canada and across the northern tier of the United States, an indication of the integrated and geographically diverse nature of TransCanada's activities.

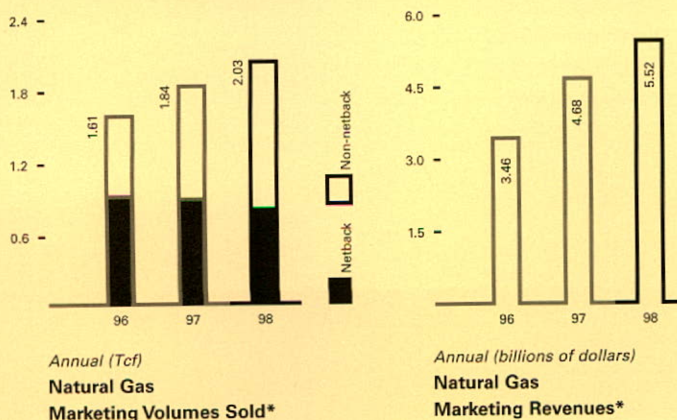
Natural gas marketing volumes sold during 1998 totalled 2,032 Bcf, an increase of 11 per cent and 26 per cent over volumes marketed in 1997 and 1996, respectively.

The continued expansion of our gas marketing business has been achieved through offering new products designed to meet customers' needs for energy solutions. For example, 1998 was the first full year of operation of the Strategic Pricing Management Program. This program has over 200 customers and daily volumes of more than 80,000 gigajoules. We can obtain a better price for our commercial and industrial customers in eastern Canada by pooling the requirements of many buyers so that the volume of gas purchased is large enough to capitalize on purchasing opportunities.

TransCanada also negotiated two deals in 1998 to manage the natural gas supply, transportation and storage assets of two large energy utilities in the United States, one in the midwest and one in the northeast. The larger of these two deals involves the management of 157 MMcf per day of firm natural gas transportation on four U.S. pipelines and 16 Bcf of firm natural gas storage for a three-year period commencing April 1, 1999.

In 1998, TransCanada generated approximately 40 per cent of its natural gas marketing revenues from sales of natural gas under a netback agreement with Alberta producers. The netback agreement provides for the purchase of natural gas in Alberta and its subsequent sale in Canada and the United States. TransCanada earns a marketing fee on the sale of natural gas under the netback agreement. The marketing fee is based on both volumes purchased and prices obtained for natural gas.

Throughout 1998, the gas marketing business continued to work with the producer community to restructure the netback pool to respond to producers' needs by increasing the options available to them. In the second quarter of 1998, a majority of producers approved the introduction of a pilot marketing program that provides more choice as to how and at what price natural gas is sold. The



Annual (Tcf)
Natural Gas Marketing Volumes Sold*

Annual (billions of dollars)
Natural Gas Marketing Revenues*

*Excluding Pan-Alberta, which was sold in December 1998.

results from this pilot marketing program were incorporated into a wider proposal aimed at a complete restructuring of the netback pool. The proposal was refined and distributed to all producers in January 1999.

Petroleum and Products

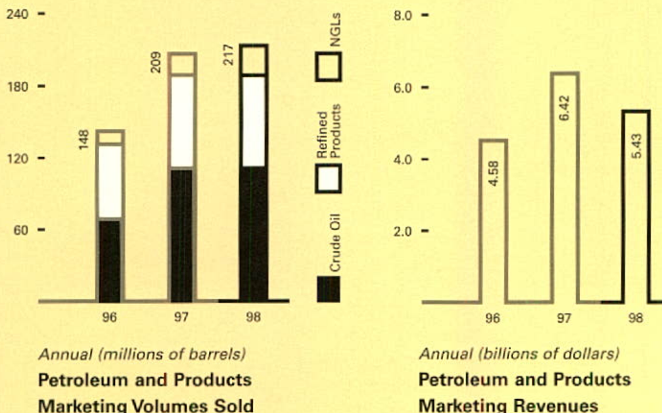
The financial results from the petroleum and products marketing business were negatively impacted in both 1997 and 1998 as a result of declines in the prices across the spectrum of petroleum commodities. In particular, the decline in the crude oil price, mild winter weather and price discounting by refiners were the significant contributing factors in the reduced margins and resulting losses from petroleum and products marketing. Despite these conditions, the 1998 results showed significant improvement compared to 1997, primarily as a result of trading strategies that minimized the impact of narrow trading ranges in 1998.

Volumes of crude oil, refined products and natural gas liquids are purchased and sold primarily under short-term contracts with producers, customers and marketers in Canada and the United States.

TransCanada gathers, aggregates and markets crude oil on behalf of independent, small to medium size producers in Western Canada, Texas and Louisiana. We provide transportation services to producers and a full range of crude oil services to refiners in North America. TransCanada marketed 108 million barrels of crude oil in 1998 compared to 111 million barrels and 71 million barrels in 1997 and 1996, respectively.

TransCanada enters into crude oil processing arrangements with refiners, buys products on a spot or term basis and sells to independent wholesalers, retailers and industrial customers in Canada and the United States. Our product line includes all grades of gasolines and distillates and we have the ability to provide innovative pricing alternatives. A total of 87 million barrels of refined products were marketed during 1998, an increase of nine per cent and 36 per cent compared to 1997 and 1996, respectively.

We also purchase and sell natural gas liquids and liquefied petroleum gases in Canada and the United States. Throughout 1998, we provided producers with services not readily available from other marketers, including marketing, transportation and storage and gas processing. TransCanada's interests in gas gathering and processing facilities, located in British Columbia, Alberta and Saskatchewan, and our U.S. gas processing plants, enhance our



Annual (millions of barrels)
Petroleum and Products Marketing Volumes Sold

Annual (billions of dollars)
Petroleum and Products Marketing Revenues

WE PROVIDE SOLUTIONS TO THE WHOLESALE ENERGY BUSINESS IN NORTH AMERICA. TRANSCANADA HANDLES THE GAS STORAGE, TRANSPORTATION AND MARKETING REQUIREMENTS FOR TWO U.S. ENERGY UTILITIES AND WE HAVE SIMILAR ASSET MANAGEMENT DEALS FOR MUNICIPALITIES IN ONTARIO.

flexibility and netbacks to producers. We marketed 22 million barrels of natural gas liquids in 1998, an increase of 4 million barrels and 9 million barrels compared to 1997 and 1996, respectively.

Energy Marketing Outlook

The focus of the energy marketing business in 1999 will be to continue to build its relationships with producers and customers by providing products and services that meet their energy requirements. A major focus in this initiative will be the restructuring of the natural gas netback pool and maintaining its competitive position in the marketplace. The energy marketing business also provides services to the energy processing and international businesses in the areas of market intelligence and risk management.

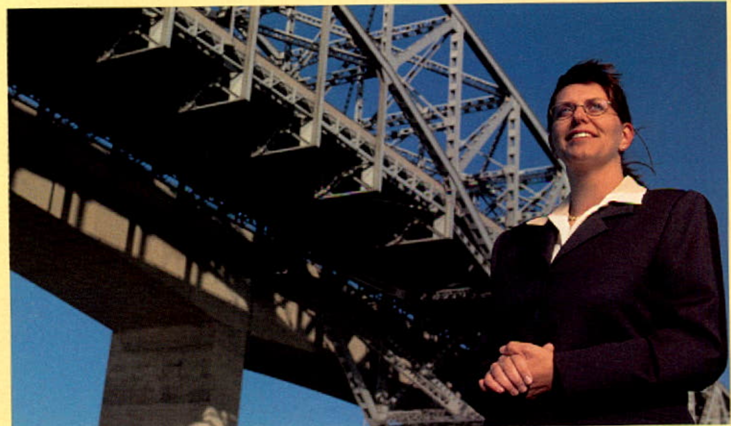
Energy Marketing Business Risks

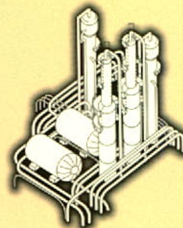
The net earnings from the energy marketing business are dependent upon a number of factors, including weather, pipeline operations, pipeline tariff structures and supply and demand. The industry has become highly competitive and the business is continually developing new services and strategies to maintain its competitive position. Examples include the introduction of the Strategic Pricing Management Program and asset management deals.

The principal risk to TransCanada with respect to netback sales is the level of the marketing fee in relation to its operating costs. TransCanada also enters into contracts for the direct purchase and sale of energy commodities, where the principal risks are the price and performance risks associated with those contracts. We manage these risks by matching physical positions to the extent possible and through the use of financial instruments. Our risk management practices are described in the section on Risk Management on page 44 and in Note 12 to the Consolidated Financial Statements.

Energy Commodity Price Risk One of the two major business risks facing the energy marketing business, regardless of the energy product purchased or sold, is the management of energy commodity price risk. The financial results for the non-netback marketing operations are dependent upon the volatility in prices and our ability to capture opportunities created by that volatility, while managing the market risk. By measuring, analyzing and monitoring market risks, the Company seeks to keep market risks within levels approved by senior management and to make informed decisions in managing market exposures.

The other major risk is counterparty risk. The management of counterparty risk is described on page 45, in the section on Risk Management.





Energy Processing includes:

Power

Canadian Gas Gathering and Processing

U.S. Gas Gathering and Processing

Specialty Chemicals

Our energy processing business owns and operates assets which process hydrocarbons into other forms of energy and products in North America.

In 1998, the Energy Processing business generated net earnings of $11 million, before unusual charges, compared to $70 million in 1997. The reduction in net earnings is attributable to the unfavourable impact of market conditions on the gas gathering and processing business in the United States and, to a lesser extent, in Canada.

In the United States, losses were incurred as a result of the very narrow fractionation spread or margin, caused by low product prices and high natural gas prices, throughout 1998. The reduced spread has been a factor in the marketplace since the end of the first quarter of 1997 and, with the continued downward pressure on crude oil prices, there appears to be no relief in the short term. Consequently, TransCanada assessed the value of its United States-based gas gathering and processing assets and determined that there was an impairment in value amounting to $54 million, after tax.

In Canada, net earnings in 1998 are less than 1997 due to lower prices for natural gas liquids and reduced throughput volumes associated with lower producer activity.

1998 net earnings from the Energy Processing business, before unusual charges, were $11 million.

THROUGH TRANSCANADA'S FOCUSSED MANAGEMENT AND OPERATION OF THE FOUR POWER LP PLANTS AND OCEAN STATE POWER, WE ACHIEVED 97% AVERAGE AVAILABILITY AT THESE PLANTS IN 1998.

Net earnings in 1997 increased 52 per cent or $24 million compared to 1996 due to higher contributions from the specialty chemicals, power operations and Canadian gas gathering and processing businesses. These positive results were partially offset by reduced margins in TransCanada's U.S. gas gathering and processing activities.

Power

TransCanada's power business experienced considerable growth in 1998 as compared to 1997 – net income increased 41 per cent to $31 million; volumes marketed increased 35 per cent to 2,236 gigawatt hours; and total generation controlled increased eight per cent to 670 megawatts, excluding an additional 81 megawatts currently under construction.

Most of this growth is due to TransCanada's efforts to capitalize on the deregulation of the power industry in our existing markets, Alberta, Ontario and the northeastern United States. A large part of this effort is focussed on further integrating TransCanada's existing businesses and creating additional value through reducing electricity costs on the Canadian Mainline and Express Pipeline, reducing or eliminating emissions of waste heat into the atmosphere by using the waste heat to fuel plants and supplying natural gas to generate electricity. In 1999, TransCanada will continue to pursue additional power acquisitions and new power generation opportunities.

TransCanada continues to grow its power marketing business and provide electricity managed account services to various energy and industrial customers in Alberta, Ontario and the Pacific Northwest. In 1998, in an effort to capitalize on the recent deregulation of the power industry in the New England market, TransCanada established a

Canadian Gas Gathering and Processing

TransCanada owns various interests in gathering and processing plants in British Columbia, Alberta and Saskatchewan. TransCanada also owns a fractionator at Redwater, a natural gas liquids extraction plant at Cochrane, Alberta, the Empress II natural gas liquids extraction plant on the Alberta/Saskatchewan border and a 43% interest in the Younger Plant on the British Columbia/Alberta border.

U.S. Gas Gathering and Processing

TransCanada owns gas processing plants in Louisiana with capacity of 2.2 Bcf per day, three fractionators with capacity of 60,000 barrels per day, connecting pipelines and gas liquids storage facilities.

new power marketing office, TransCanada Power Marketing (TCPM) in Westborough, Massachusetts. In September 1998 and January 1999, respectively, TCPM assumed New England Power's 48.5 per cent share and Eastern Utilities Associates' 28 per cent share of the Ocean State Power (OSP) power purchase contracts, as well as various market supply obligations.

Ocean State Power In 1998, following regulatory approvals, TransCanada acquired an additional 30.1 per cent ownership interest in OSP, a 500-megawatt power plant located in Rhode Island, increasing its ownership in OSP to 70.1 per cent.

Cancarb Power Plant In conjunction with Cancarb Limited's (Cancarb) plans to expand its plant capacity by 25 per cent, TransCanada is constructing a $57 million, 38-megawatt power plant which will be 100 per cent fuelled by waste heat from the Cancarb plant. This power plant, which integrates three of TransCanada's businesses (specialty chemicals, power operations and natural gas marketing), will provide electricity to the City of Medicine Hat under a 20-year agreement. In turn, the City of Medicine Hat will sell gas to TransCanada that would otherwise be used to fuel the city's existing power plants. The Cancarb power plant is expected to be completed in 2000.

Power LP TransCanada holds a 39.8 per cent interest in TransCanada Power, L.P. (Power LP), a limited partnership which currently owns four power plants in Ontario, all of which are partially fuelled by waste heat from Canadian Mainline compressor stations. TransCanada operates each of these plants and provides all management services to Power LP. A fifth power plant, the Calstock project, is currently under construction.

Canadian Gas Gathering and Processing

The merger with NOVA had a significant impact on the Canadian gas gathering and processing activities.

Specialty Chemicals

Cancarb is the world's leading manufacturer of thermal carbon black. ANGUS is one of the world's leading manufacturers of specialty chemical products derived from nitroparaffins.

Power

TransCanada owns a 70.1% interest in the Ocean State Power plant in Rhode Island. TransCanada holds a 39.8% interest in Power LP, a limited partnership.

BEFORE IT IS SALEABLE, RAW GAS FROM THE WELLHEAD MUST BE CLEANED AND STRIPPED TO REMOVE IMPURITIES. TRANSCANADA'S GAS GATHERING AND PROCESSING BUSINESSES CLEAN PRODUCERS' RAW PRODUCT AND MARKET THE COMMODITIES, FREEING UP THEIR CAPITAL TO EXPLORE FOR NEW SOURCES OF ENERGY.

It necessitated the integration, restructuring and refocussing of a number of separate business operations. These activities will continue in 1999. In 1998, we also completed a number of capital projects, consisting of acquisitions, new construction and expansions, totalling $566 million.

TransCanada Gas Processing, L.P. In July 1998, TransCanada Gas Processing, L.P. (Processing LP) sold 3.3 million partnership units to the public at $25 each, resulting in a total offering of $82.5 million. Using the proceeds of the offering, Processing LP acquired approximately 61 per cent of TransCanada's ownership interests in five natural gas gathering and processing facilities and all related agreements (the facilities) in Alberta and Saskatchewan. TransCanada has retained the remaining interest and, after 20 years, is required to repurchase the facilities at their then fair market value.

Redwater In October 1998, TransCanada opened the Redwater natural gas liquids fractionator facilities. The commissioning of Redwater, located about 64 kilometres northeast of Edmonton, marks the completion of a $100 million upgrade of the site, including six new pipelines, a natural gas liquids fractionator with capacity of 65,000 barrels per day, and upgrading of the underground storage caverns and rail car loading facilities.

Offgas Processing Project In 1998, TransCanada signed an agreement with Suncor Energy Inc. (Suncor) to construct, subject to regulatory approval, the Offgas Processing Project to extract and separate natural gas liquids and olefins from the offgas produced by the Suncor oil sands plant north of Fort McMurray. The $205 million Offgas Processing Project will include the construction of an extraction plant and storage facilities near the Suncor oil sands plant and storage and a new fractionator at Redwater. TransCanada will construct and own these new facilities and will market the upgraded liquids. The in-service date for the project is targeted for September 2001.

Central Foothills Gas Gathering System In the second half of 1998, the majority of the Central Foothills Gas Gathering System went into service. This 230-kilometre raw gas gathering system collects gas from previously unserviced areas and supplies three gas processing facilities located in north-western Alberta. The final leg of the gathering system will be operational during the first quarter of 1999. Gas receipts into this system were approximately 70 MMcf per day at December 31, 1998.

West Stoddart In the fall of 1998 TransCanada completed construction of the $97 million West Stoddart natural gas processing facility located

northwest of Fort St. John, British Columbia. The West Stoddart facility includes a 120 MMcf per day natural gas processing plant and gathering lines, a 69-kilometre, 16-inch natural gas pipeline, and a parallel 6-inch natural gas liquids pipeline.

U.S. Gas Gathering and Processing

In March 1998, TransCanada completed the expansion and upgrade of the Eunice gas processing and fractionation plant. The project provides additional fractionation capacity for new rich gas streams and natural gas liquids streams. A state-of-the-art computerized control system was added to improve plant operating efficiencies.

In October 1998, TransCanada completed the acquisition of certain natural gas liquids assets from Union Texas Petrochemicals Corporation. These assets include a 28,000 barrels per day fractionation plant, 150 miles of liquids pipelines and a barge dock. These assets are strategically located in South Louisiana, a region of strong natural gas liquids production growth and are consistent with TransCanada's plans for growing the processing business in the United States. The additional pipelines physically connect our existing natural gas liquids assets and are expected to provide fee-based revenue opportunities for TransCanada's existing plants.

Energy Processing Outlook

Power As deregulation of the power industry continues to unfold in TransCanada's markets in 1999, additional market opportunities are expected to arise. TransCanada's plan is to expand its electricity managed accounts and marketing efforts by capitalizing on these opportunities. As in 1998, TransCanada will use these opportunities and its power expertise to further integrate and create additional value within TransCanada's existing operations, as well as for the benefit of our external customers. Deregulation is also expected to present strong acquisition and new power plant opportunities that TransCanada will pursue directly and indirectly through Power LP.

Canadian Gas Gathering and Processing Although our gas gathering and processing assets are positioned well in Canada, we believe it will be difficult to improve performance from these assets in 1999. However, 1999 may provide opportunities to rationalize and further strengthen the asset base given the current economic environment. Capital expenditures for 1999 are expected to be approximately $162 million.

The Canadian gas gathering and processing business consists of two major segments; field gas gathering and processing, and liquids extraction and fractionation. To improve the contributions of the field gas gathering and processing facilities, we must seek to maximize throughput volumes and reduce operating and maintenance costs. Earnings in 1999 will reflect several new facilities placed in service in 1998. A portion of the liquids extraction and fractionation business is exposed to changes in energy commodity prices and, with weak energy prices and reduced fractionation spreads, our focus will be to manage the fractionation spread through our risk management programs.

United States Gas Gathering and Processing The United States gas gathering and processing operations are subject to similar energy commodity price pressures as those in Canada. The sustained reduction in

WE ARE WORKING TO RATIONALIZE OUR ASSETS AND REDUCE OUR COSTS IN OUR GAS GATHERING AND PROCESSING BUSINESSES TO ENSURE THEY ARE LEAN, COMPETITIVE AND PROFITABLE, IN GOOD TIMES AND BAD.

the fractionation spread that has been experienced over the last two years is not expected to improve substantially in 1999. As a result, we will seek to mitigate our exposure to this spread by developing fee-based services with producers or partners. Risk management is also expected to play a role in the results from this business.

Specialty Chemicals

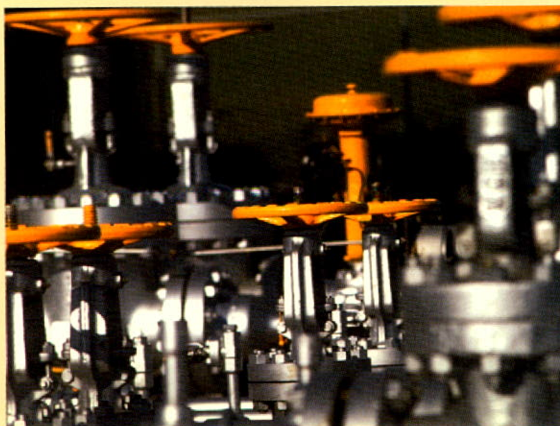
ANGUS Chemical In January 1999, TransCanada announced the possible sale of its wholly-owned subsidiary ANGUS Chemical Company (ANGUS Chemical). ANGUS Chemical, headquartered in Buffalo Grove, Illinois, specializes in manufacturing and marketing nitroparaffins and their derivatives.

Cancarb In August 1998, TransCanada announced plans for a 25 per cent expansion to Cancarb's manufacturing capacity to meet increased world-wide demand for thermal carbon black.

Energy Processing Business Risks

Power TransCanada's power operations are exposed to fluctuations in electricity prices. Volatility in electricity prices is caused by market factors such as fluctuating supply and demand, which in turn are affected by weather and consumer usage. These inherent market risks are managed through the use of long-term purchase and sales contracts, control over generation output, fee-for-service managed accounts rather than direct transaction exposure, and our overall risk management program.

Gas Gathering and Processing Market conditions, which TransCanada believes will not improve significantly in 1999, will require that we continue to impose risk management practices that seek to reduce our exposure to natural gas and natural gas liquids price risk. In Canada, reduced drilling activities by natural gas producers will require that we work to maximize the efficiencies of our plants.



INTERNATIONAL

International areas of focus include:

Latin America

Europe

Asia Pacific

The improvement in 1998 earnings is primarily attributable to earnings from TransCanada International (Netherlands) B.V. (TransCanada Netherlands), growth in existing assets in Colombia, Argentina and Chile, and post-merger cost reductions.

The International business builds upon our knowledge and expertise in energy transmission, processing, and power generation to establish core, fee-based businesses in key target regions. In-house, we can tap the services of product specialists in energy commodities and experts in pipeline design and operation.

Our target regions are Latin America, Europe and Asia Pacific and we currently have business interests in all of these areas. Since these regions encompass over half of the world's energy market and more than three-quarters of the world's population, we believe we are well positioned to provide energy solutions to growing markets.

TransCanada and NOVA had complementary international businesses. Consequently, the merger with NOVA enhanced our strategic position in our target markets and provided the opportunity for substantial cost efficiencies as well. By improving work processes, consolidating offices and eliminating duplication, TransCanada was able to reduce the costs in its International business by one-third in the second half of 1998.

1998 net earnings from the International business were $39 million.

WE MARKET THE ENERGY EXPERTISE WE HAVE DEVELOPED TO REGIONS AROUND THE WORLD. OUR TARGET AREAS OF LATIN AMERICA, EUROPE AND ASIA PACIFIC ARE HOST TO MORE THAN THREE-QUARTERS OF THE WORLD'S POPULATION AND HALF THE WORLD'S ENERGY MARKET.

Net earnings of $39 million reflect a significant increase in 1998, compared to losses of $2 million and $14 million in 1997 and 1996, respectively. Contributing to this increase was higher equity income from our Colombian, Argentine and Chilean investments – Oleoducto Central S.A. (OCENSA), TransGas de Occidente S.A. (TransGas), Transportadora de Gas del Norte S.A. (TGN), and Gasoducto GasAndes S.A. (GasAndes), as well as the contribution from our European investment, TransCanada Netherlands.

The improvement in performance of the International business is particularly significant recognizing that TransCanada has been involved in international commercial projects only since 1992. TransCanada has maintained its policy of capitalizing only costs of those projects which are determined to be commercially viable.

During 1998, TransCanada captured a position in the European energy market with the purchase of 100 per cent of the shares of Occidental Netherlands Inc. (renamed TransCanada Netherlands).

LATIN AMERICA

Colombia

OCENSA – 17.5% owned

The US$2.3 billion OCENSA pipeline transports crude oil from fields in the interior of Colombia to the Port of Coveñas on the Caribbean coast.

TransGas – 44% owned

The US$305 million natural gas pipeline from Mariquita to Cali is part of Colombia's national gasification program.

CentrOriente – 40% owned

TransCanada and its partners operate and maintain a natural gas pipeline system, operate a natural gas dispatch centre and provide technical and consulting services to ECOGAS, Colombia's national natural gas company.

Venezuela

ACCRO III and IV – 49.25% owned

Construction of this US$420 million natural gas liquids extraction plant will begin in 1999 for planned completion in 2001.

Argentina/Chile

TGN – 19.1% owned

A 5,000-kilometre natural gas pipeline serving northern Argentina.

TGM – 21.8% owned

A US$135 million natural gas pipeline, scheduled for completion in 2000, will extend 437 kilometres from TGN at Aldea Brazilera, Argentina to a power plant in Uruguayana, Brazil.

DESPITE THE DOWNTURN IN MANY OF THE WORLD'S INDUSTRIALIZING ECONOMIES, OUR INTERNATIONAL BUSINESSES HAD A BANNER YEAR IN 1998. TO ENSURE CONTINUED PROFITABILITY, OUR INTERNATIONAL TEAM, LED BY GARRY MIHAICHUK, REDUCED COSTS BY ONE-THIRD IN THE SECOND HALF OF THE YEAR.

In 1998, TransCanada and its partners were awarded a contract by PDVSA, the state-owned oil company in Venezuela, to build, own and operate a natural gas liquids facility in Venezuela. Construction of the US$420 million extraction, fractionation, storage and refrigeration facilities (ACCRO III and IV) is expected to begin in early 1999, with operations scheduled to be underway in 2001. TransCanada has a 49.25 per cent interest in this project.

In November 1998, an additional 10 per cent of TransGas' shares were purchased. This brings TransCanada's total ownership to 44 per cent. TransGas is a natural gas pipeline in Colombia with 343 kilometres of mainline and 440 kilometers of laterals. TransGas has a 20-year contract with state-owned Ecopetrol.

TransCanada purchased a 2.55 per cent interest in Thai Petroleum Pipeline Co., Ltd. (Thappline). Thappline is a 255-kilometre system which transports diesel fuel, jet fuel and other refined products in Thailand. This investment will also permit TransCanada to market interruptible volumes up to a level of 65 per cent of the pipeline's capacity.

The TGN expansion and the Transportadora de Gas del Mercosur S.A. (TGM) pipeline received approval to proceed. Construction of the systems is scheduled to begin in mid 1999 for a targeted in-service date of June 2000.

In February 1998, construction began on the Energía Mayakan S. de R.L. de C.V. (Energía Mayakan) pipeline in Mexico. The US$266 million pipeline is expected to be in service by the fall of 1999.

GasAndes – 46.5% owned

This $350 million pipeline, the first major natural gas pipeline to cross the Andes Mountains, creates export earnings for Argentina, and is a cornerstone in Chile's effort to improve air quality in the Santiago region.

Gas Pacifico – 30% owned

This US$400 million integrated natural gas project, expected to be operational in late 1999, includes a 540-kilometre natural gas pipeline from Argentina to Chile, together with a natural gas transportation and marketing company and investments in a commercial and residential natural gas distribution system.

Mexico

Energía Mayakan – 62.5% owned

A US$266 million, 700-kilometre natural gas pipeline in Mexico's Yucatan peninsula which is scheduled to be in service by the fall of 1999. This system will transport 370 MMcf per day of natural gas from Ciudad Pemex in Tabasco to power plants in Campeche and the Yucatan peninsula.

In July 1998, service commenced on the 150-kilometre interconnect between East Australia Pipeline (EAPL) in New South Wales and the transmission company serving the state of Victoria.

International Outlook

In 1999, International's objectives include the following.

- Continue to construct Energía Mayakan, ACCRO III and IV, TGM and Gasoducto del Pacifico S.A. (Gas Pacifico).
- Extend the pipeline system of TransCanada Netherlands to a new development area near the United Kingdom border. This 140-kilometre extension is expected to be completed in the spring of 1999.
- Enhance the profitability of and expand opportunities in the regions where we currently own assets.
- Continue to investigate and develop or acquire new investments.
- Focus on our cost structure to determine if further synergies can be gained and continuously improve business processes.

Acquisitions and greenfield development have provided a solid base for the International business. A full year of earnings from our investment in the Netherlands, growing transportation volumes on GasAndes and the operations of OCENSA are expected to be three key contributors to growth in earnings in 1999. Capital expenditures for new international investments are not expected to be significant in 1999.

International Business Risks

Weak energy prices and the volatility in world financial markets, which characterized 1998, are expected to continue in 1999. TransCanada's international investments are subject to risks associated with foreign operations such as country, political and foreign exchange risks, as well as risks particular to a specific project. We seek to manage these risks through extensive analysis of political, economic, social, legal and regulatory issues, by holding a diversified country and business portfolio, by sharing risk through joint ventures, by denominating revenues in US dollars or by indexing to US dollars whenever possible, and by holding political risk insurance, when appropriate.

EUROPE

Netherlands

TransCanada Netherlands – 100% owned

TransCanada Netherlands has a 38.6% interest in a 178-kilometre, 1.5 Bcf per day off-shore natural gas pipeline system in the North Sea and an on-shore gas treatment plant in the Netherlands. The company also has interests in offshore gas producing licences in the area.

ASIA PACIFIC

Indonesia

PT Paiton Energy Company – 10% owned

TransCanada has an interest in two 615-megawatt power plants in Indonesia currently under construction.

Thailand

Thappline – 2.55% owned

A 255-kilometre system that transports diesel fuel, jet fuel and other refined oil products between Sriracha and Saraburi.

Australia

EAPL – 25.48% owned

A 1,935-kilometre pipeline that transports 280 MMcf per day of natural gas from Moomba to Sydney in southeastern Australia.

CORPORATE

OUR EMISSION REDUCTION TEAM EXPLORES FOR WAYS TO REDUCE TRANSCANADA'S GREENHOUSE GAS EMISSIONS. TO DO THIS, WE UTILIZE STATE-OF-THE-ART ELECTRICAL COMPRESSORS; PIONEERING TRANSFER COMPRESSION TECHNIQUES; OFFSETS; AND CAPTURE AND REUSE WASTE HEAT FROM OUR PIPELINE OPERATIONS.

Business Combination with NOVA

Effective July 2, 1998, under the terms of a Plan of Arrangement, TransCanada merged with NOVA, a company involved in the gathering, processing, transmission and marketing of natural gas and natural gas liquids, and production and marketing of commodity chemicals. Each NOVA common share was exchanged for 0.52 of a TransCanada common share, resulting in the issuance of approximately 235.0 million TransCanada common shares. Immediately thereafter, the commodity chemicals business carried on by NOVA was split off through the issue of 0.2 of a common share of a separate public company for each common share of TransCanada held.

The Consolidated Financial Statements have been restated to reflect the financial position and results of operations as if TransCanada and NOVA had always been combined. The net assets, net income and cash flows associated with the commodity chemicals business prior to the split off have been presented in the Consolidated Financial Statements as discontinued operations and are not addressed in this Management's Discussion and Analysis.

As a result of the merger, TransCanada has become one of the largest energy solutions companies in North America, with assets of $25.6 billion at December 31, 1998. We believe the merger offers many significant benefits.

- Provides the ability to offer low-cost, flexible services from the WCSB to customers in major North American markets;
- Aligns pipeline capacity planning, thus enabling TransCanada to be more responsive to producers' transportation needs, particularly during periodic surges of exploration success;

Health, Safety and Environment

TransCanada is committed to providing a safe environment for our employees and the public, and to the protection of the environment for future generations. The management of health, safety and environmental risk is a priority in all of TransCanada's businesses.

Employees

To succeed in this increasingly competitive, dynamic industry, we must provide top-quality service to our customers. This is why TransCanada fosters a working environment that emphasizes teamwork, initiative, involvement, accountability and reward. We seek and employ creative, innovative individuals who are encouraged to improve and build TransCanada's businesses while realizing their full potential through continuous improvement and professional development. Today we are defining a new employee culture at TransCanada. A diversified culture focussed on creating integrated business solutions; a cooperative culture where all employees work together to add value; and a culture that appreciates our responsibility to protect and grow our shareholders' investments.

- Improves and expands the strategic positioning and growth opportunities in gas gathering and processing;
- Provides significant new marketing opportunities;
- Creates a stronger international presence and provides a number of new growth opportunities; and
- Provides expected annual operating cost savings of approximately $100 million.

We recorded integration costs in 1998 amounting to $166 million, after tax, relating to the business combination. These costs are a consequence of certain real estate and information systems assets becoming redundant, the sale of a gas marketing subsidiary, employee terminations and other restructuring activities.

We believe TransCanada is now positioned to meet our commitment of $100 million in savings from increased operating efficiencies by the year 2000. These savings should be realized across all business units and in the corporate functions. Additionally, capital cost savings are expected to be achieved through enhanced purchasing power, inventory efficiencies, and the ability to manage procurement and capital projects on a larger scale.

Liquidity and Capital Resources

Cash Generated From Operations

Cash generated from operations by continuing operating activities is $1,253 million for the year ended December 31, 1998, compared with $1,231 million and $1,122 million for 1997 and 1996, respectively.

The impact of the reduction in net income from continuing operations on cash generated from operations in 1998, when compared to 1997, is offset by increased depreciation charges and non-cash items relating to the merger with NOVA.

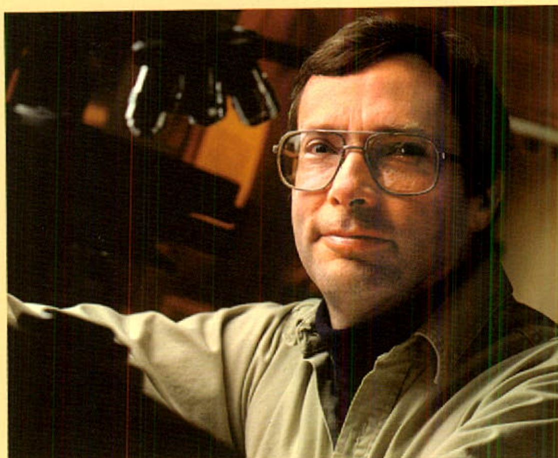
Investing Activities

Capital expenditures totalled $3.4 billion in 1998, an increase of $954 million compared to 1997. The major element of fiscal 1998's capital spending program is the continued expansion of TransCanada's energy transmission business.

Capital expenditures in 1997 were $603 million more than the 1996 level. The majority of 1997 capital spending also related to the continued expansion of the energy transmission business.

TransCanada's 1998 investing activities also include the acquisition of TransCanada Netherlands and an additional 30.1 per cent interest in OSP. Acquisition of the U.S. gas gathering and processing business during 1997 contributed to the net use of cash of $284 million.

Capital expenditures – annual (millions of dollars)	**1998**	1997	1996
Energy Transmission			
Alberta System	**413**	391	255
Canadian Mainline	**1,276**	1,056	629
Other	**726**	359	404
	2,415	1,806	1,288
Energy Processing	**681**	450	199
International	**277**	142	329
Energy Marketing and Corporate	**9**	30	9
	3,382	2,428	1,825



In May 1998, TransCanada signed a development agreement with H&R developments (H&R) to be the sole tenant in a new office building in downtown Calgary. H&R commenced construction of a one million-square foot office building in 1998 with expected completion in 2001.

Financing Activities

In 1998, TransCanada generated cash of $3.6 billion from the issuance of long-term debt, preferred securities, preferred shares and common equity.

Cash from these financing activities, combined with cash generated from operations, was used to finance capital expenditures and investments, retire debt, pay distributions on preferred securities, pay dividends on preferred and common shares, and fund the transaction costs associated with the business combination.

Net cash provided by financing activities includes TransCanada's proportionate share of non-recourse debt of joint ventures amounting to $699 million in 1998, reflecting non-recourse debt issued during the year offset partially by repayments. Net cash outflows associated with non-recourse joint venture debt were $15 million and $54 million in 1997 and 1996, respectively.

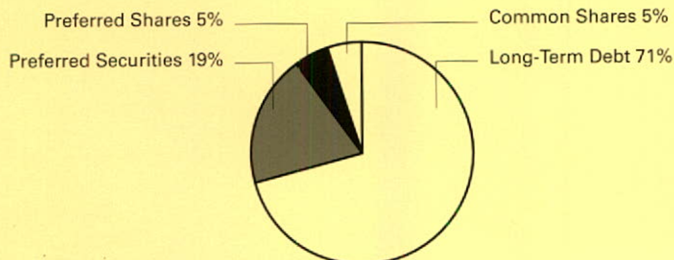
Credit Activities

Unused lines of credit of $2.3 billion were available to support TransCanada's commercial paper program, secure energy commodity purchases and for general corporate purposes at December 31, 1998.

At December 31, 1998, $375 million and US$1 billion of medium-term notes could be issued under our medium-term note programs in Canada and the United States, respectively.

Risk Management

The Company manages market risk exposures in accordance with corporate market risk policies and position limits. The policies and limits are designed to mitigate the risk of significant loss. The Company is also exposed to credit risk. Credit



1998 Cash Generated from Financings

IN 1998, RESEARCHERS AT THE UNIVERSITY OF CALGARY'S FACULTY OF MEDICINE, FUNDED IN PART BY A GRANT FROM TRANSCANADA, ANNOUNCED THE DISCOVERY OF A BENIGN, NATURALLY-OCCURRING HUMAN VIRUS THAT KILLS CANCER CELLS AND MAY ONE DAY PROVIDE NEW THERAPIES FOR CANCER PATIENTS.

risk is the risk that the Company will incur a loss due to the failure of a counterparty to meet its contractual financial obligation. TransCanada manages its market risk exposure on a consolidated basis and analyzes the impact of exposures on earnings objectives as well as their impact on the values of assets and liabilities. The Company's primary market risks result from volatility in commodity prices and interest and foreign currency exchange rates. Senior management reviews these exposures regularly, and at least monthly.

Energy Marketing Price Risk Management

The market risks of the Company's energy marketing portfolio of natural gas, natural gas liquids, crude oil and refined products are managed by entering into offsetting physical positions, when possible, to manage market risk exposures created by fixed and variable pricing arrangements, different pricing indices and different delivery points. Market risk is also managed through the use of derivative financial instruments. Exposures are quantified using value-at-risk methodology and are reviewed weekly by senior management.

Financial Risk Management

TransCanada monitors the financial market risk exposures relating to foreign currency denominated net assets, its regulated and non-regulated long-term debt portfolios and its foreign currency exposure on transactions. The market risk exposures created by these business activities are managed through offsetting positions or the use of derivative financial instruments. Exposures are quantified and are reviewed regularly by senior management.

Energy Processing Risk Management

The significant market risks of contracts entered into by TransCanada's energy processing businesses are identified and managed. These risks are monitored and reviewed regularly by senior management. The prices of natural gas or natural gas liquids may be hedged, depending upon market conditions.

Counterparty Risk Management

Counterparty risk is comprised of a counterparty's ability to meet both its payment obligations in a timely manner and its performance obligations under the terms and conditions of the agreement or contract. Counterparty risk is mitigated by conducting financial assessments to establish a counterparty's creditworthiness, setting exposure limits and monitoring exposures against these limits, and, where warranted, obtaining financial assurances.

Donations

In 1998, TransCanada donated approximately $5 million to support organizations involved in education, culture, health care, sports and civic activities.

YEAR 2000[1]

TransCanada has adopted a coordinated approach to deal with the fact that date-sensitive functions in computer-based systems and devices may fail to accurately process dates before, during and after the year 2000. In 1997, TransCanada began a formal review of computer hardware/software and embedded systems/chips. All of TransCanada's businesses, locations and functions (domestic and international) are involved in the Year 2000 program.

TransCanada's Approach

For every company, the Year 2000 challenge affects information technology systems and infrastructure, such as telecommunications and computers, and process control equipment. Likewise, any company can be affected by the failure of key suppliers or customers. TransCanada, like other companies, cannot guarantee that it will be completely Year 2000 compliant. However, TransCanada is taking steps to mitigate its risk of Year 2000 problems by addressing the mission critical functions that it controls, including hardware and software systems, infrastructure, process control equipment and key external relationships. "Mission critical" functions are those which, if they fail, will jeopardize TransCanada's ability to complete its core business activities, such as the transmission of gas under firm service contracts.

TransCanada also has investments in affiliates and joint ventures that it does not control. TransCanada is working with these businesses to encourage them to have comprehensive and effective Year 2000 programs in place.

The Year 2000 challenge is a top priority at TransCanada. The project sponsor is a member of the executive leadership team. Progress reports are provided to this team and to the Board of Directors. Executive responsibility for Year 2000 readiness has been established in each of TransCanada's business segments. As part of the overall program, each business operation has developed and is implementing a Year 2000 plan specific to it. An enterprise-wide group has been established to coordinate activities between the businesses and to ensure that a consistent approach is taken across the organization. The program team includes full-time employees and consultants who have expertise in information technology and process control equipment.

TransCanada has adopted a five-stage approach to planning and implementing a Year 2000 program which is as follows.

- Awareness

This involves initiating a project and establishing a project team and an internal communications program.

- Inventory and Assessment

This work involves developing inventories of systems, applications and processes, and estimating costs to remediate. The risk assessment determines how critical the applicable system or equipment is to the overall operations of TransCanada. The results of this assessment are used to set priorities for the actions that must be taken. As part of this assessment, it is recognized that some systems, not critical to the operations of TransCanada, will not be compliant by January 1, 2000.

- Stakeholder Awareness

The business risk to TransCanada posed by its dependence on stakeholders such as suppliers, customers, creditors, lenders and financial service organizations is assessed. Then the Year 2000 readiness of critical stakeholders is examined. Similarly, a communications program is established in an effort to assure stakeholders who are dependent on TransCanada understand its Year 2000 program.

- Remediation and Testing

Remediation involves replacing, retiring, renovating or upgrading applications and equipment including embedded chips. Testing involves establishing a Year 2000 testing infrastructure and methodology and conducting Year 2000 readiness testing on all mission critical systems whether or not remediation was identified as necessary.

EACH BUSINESS OPERATION IN TRANSCANADA HAS DEVELOPED AND IS IMPLEMENTING A YEAR 2000 PLAN. AN ENTERPRISE-WIDE TEAM HAS BEEN ESTABLISHED TO COORDINATE ACTIVITIES BETWEEN BUSINESSES AND ENSURE A CONSISTENT APPROACH ACROSS THE ENTERPRISE.

- Contingency Planning

Contingency plans are designed to minimize disruptions or other adverse effects. These plans include "work-arounds" that will ensure the safety of people, the security of TransCanada's assets, the continuity of service and the financial integrity of TransCanada in the event of system failures.

Costs

TransCanada has not incurred material costs relative to its Year 2000 program and it does not anticipate that its future costs for these purposes, including any costs of implementing Year 2000 contingency plans, will be material.

Management believes that its estimates are reasonable; however, there can be no assurance that the actual costs of implementing the plan will not differ materially from the estimated costs. In some cases, plans were already in place to replace certain systems and, in such cases, management has not included these costs in estimating Year 2000 costs. These cases include a previously planned implementation of a common financial system, an operating system in the Energy Marketing business and the integration of a number of systems resulting from the merger with NOVA. In addition, the direct costs of employees working on the Year 2000 program are not included.

Status

No step in the Year 2000 program can be considered complete until into the year 2000. As each step is undertaken, it provides new information on the Year 2000 problem and the effects on TransCanada's operations. The businesses are at various stages of completion of the Year 2000 program.

- An internal communications plan has been established to help employees understand their roles and responsibilities. Awareness is an ongoing phase which will continue throughout the program.
- The inventories and assessments are substantially completed in all businesses.
- Some stakeholder awareness program work has been ongoing since 1997. However, most of the work is planned for the first quarter of 1999. TransCanada is working with committees of the Canadian Gas Association and CAPP to share information on best practices with other businesses in the natural gas industry.
- Remediation and testing is underway in all businesses and is scheduled for completion by July 1, 1999. The replacement of certain systems in the gas gathering and processing business will be delayed until September 1999 because of delivery schedules from suppliers.
- In the first half of 1999, existing contingency plans will be reviewed to ensure Year 2000 issues relating to mission critical systems are thoroughly addressed and will be updated as necessary.

Summary

TransCanada has a program to deal with the Year 2000 challenge and believes that it will be able to achieve Year 2000 readiness with respect to the mission critical systems it controls. The program includes identifying and contacting external stakeholders whose systems TransCanada considers to have a substantial effect on its mission critical business functions. TransCanada will attempt to coordinate its activities with these stakeholders to obtain assurance that they will be Year 2000 ready. The program also includes working with the operators of investments and joint ventures that TransCanada does not control to obtain reasonable assurance that functions that are considered mission critical by those businesses will also be Year 2000 ready.

TransCanada anticipates that its program will continue into the year 2000 in order to assess and remediate problems that reasonably can be identified only after January 1, 2000.

(1) Note to U.S. readers: The discussion above constitutes a year 2000 readiness disclosure under the Year 2000 Information and Readiness Disclosure Act.

REPORT OF MANAGEMENT

The consolidated financial statements included in the Annual Report are the responsibility of Management and have been approved by the Board of Directors of the Company. These consolidated financial statements have been prepared by Management in accordance with generally accepted accounting principles (GAAP) in Canada and include amounts that are based on estimates and judgements. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with Canadian GAAP. It compares the Company's financial performance in 1998 to 1997 and should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1997 and 1996 are highlighted. Note 18 to the consolidated financial statements describes the impact on the consolidated financial statements of significant differences between Canadian and United States GAAP.

Management has developed and maintains a system of internal accounting controls, including a program of internal audits. Management believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes Management's communication to employees of policies which govern ethical business conduct.

The Board of Directors has appointed an Audit and Risk Management Committee consisting of unrelated, non-management directors which meets at least four times during the year with Management and independently with each of the internal and external auditors and as a group. The Audit and Risk Management Committee reviews the consolidated financial statements with Management and the external auditors before the consolidated financial statements are submitted to the Board of Directors for approval. The internal and external auditors have free access to the Audit and Risk Management Committee without obtaining prior Management approval.

The independent external auditors, KPMG LLP, have been appointed by the shareholders to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Company's financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles. The report of KPMG LLP on page 52 outlines the scope of their examination and their opinion on the consolidated financial statements.

George W. Watson
President and
Chief Executive Officer

Karyn A. Brooks
Vice-President
and Controller

February 1, 1999

CONSOLIDATED INCOME

Year ended December 31 (millions of dollars except per share amounts)	1998	1997	1996
Revenues	17,228	16,783	12,701
Operating Expenses			
Cost of sales	12,263	12,228	8,633
Other costs and expenses	2,359	2,151	1,630
Depreciation	738	655	590
Integration costs (Note 2)	207	—	—
Asset impairments (Note 4)	91	—	—
	15,658	15,034	10,853
Operating Income	1,570	1,749	1,848
Other Expenses/(Income)			
Financial charges (Note 7)	1,044	882	873
Financial charges of joint ventures (Note 8)	136	115	112
Allowance for funds used during construction	(81)	(39)	(25)
Interest and other income	(76)	(52)	(44)
	1,023	906	916
Income from Continuing Operations before Income Taxes	547	843	932
Income Taxes (Note 13)	121	263	298
Net Income from Continuing Operations	426	580	634
Net Income from Discontinued Operations (Note 2)	6	168	222
Net Income	432	748	856
Preferred Securities Charges (Note 9)	21	13	2
Preferred Share Dividends	50	45	38
Net Income Applicable to Common Shares	361	690	816
Net Income Applicable to Common Shares			
Continuing operations	355	522	594
Discontinued operations	6	168	222
	361	690	816
Net Income Per Share (Note 11)			
Continuing operations	$0.77	$1.14	$1.30
Discontinued operations	$0.01	$0.37	$0.49
	$0.78	$1.51	$1.79

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED CASH FLOWS

Year ended December 31 (millions of dollars)	1998	1997	1996
Cash Generated From Operations			
Net income from continuing operations	**426**	580	634
Depreciation	**738**	655	590
Integration costs	**109**	—	—
Asset impairments	**91**	—	—
Deferred income taxes	**(102)**	4	26
Other	**(21)**	(2)	1
Funds generated from operations	**1,241**	1,237	1,251
Decrease/(increase) in operating working capital (Note 16)	**12**	(6)	(129)
Net cash provided by continuing operating activities	**1,253**	1,231	1,122
Net cash provided by discontinued operating activities	**141**	352	210
	1,394	1,583	1,332
Investing Activities			
Capital expenditures	**(3,382)**	(2,428)	(1,825)
Acquisitions, net of cash acquired	**(438)**	(284)	(358)
Deferred amounts and other	**(10)**	318	(3)
Net cash used in investing activities of continuing operations	**(3,830)**	(2,394)	(2,186)
Net cash used in investing activities of discontinued operations	**(263)**	(567)	(377)
	(4,093)	(2,961)	(2,563)
Financing Activities			
Dividends and preferred securities charges	**(524)**	(472)	(407)
Notes payable (repaid)/issued, net	**(646)**	223	(209)
Long-term debt issued	**2,584**	1,531	1,307
Reduction of long-term debt	**(367)**	(406)	(129)
Non-recourse debt of joint ventures issued	**777**	109	20
Reduction of non-recourse debt of joint ventures	**(78)**	(124)	(74)
Partnership units issued	**127**	219	—
Settlement of convertible debentures	**—**	—	(150)
Junior subordinated debentures issued	**—**	—	218
Preferred securities issued	**672**	—	257
Preferred shares issued/(redeemed)	**195**	194	(150)
Common shares issued	**184**	129	344
Common shares repurchased	**—**	(209)	(227)
Transaction costs of business combination	**(182)**	—	—
Net cash provided by financing activities of continuing operations	**2,742**	1,194	800
Net cash provided by/(used in) financing activities of discontinued operations	**181**	(107)	264
	2,923	1,087	1,064
Increase/(Decrease) in Cash and Short-Term Investments			
Continuing operations	**165**	31	(264)
Discontinued operations	**59**	(322)	97
	224	(291)	(167)
Cash and Short-Term Investments			
Beginning of year from continuing operations	**185**	154	418
Beginning of year from discontinued operations	**(59)**	263	166
	126	417	584
Cash and Short-Term Investments			
End of year from continuing operations	**350**	185	154
End of year from discontinued operations	**—**	(59)	263
	350	126	417

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEET

December 31 (millions of dollars)	1998	1997
Assets		
Current Assets		
Cash and short-term investments	**350**	185
Accounts receivable	**1,846**	1,822
Inventories	**422**	403
Other	**54**	38
	2,672	2,448
Long-Term Investments (Note 6)	**1,232**	671
Plant, Property and Equipment (Notes 4, 7 and 8)	**21,071**	17,950
Other Assets	**586**	503
Net Assets of Discontinued Operations (Note 2)	**—**	1,722
	25,561	23,294
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (Note 14)	**569**	1,228
Accounts payable	**1,987**	1,938
Accrued interest	**294**	235
Long-term debt due within one year (Note 7)	**661**	365
Non-recourse debt of joint ventures due within one year (Note 8)	**55**	51
	3,566	3,817
Deferred Amounts	**521**	113
Long-Term Debt (Note 7)	**12,001**	9,281
Non-Recourse Debt of Joint Ventures (Note 8)	**1,677**	1,220
Deferred Income Taxes	**157**	265
Junior Subordinated Debentures (Note 9)	**239**	224
Non-Controlling Interests	**165**	96
Shareholders' Equity		
Preferred securities (Note 9)	**978**	280
Preferred shares (Note 10)	**908**	713
Common shares (Note 11)	**4,331**	4,147
Contributed surplus	**263**	263
Retained earnings	**740**	2,791
Foreign exchange adjustment (Note 12)	**15**	84
	7,235	8,278
Contingencies (Note 17)		
	25,561	23,294

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board:

George W. Watson
Director

Harold P. Milavsky
Director

CONSOLIDATED CONTRIBUTED SURPLUS AND RETAINED EARNINGS

Year ended December 31 (millions of dollars)	**1998**	1997	1996
Contributed Surplus			
Balance at beginning of year	**263**	263	265
Preferred share issue expenses	**—**	—	(2)
	263	263	263
Retained Earnings			
Balance at beginning of year	**2,791**	2,655	2,376
Net income	**432**	748	856
Preferred securities charges and issue expenses	**(21)**	(13)	(7)
Preferred share dividends	**(50)**	(45)	(38)
Common share dividends	**(490)**	(440)	(406)
Excess over book value paid on common shares repurchased	**—**	(112)	(126)
Split off of commodity chemicals business (Note 2)	**(1,708)**	—	—
Transaction costs of business combination (Note 2)	**(182)**	—	—
Other	**(32)**	(2)	—
	740	2,791	2,655

The accompanying notes to the consolidated financial statements are an integral part of these statements.

AUDITORS' REPORT

To the Shareholders of TransCanada PipeLines Limited

We have audited the consolidated balance sheets of TransCanada PipeLines Limited as at December 31, 1998 and 1997 and the consolidated statements of income, contributed surplus and retained earnings and cash flows for each of the years in the three-year period ended December 31, 1998. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1998 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 1, 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TransCanada PipeLines Limited (the Company or TransCanada) is one of the largest energy services companies and carriers of natural gas in North America. TransCanada operates in four segments which represent separately managed strategic business units, each of which offers different products and services.

Energy Transmission

Energy Transmission owns and operates the natural gas transmission system extending from the Alberta border east into Québec (the Canadian Mainline), the natural gas transmission system in Alberta (the Alberta System) and the ANG Pipeline. It holds the Company's investments in natural gas pipelines in Canada and the United States and the Express oil pipeline (Express Pipeline). This segment also investigates and develops new energy transmission facilities in Canada and the United States. The majority of net income is contributed by this segment.

Energy Marketing

Energy Marketing buys and sells energy commodities, including natural gas, natural gas liquids, crude oil and refined products and provides a selection of supply, storage and transportation services to its customers. These services are provided in both Canada and the United States.

Energy Processing

Energy Processing owns and operates assets which process hydrocarbons into other forms of energy and products in Canada and the United States. The processing assets include: independent power plants; natural gas gathering and processing facilities and extraction plants; and specialty chemicals and carbon black manufacturing facilities. This segment also investigates and develops energy processing projects in Canada and the United States.

International

International invests in energy transmission, processing and power generation operations and investigates and develops energy services businesses outside of Canada and the United States.

NOTE 1 Accounting Policies

The consolidated financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These accounting principles are different in some respects from United States generally accepted accounting principles (U.S. GAAP) and the significant differences are described in Note 18. Amounts are stated in Canadian dollars unless otherwise indicated.

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 which have been made using careful judgement. In the opinion of Management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of Presentation

The consolidated financial statements include the accounts of TransCanada PipeLines Limited, its subsidiaries and its proportionate share of the accounts of its joint ventures. The Company uses the equity method of accounting for investments over which it is able to exercise significant influence. Other investments are carried at cost.

The consolidated financial statements for 1997 and 1996 have been restated to reflect the business combination of the Company and NOVA Corporation (NOVA) which has been accounted for using the pooling of interests method.

Regulation

The Canadian Mainline and the ANG Pipeline are subject to the authority of the National Energy Board (NEB) and the Alberta System is regulated by the Alberta Energy and Utilities Board (EUB). All Canadian natural gas transmission operations are regulated with respect to the determination of tolls, construction, operations and accounting. The natural gas pipelines in the United States, the Ocean State Power Plant and certain other international pipeline investments are also subject to the authority of regulatory bodies. In order to achieve a proper matching of revenues and expenses, the timing of recognition of certain revenues and expenses in these businesses may differ from tnat otherwise expected under generally accepted accounting principles.

Cash and Short-Term Investments

The Company's short-term investments are considered to be cash equivalents and are recorded at cost, which approximates market value.

Inventories

Inventories are carried at the lower of average cost or net realizable value.

Plant, Property and Equipment

Energy Transmission

Plant, property and equipment of natural gas transmission operations are carried at cost. Depreciation is calculated on the straight-line basis using rates approved by the regulators. Pipeline and compression equipment is depreciated at annual rates ranging from two to five per cent and metering and other plant are depreciated at various rates. Removal and site restoration costs are not determinable and will be recorded when reasonably estimable and when approved by the regulators. An allowance for funds used during construction, using the rate of return on rate base approved by the regulators, is capitalized and included in the cost of gas transmission plant.

Express Pipeline plant, property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis over estimated service lives at an average annual rate of approximately three per cent.

Energy Marketing and Processing

Plant, property and equipment are recorded at cost and depreciated on the straight-line basis over estimated service lives at average annual rates ranging from three to five per cent. Interest is capitalized on plant under construction and included in the cost.

Foreign Currency Translation

The Company's foreign operations are self-sustaining and are translated into Canadian dollars using the current rate method. Translation adjustments are reflected in the foreign exchange adjustment in Shareholders' Equity.

Exchange gains or losses on the principal amounts of foreign currency debt related to the Canadian Mainline and the Alberta System are deferred until they are recovered in tolls.

Income Taxes

For tollmaking purposes, the taxes payable method of accounting for income taxes is used for Canadian natural gas transmission operations. This method is also used for accounting purposes, since there is reasonable expectation that future taxes payable will be included in future costs of service and recovered in revenues at that time. The deferral method of accounting for income taxes is used for other operations.

Canadian income taxes are not provided on the unremitted earnings of foreign investments which are considered to be indefinitely reinvested in foreign operations.

Derivative Financial Instruments

The Company utilizes derivative financial instruments and derivative commodity instruments (collectively, derivatives) to manage its exposure to changes in foreign currency exchange rates, interest rates and energy commodity prices. Gains or losses relating to derivatives that are hedges are deferred and recognized in the same period and in the same financial statement category as the gains or losses on the corresponding hedged transactions.

A derivative must be designated and effective to be accounted for as a hedge. For cash flow hedges, effectiveness is achieved if the cash flows of the derivative substantially offset the cash flows of the hedged position and the timing of the cash flows is similar. Effectiveness for fair value hedges is achieved if the fair value of the derivative substantially offsets changes in fair value attributable to the hedged item. In the event that a derivative does not meet the designation or effectiveness criterion, the gain or loss on the derivative is recognized in income. If a derivative is settled early, the gain or loss at settlement is deferred and recognized when the gain or loss on the hedged transaction is recognized.

Premiums paid or received with respect to derivatives are deferred and amortized to income over the term of the hedge. The recognition of gains and losses on derivatives used as hedges for Canadian Mainline and Alberta System exposures is determined through the regulatory process.

Project Development Costs

Investment and project costs incurred during the development stage are expensed until the project is considered to be commercially viable, after which costs are capitalized.

Post-Employment Benefits Other Than Pensions

The Company provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. The cost of these benefits is expensed when paid.

NOTE 2 Business Combination with NOVA

Description of the Business Combination

Effective July 2, 1998, TransCanada entered into a business combination with NOVA. NOVA's businesses included gathering, processing, transmission and marketing of natural gas and natural gas liquids, and production and marketing of commodity chemicals. Under the terms of a Plan of Arrangement (the Arrangement), the companies merged and then split off the commodity chemicals business carried on by NOVA into a separate public company. The nature of the business combination was such that neither of the combining companies could be identified as the acquirer. The business combination has been accounted for using the pooling of interests method whereby these consolidated financial statements reflect the combined historical carrying values of the assets, liabilities and shareholders' equity and the historical operating results of the predecessor companies.

Each NOVA common share was exchanged for 0.52 of a TransCanada common share, resulting in the issuance of approximately 235.0 million TransCanada common shares. Immediately thereafter, each TransCanada common share was exchanged for one new TransCanada common share and 0.2 of a common share of the separate public company conducting the commodity chemicals business. After the business combination, the former shareholders of NOVA held 51 per cent and the former shareholders of TransCanada held 49 per cent of the 460.5 million outstanding common shares of the combined company, which carries on business as TransCanada. On July 3, 1998, the first trading day subsequent to the Arrangement, the closing market price of a TransCanada common share was $27.05.

Financial Information Prior to the Business Combination

At the date of the business combination, the book values of the assets and liabilities of TransCanada and NOVA, prior to the split off, were as follows:

(millions of dollars)	TransCanada	NOVA
Assets		
Current assets	2,223	1,165
Plant, property and equipment	12,867	8,131
Other assets	609	1,705
	15,699	11,001
Liabilities		
Current liabilities	2,076	1,875
Long-term debt	6,902	4,673
Non-recourse debt of joint ventures	1,450	
Junior subordinated debentures	224	
Other liabilities	458	375
Non-controlling interests	191	
Shareholders' Equity	4,398	4,078

The operating results of TransCanada and NOVA for the period ended July 2, 1998, prior to the split off, were as follows.

(millions of dollars)	TransCanada	NOVA
Revenues	6,841	2,279
Operating income	593	378
Net income	219	104

Transaction Costs

Third party fees, costs and expenses related to the business combination totalled approximately $182 million after income taxes. The transaction costs have been charged to retained earnings.

Integration Costs

(millions of dollars)		**1998**
Asset impairments		**109**
Costs to exit a business		**36**
Restructuring costs		
Employee	**28**	
Other	**34**	**62**
		207

The Company has recorded integration costs related to the business combination with NOVA. The business combination resulted in certain assets becoming redundant, primarily real estate and information systems assets. The amount of the real estate impairment was determined by comparing the net carrying value to market appraisals. In December 1998, Pan-Alberta Gas Ltd. (Pan-Alberta), a former gas marketing subsidiary of NOVA, was sold and exit costs of $36 million were incurred to complete the sale.

Employee costs relate to the termination of approximately 600 employees, of which 46 are management positions and 554 are non-management positions. The Company terminated 274 employees in the year ended December 31, 1998. The remaining employee terminations are expected to occur in 1999. Restructuring costs of approximately $17 million were paid in the year ended December 31, 1998.

Discontinued Operations

The commodity chemicals business, which was split off on July 2, 1998 under the terms of the Arrangement, has been accounted for as discontinued operations. The carrying value of selected assets and liabilities and the net income attributable to discontinued operations for the period ended July 2, 1998 and the years ended December 31, 1997 and 1996 are as follows.

(millions of dollars)	**July 2, 1998**	1997	1996
Current assets	**818**	689	
Plant, property and equipment, net	**2,020**	1,822	
Total assets	**3,894**	3,561	
Current liabilities	**746**	443	
Long-term debt	**1,029**	1,015	
Shareholder's equity	**1,759**	1,722	
Revenues	**1,598**	3,360	3,043
Net income before income taxes	**39**	282	362
Net income for the period	**6**	168	222

The split off was accounted for by removing the book values of the assets and liabilities of the commodity chemicals business from the Company's consolidated financial statements as at July 2, 1998. Consolidated retained earnings and the foreign exchange adjustment were reduced by $1,708 million and $51 million, respectively.

NOTE 3 Segmented Information

Operations

Year ended December 31 (millions of dollars)	1998	1997	1996
Energy Transmission			
Revenues	**3,900**	3,691	3,401
Costs and expenses	**(1,532)**	(1,448)	(1,176)
Depreciation	**(620)**	(570)	(528)
Operating income	**1,748**	1,673	1,697
Financial charges and other	**(896)**	(846)	(884)
Income taxes	**(246)**	(244)	(251)
Preferred share dividends and preferred securities charges	**(35)**	(36)	(38)
Net income applicable to common shares	**571**	547	524
Energy Marketing (1)			
Revenues (2)	**12,144**	12,324	8,760
Cost of sales (2)	**(11,789)**	(12,028)	(8,486)
Other costs and expenses	**(309)**	(351)	(196)
Operating income/(loss)	**46**	(55)	78
Financial charges and other	**(17)**	(11)	(10)
Income taxes	**(16)**	(20)	(33)
Net income/(loss) applicable to common shares	**13**	(86)	35
Energy Processing			
Revenues	**913**	697	493
Cost of sales	**(392)**	(200)	(147)
Other costs and expenses	**(376)**	(264)	(186)
Depreciation	**(91)**	(72)	(53)
Asset impairments	**(91)**	—	—
Operating (loss)/income	**(37)**	161	107
Financial charges and other	**(41)**	(49)	(33)
Income taxes	**35**	(42)	(28)
Net (loss)/income applicable to common shares	**(43)**	70	46
International			
Revenues	**198**	30	20
Equity income	**73**	41	27
Cost of sales	**(82)**	—	—
Other costs and expenses	**(169)**	(101)	(81)
Operating income/(loss)	**20**	(30)	(34)
Other income and expenses	**2**	2	1
Income taxes	**17**	26	19
Net income/(loss) applicable to common shares	**39**	(2)	(14)
Unallocated Amounts			
Integration costs	**(166)**	—	—
Financial charges and other	**(23)**	15	5
Preferred share dividends and preferred securities charges	**(36)**	(22)	(2)
	(225)	(7)	3
Net Income Applicable to Common Shares from Continuing Operations	**355**	522	594

(1) Includes the results of Pan-Alberta, a business sold in December 1998. A restated unusual charge of $98 million was incurred in 1997 related to the value of Pan-Alberta's assets and Pan-Alberta's incurrence of certain contract losses. The unusual charge is included in other costs and expenses.

(2) The above table excludes inter-segment transactions between energy transmission and energy marketing of $327 million in 1998 (1997 – $366 million; 1996 – $302 million).

Total Assets

December 31 (millions of dollars)	1998	1997
Energy Transmission	**19,346**	16,748
Energy Marketing (primarily current assets)	**1,337**	1,528
Energy Processing	**2,794**	1,909
International	**1,708**	777
Corporate	**376**	610
Discontinued operations, net	**—**	1,722
	25,561	23,294

Geographic Information

Year ended December 31 (millions of dollars)	1998	1997	1996
Revenues (3)			
Canada - domestic	**5,992**	5,622	4,951
Canada - export	**2,238**	2,337	2,150
United States	**8,727**	8,753	5,553
International	**271**	71	47
	17,228	16,783	12,701

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

December 31 (millions of dollars)	1998	1997
Plant, Property and Equipment		
Canada	**17,560**	15,332
United States	**3,258**	2,601
International	**253**	17
	21,071	17,950

Capital Expenditures

Year ended December 31 (millions of dollars)	1998	1997	1996
Energy Transmission	**2,415**	1,806	1,288
Energy Processing	**681**	450	199
International	**277**	142	329
Energy Marketing and Corporate	**9**	30	9
	3,382	2,428	1,825

NOTE 4 Plant, Property and Equipment

December 31 (millions of dollars)			1998	1997
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Energy Transmission				
Canadian Mainline				
Pipeline	8,108	2,121	5,987	5,660
Compression	2,926	526	2,400	1,980
Metering and other	402	98	304	290
	11,436	2,745	8,691	7,930
Under construction	428	—	428	183
	11,864	2,745	9,119	8,113
Alberta System				
Pipeline	4,277	1,189	3,088	2,966
Compression	1,314	268	1,046	1,060
Metering and other	1,126	272	854	805
	6,717	1,729	4,988	4,831
Under construction	252	—	252	201
	6,969	1,729	5,240	5,032
Interconnected Pipelines	5,077	1,565	3,512	2,518
Express Pipeline	520	28	492	463
	24,430	6,067	18,363	16,126
Energy Processing				
Gas Gathering and Processing	1,827	259	1,568	1,046
Power Generation	613	170	443	343
Chemicals	395	70	325	303
	2,835	499	2,336	1,692
Other	450	78	372	132
	27,715	6,644	21,071	17,950

Asset Impairments

The Company undertook an asset impairment analysis of its United States gas gathering and processing assets, due to persistent unfavourable market conditions. A charge to operations of $91 million was recorded in 1998 to reflect the impairment of certain of these gas gathering and processing assets. The amount of the impairment was determined by comparing estimated future undiscounted net cash flows with the net carrying value of the related asset.

NOTE 5 Joint Venture Investments

(millions of dollars)		TransCanada's Proportionate Share				
		Income/(Loss) Before Income Tax			Net Assets	
		Year ended December 31			December 31	
	Ownership Interest	**1998**	1997	1996	**1998**	1997
Energy Transmission						
Great Lakes	50.0%	**86**	77	84	**506**	414
Northern Border	30.0%	**46**	30	33	**388**	249
Iroquois	29.0%	**23**	22	13	**91**	80
Tuscarora	50.0%	**4**	4	4	**26**	22
Foothills (1)	50.0% – 74.5%	**12**	24	31	**—**	180
Trans Québec & Maritimes	50.0%	**12**	7	11	**82**	48
Express Pipeline	50.0%	**(17)**	(19)	—	**208**	331
Energy Marketing and Processing						
Ocean State Power Plant (2)	70.1%	**26**	17	18	**197**	99
Other	25.0 – 60.0%	**28**	9	3	**222**	66
International						
Energía Mayakan	62.5%	**—**	—	—	**41**	18
		220	171	197	**1,761**	1,507

(1) Subsequent to the business combination with NOVA, the investments in Foothills have been consolidated.
(2) During 1998, the Company increased its interest in the Ocean State Power Plant from 40.0 per cent to 70.1 per cent.

Consolidated retained earnings at December 31, 1998 include undistributed earnings from joint ventures of $394 million (1997 - $308 million).

Summarized Financial Information of Joint Ventures

Year ended December 31 (millions of dollars)	**1998**	1997	1996
Income			
Revenues	**992**	1,272	1,367
Costs and expenses	**(540)**	(857)	(938)
Depreciation	**(139)**	(129)	(133)
Joint venture financial charges and other	**(93)**	(115)	(99)
Proportionate share of income before financing costs and income tax of joint ventures	**220**	171	197

Year ended December 31 (millions of dollars)	1998	1997	1996
Cash Flows			
Operations	**298**	328	368
Investing activities	**(904)**	(431)	(403)
Financing activities	**696**	88	21
Proportionate share of increase/(decrease) in cash and short-term investments of joint ventures	**90**	(15)	(14)

December 31 (millions of dollars)	1998	1997
Balance Sheet		
Cash and short-term investments	**130**	40
Other current assets	**225**	118
Plant, property and equipment	**3,504**	3,021
Other assets	**50**	36
Current liabilities	**(402)**	(341)
Non-recourse debt	**(1,677)**	(1,220)
Deferred income taxes	**(69)**	(147)
Proportionate share of net assets of joint ventures	**1,761**	1,507

NOTE 6 Long-Term Investments

December 31 (millions of dollars)	1998	1997
Equity Investments		
International (1)	**1,033**	545
Other	**36**	7
	1,069	552
Cost Investments		
PT Paiton Energy Company (Paiton)	**113**	69
Other	**50**	50
	163	119
	1,232	671

Consolidated retained earnings at December 31, 1998 include undistributed earnings from equity investments of $126 million (1997 – $79 million).

(1) International Equity Investments	Type of Business	Ownership
Colombia		
Oleoducto Central S.A.	Oil pipeline	17.5%
TransGas de Occidente S.A.	Natural gas pipeline	44.0%
Compania Operadora del Gasoducto Centro Oriente S.A.	Consulting	40.0%
Venezuela		
ACCROVEN SRL	Gas processing	49.25%
Argentina		
Transportadora de Gas del Norte S.A. (TGN)	Natural gas pipeline	19.1%
Transportadora de Gas del Mercosur S.A.	Natural gas pipeline	21.8%
Argentina/Chile		
Gasoducto GasAndes S.A. (GasAndes)	Natural gas pipeline	46.5%
Gasoducto del Pacifico S.A.	Natural gas pipeline	30.0%
Chile		
Servicios de Gas Natural Holdings S.A.	Natural gas marketing	30.0%
Australia		
East Australian Pipeline Limited	Natural gas pipeline	25.48%
Malaysia		
OGP Technical Services Sdn. Bhd	Consulting	40.0%
Netherlands		
Noordgastransport B.V.	Natural gas pipeline and gas extraction	38.6%

The Company has agreed to guarantee repayment of certain debt related to TGN to a maximum of US$78 million. The Company would be liable only in the event that the licence to operate and transport gas in Argentina was revoked or terminated by the regulatory authorities for reasons other than bankruptcy. A third party has indemnified the Company for 42 per cent of the Company's contingent liability, reducing the Company's exposure to US$45 million.

The Company has agreed to guarantee repayment of the credit facility of GasAndes to a maximum of US$127 million. At December 31, 1998 the debt subject to guarantee amounted to US$95 million.

Cost Investments

The Company's investment in Paiton has been pledged as security for the related non-recourse debt.

NOTE 7 Long-Term Debt

	Maturity Dates	1998 Outstanding December 31 (1)	1998 Weighted Average Interest Rate (2)	1997 Outstanding December 31 (1)	1997 Weighted Average Interest Rate (2)
Canadian Mainline					
First Mortgage Pipe Line Bonds					
Pounds Sterling (1998 and 1997 – £25)	2007	**64**	**16.5%**	59	16.5%
Debentures					
Canadian dollars	2000 to 2020	**1,530**	**10.9%**	1,655	10.9%
U.S. dollars (1998 and 1997 – US$800)	2012 to 2023	**1,224**	**9.2%**	1,143	9.2%
Medium-Term Notes					
Canadian dollars	1999 to 2031	**3,000**	**7.4%**	2,111	8.0%
		5,818		4,968	
Foreign exchange differential recoverable through the tollmaking process		**(282)**		(196)	
		5,536		4,772	
Alberta System					
Debentures and Notes					
Canadian dollars	1999 to 2024	**982**	**11.1%**	1,003	11.1%
U.S. dollars (1998 and 1997 – US$775)	1999 to 2023	**1,186**	**8.0%**	1,108	8.0%
Medium-Term Notes					
Canadian dollars	2000 to 2031	**981**	**7.4%**	934	7.7%
U.S. dollars (1998 and 1997 – US$133)	2001 to 2026	**203**	**6.6%**	190	6.6%
Unsecured Loans					
U.S. dollars (1998 and 1997 – US$182)	2000 to 2003	**279**	**5.7%**	260	6.1%
		3,631		3,495	
Foreign exchange differential recoverable through the tollmaking process		**(314)**		(203)	
		3,317		3,292	
Other					
Medium-Term Notes					
Canadian dollars	1999 to 2030	**783**	**7.0%**	352	8.7%
U.S. dollars (1998 – US$1,113; 1997 – US$513)	2001 to 2029	**1,703**	**6.8%**	733	7.1%
Subordinated Debentures					
U.S. dollars (1998 and 1997 – US$200)	2006	**306**	**9.1%**	286	9.1%
Long-Term Debt of Subsidiaries					
Canadian dollars	1999 to 2006	**745**	**7.1%**	162	8.3%
U.S. dollars (1998 – US$40; 1997 – US$34)	1999 to 2008	**61**	**6.8%**	49	6.6%
Dutch guilders (1998 – NLG173; 1997 – nil)	1999	**141**	**3.6%**	—	—
Unsecured Loan					
Canadian dollars	2001	**70**	**6.5%**	—	—
		3,809		1,582	
		12,662		9,646	
Less: Long-Term Debt Due Within One Year		**661**		365	
		12,001		9,281	

(1) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in currencies other than Canadian dollars are stated in millions.

(2) Weighted average interest rates are stated as at the respective outstanding dates. The effective weighted average interest rates resulting from swap agreements are as follows: Alberta System U.S. dollar debentures and notes – 8.0 per cent (1997 – 7.9 per cent); Alberta System Canadian dollar medium-term notes – 6.9 per cent (1997 – 6.7 per cent); Alberta System U.S. dollar unsecured loans – 7.8 per cent (1997 – 7.8 per cent); and Other U.S. dollar subordinated debentures – 8.5 per cent (1997 – 8.3 per cent).

Mandatory Retirements

Mandatory retirements resulting from maturities and sinking fund obligations of the long-term debt of the Company approximate: 1999 – $661 million; 2000 – $615 million; 2001 – $729 million; 2002 – $478 million; and 2003 – $1,088 million.

Medium-Term Notes

The Company has established medium-term note programs in Canada and the United States. At December 31, 1998, the Company can issue additional medium-term notes of up to $375 million in Canada and US$1 billion in the United States under these existing programs.

Canadian Mainline

First Mortgage Pipe Line Bonds

The Deed of Trust and Mortgage securing the Company's First Mortgage Pipe Line Bonds limits the specific and floating charges to those assets comprising the present and future Canadian Mainline and the Company's present and future gas transportation contracts.

Medium-Term Notes

Medium-term notes amounting to $148 million have retraction provisions which entitle the holders to require redemption of the principal plus accrued and unpaid interest on repayment dates varying from 2001 to 2003. Medium-term notes amounting to $125 million have a provision entitling the holder to extend the maturity of the medium-term notes from the initial repayment date of 2001 to 2008. If extended, the interest rate would increase from 5.6 per cent to 5.9 per cent and the medium-term notes would become redeemable at the option of the Company.

Alberta System

Debentures

Debentures amounting to $225 million have retraction provisions which entitle the holders to require redemption of up to 8 per cent of the principal plus accrued and unpaid interest on repayment dates beginning in 1997. No note holders have exercised this option to date.

Other

Long-Term Debt of Subsidiaries

Pursuant to a trust deed, a subsidiary has issued and pledged to certain banks a demand debenture in the principal amount of $200 million as security for funds advanced under a credit arrangement. The subsidiary has also granted a floating charge on its undertakings, property and assets.

Medium-Term Notes

Medium-term notes amounting to $150 million and US$200 million have retraction provisions which entitle the holders to require redemption of the principal plus accrued and unpaid interest in 2005 and 2004, respectively. The Company also has the option to redeem the US$200 million medium-term notes in 2004. If the U.S. dollar medium-term notes remain outstanding, the interest rate will change in 2004 from 6.4 per cent to a rate based on the U.S. Treasury 30 year bond yield.

Financial Charges

Year ended December 31 (millions of dollars)	**1998**	1997	1996
Interest on long-term debt	**975**	821	805
Regulatory deferrals and amortizations	**12**	16	42
Short-term interest and other financial charges	**67**	54	38
Interest capitalized	**(10)**	(9)	(12)
	1,044	882	873

The Company made interest payments of $1,002 million, $868 million and $856 million for the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE 8 Non-Recourse Debt of Joint Ventures

	Maturity Dates	Outstanding December 31 (1)	1998 Weighted Average Interest Rate (2)	Outstanding December 31 (1)	1997 Weighted Average Interest Rate (2)
Great Lakes					
Senior Unsecured Notes					
(1998 – US$276; 1997 – US$202)	2000 to 2028	**422**	**8.3%**	289	9.2%
Northern Border					
Senior Notes					
(1998 and 1997 – US$75)	2000 to 2003	**115**	**8.4%**	107	8.4%
Bank Loan					
(1998 – US$184; 1997 – US$63)	2000 to 2002	**282**	**5.5%**	90	6.3%
Iroquois					
Bank Loan					
(1998 – US$106; 1997 – US$114)	2006 to 2008	**162**	**8.7%**	163	8.6%
Tuscarora					
Senior Secured Notes					
(1998 – US$44; 1997 – US$45)	2010	**67**	**7.1%**	64	7.1%
Foothills (3)					
Note	2003	**–**	**–**	284	7.3%
Bank Loan	2005	**–**	**–**	74	8.3%
Trans Québec & Maritimes					
First Mortgage Bonds	2000 to 2005	**88**	**9.9%**	95	9.9%
Express Pipeline					
Senior Secured Notes					
(1998 – US$75; 1997 – nil)	2013	**115**	**6.5%**	—	—
Subordinated Secured Notes					
(1998 – US$125; 1997 – nil)	2019	**191**	**7.4%**	—	—
Ocean State Power Plant					
Senior Secured Notes					
(1998 – US$99; 1997 – US$61)	2002 to 2011	**152**	**7.7%**	88	7.7%
Energía Mayakan					
Bank Loans					
(1998 – US$90; 1997 – US$12)	2011 to 2014	**138**	**6.7%**	17	7.7%
		1,732		1,271	
Less: Non-Recourse Debt of Joint Ventures Due Within One Year		**55**		51	
		1,677		1,220	

(1) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in U.S. dollars are stated in millions.

(2) Weighted average interest rates are stated as at the respective outstanding dates. The effective weighted average interest rates on the bank loans of Northern Border, Iroquois and Energía Mayakan and on the notes of Express Pipeline resulting from swap agreements, are 5.8 per cent, 7.6 per cent, 5.4 per cent and 7.4 per cent, respectively, at December 31, 1998 (1997 – 7.0 per cent, 7.6 per cent, 7.7 per cent and nil, respectively).

(3) Subsequent to the business combination with NOVA, the investments in Foothills have been consolidated.

The debt of joint ventures is non-recourse to TransCanada. The security provided by each joint venture is limited to the rights and assets of that joint venture and does not extend to the rights and assets of TransCanada, except to the extent of TransCanada's investment.

The Company's proportionate share of mandatory retirements resulting from maturities and sinking fund obligations of the non-recourse joint venture debt approximates: 1999 – $55 million; 2000 – $96 million; 2001 – $72 million; 2002 – $388 million; and 2003 – $95 million.

Financial Charges of Joint Ventures

Year ended December 31 (millions of dollars)	**1998**	1997	1996
Interest on long-term non-recourse debt	**126**	113	110
Other	**10**	2	2
	136	115	112

The Company's proportionate share of the interest payments of joint ventures is $118 million, $101 million and $102 million for the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE 9 Junior Subordinated Debentures and Preferred Securities

December 31 (millions of dollars)	Maturity Dates	**1998**	1997
Junior Debentures			
8.75% Issue (1998 and 1997 – US$160 million)	2045	**218**	218
Preferred Securities			
8.25% and 8.50% Issues			
(1998 – US$14 million; 1997 – US$4 million)	2045 to 2047	**21**	6
		239	224

The foreign exchange differential on the principal amount of the Junior Debentures and 8.25 per cent Preferred Securities, which are Canadian Mainline financings, will be recovered through the tollmaking process.

Junior Debentures

The Junior Debentures are redeemable at par by the Company at any time on or after July 23, 2001 and in certain circumstances prior to that date. The Company may elect to defer interest payments on the Junior Debentures. Interest and deferred interest, if any, are payable in cash.

Preferred Securities

The US$200 million 8.50 per cent Preferred Securities are redeemable by the Company at par at any time on or after November 7, 2001 and in certain circumstances prior to that date. The US$460 million 8.25 per cent Preferred Securities are redeemable by the Company at par at any time on or after October 8, 2003 and in certain circumstances prior to that date. The Company may elect to defer interest payments on Preferred Securities and settle deferred interest in either cash or common shares.

Since the deferred interest may be settled through the issuance of common shares at the option of the Company, the Preferred Securities are classified into their respective debt and equity components. The equity component of the Preferred Securities is $978 million at December 31, 1998 (1997 – $280 million).

NOTE 10 Preferred Shares

December 31	Number of Shares (thousands)	Dividend Rate Per Share	Redemption Price Per Share	**1998 (millions of dollars)**	1997 (millions of dollars)
First Preferred Shares					
$2.80 Series	553	$2.80	$50.50	**28**	28
Series O	3,000	$3.95	$50.00 – $52.00	**150**	150
Series P	2,600	$3.875	$50.00 – $52.00	**130**	130
Series 1	8,000	$1.2875	$25.00 – $25.50	**—**	200
Series Q	2,100	$3.275	$50.00	**105**	105
Series R	2,000	$2.975	$50.00	**100**	100
Series S	4,000	$2.575	$50.00 – $51.00	**200**	—
Series U	4,000	$2.80	$50.00	**195**	—
				908	713

The authorized number of preferred shares issuable in series is unlimited. All of the first preferred shares are without par value.

The $2.80 Series shares may be redeemed at any time at the option of the Company. The Company may elect to convert the Series O and Series P shares into common shares after October 31, 1998 and after April 30, 1999, respectively, at 95 per cent of the then market price of the common shares or, with the agreement of the shareholders, into new issues of preferred shares. In addition, after October 31, 2001 for Series O shares, and after April 30, 2002 for Series P shares, the holders have the option to convert their respective shares into common shares at 95 per cent of the then market price of the common shares, but the Company has the option to satisfy the obligations in cash, new issues of preferred shares, common shares or a combination thereof.

On or after December 15, 1999 for the Series Q shares, and on or after December 15, 2000 for the Series R shares, the Company may elect to convert the shares deposited for redemption or outstanding shares into common shares at 95 per cent of the then market price of the common shares. On or after October 15, 2013, the Company may redeem the Series U shares at $50 per share.

Pursuant to the Arrangement between the Company and NOVA, each NOVA Series 1 preferred share was exchanged into 0.5 of a Series S share on July 2, 1998. On May 1, 2002 and on May 1 in every fifth year thereafter, the Company may redeem the Series S shares at $50 per share. At any other time subsequent to May 1, 2002, the Company may redeem the Series S shares at $51 per share. In addition, on May 1, 2002, and on May 1 in every fifth year thereafter, holders of Series S shares may convert their Series S shares into equal numbers of Series T First Preferred Shares.

NOTE 11 Common Shares

	Number of Shares (thousands) (1)	Amount (millions of dollars)
Outstanding at January 1, 1996	452,094	3,872
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	5,200	102
Exercise of options	1,803	29
Other	62	1
Issued for acquisition of subsidiaries	3,533	69
Issued in settlement of convertible debentures	6,263	143
Cancellation of common shares	(2)	—
Repurchased for cash	(9,464)	(101)
Outstanding at December 31, 1996	459,489	4,115
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	4,298	106
Exercise of options	1,231	22
Other	51	1
Repurchased for cash	(9,220)	(97)
Outstanding at December 31, 1997	455,849	4,147
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	**4,960**	**131**
Exercise of options	**2,882**	**52**
Other	**17**	**1**
Outstanding at December 31, 1998	**463,708**	**4,331**

(1) The numbers of shares have been restated to reflect the business combination with NOVA.

Common Shares Issued and Outstanding

The Company is authorized to issue an unlimited number of common shares of no par value.

Net Income Per Share

Net income per share is calculated by dividing net income applicable to common shares by the weighted average number of common shares outstanding. The weighted average number of shares, in millions, is 460.0, 457.0 and 455.5, respectively, for the years ended December 31, 1998, 1997 and 1996, and has been restated to reflect the business combination with NOVA.

Stock Options

	Number of Shares (thousands) (1)	Weighted Average Exercise Prices (1)	Options Exercisable (thousands) (1)
Outstanding at January 1, 1996	9,046	$17.89	5,770
Granted	2,450	$23.29	
Exercised	(1,803)	$16.34	
Cancelled or expired	(89)	$21.67	
Outstanding at December 31, 1996	9,604	$19.56	5,524
Granted	4,015	$28.35	
Exercised	(1,231)	$17.43	
Cancelled or expired	(105)	$22.44	
Outstanding at December 31, 1997	12,283	$22.62	6,315
Adjustment of options from business combination (1)	**(1,296)**		
Granted	**1,968**	**$29.71**	
Exercised	**(2,882)**	**$18.10**	
Cancelled or expired	**(145)**	**$24.22**	
Outstanding at December 31, 1998	**9,928**	**$19.97**	**7,400**

(1) The numbers of shares under option, weighted average exercise prices and options exercisable have been restated to reflect the business combination with NOVA. As at July 2, 1998 the stock options previously granted by TransCanada and NOVA were exchanged and adjusted based on the principle that the accrued benefit inherent in such options would be preserved.

The Key Employee Stock Incentive Plan (KESIP) permits the award of options to purchase the Company's common shares to certain key employees, some of whom are officers. Options may be exercised at a price determined at the time the option is awarded. Generally, 25 per cent of the common shares subject to an option may be purchased on the award date and 25 per cent on each of the three following award date anniversaries. As at December 31, 1998, the outstanding options had exercise prices ranging from $11.72 to $24.61 per share and the weighted average remaining life was 7.6 years. At December 31, 1998, an additional 15 million common shares have been reserved for future issuance under KESIP.

Shareholder Rights Plan

The Company's Shareholder Rights Plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Under certain circumstances, each common share is entitled to one right which entitles certain holders to purchase common shares of the Company at 50 per cent of the then market price. The Plan was reaffirmed by shareholders in 1998 with certain amendments to conform the provisions to similar Canadian public corporation shareholder rights plans.

Restriction on Dividends

Certain terms of the Company's preferred shares, preferred securities, junior subordinated debentures and debt instruments could restrict the Company's ability to declare dividends on preferred and common shares. At December 31, 1998, such terms did not restrict or alter the Company's ability to declare dividends.

NOTE 12 Risk Management

The Company invests in foreign operations, issues short and long-term debt including amounts in foreign currencies and purchases and sells energy commodities. These activities result in exposures to foreign currency exchange rates, interest rates and energy prices. The Company uses derivatives to manage the price or cash flow risk that may result from these activities. The tables that follow provide information on derivatives held but not on the corresponding positions that have been hedged.

Carrying Values of Derivatives
The carrying amounts of derivatives, which hedge the price risk of the foreign currency denominated net assets and represent the net unrealized gains or losses on the derivatives, partially offset the foreign exchange adjustment in Shareholders' Equity. Carrying amounts for interest rate swaps represent the net accrued interest from the last payment date to the reporting date. Foreign currency transactions hedged by foreign exchange contracts are recorded at the contract rate. The carrying amounts shown in the tables that follow are recorded in the Consolidated Balance Sheet.

Fair Values of Financial Instruments
Cash and short-term investments and notes payable are valued at their carrying amounts due to the short period to maturity. The fair values of long-term debt, non-recourse long-term debt of joint ventures and junior subordinated debentures are determined using market prices for the same or similar issues.

The fair values of derivatives have been estimated using year end market rates. These fair values approximate the amount that the Company would receive or pay if the instruments were closed out at these dates.

Credit Risk
Credit risk results from the possibility that a counterparty to a derivative in which the Company has an unrealized gain fails to perform according to the terms of the contract. Credit exposure is minimized by dealing with creditworthy counterparties in accordance with established credit approval practices. At December 31, 1998, credit risk is $138 million for foreign currency and interest rate derivatives and $179 million for energy price risk derivatives. The largest credit exposure to a single counterparty is $96 million.

Notional Amounts
Notional principal amounts are not recorded in the financial statements because these amounts are not exchanged by the Company and its counterparties and are not a measure of the Company's exposure. Notional amounts are used only as the basis for calculating payments for certain derivatives.

Foreign Investments
At December 31, 1998 and 1997, the Company had foreign currency denominated net assets from continuing operations which creates an exposure to changes in the U.S./Canadian dollar exchange rate. The Company uses foreign currency derivatives to hedge this exposure on an after-tax basis. The cross-currency swaps have a floating interest rate which the Company partially hedges by entering into interest rate swaps and forward rate agreements. 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) December 31 (millions of dollars)	1998		1997	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Foreign exchange risk				
Cross-currency swaps	**(72)**	**(72)**	(14)	(14)

Principal amounts of the cross-currency swaps are US$750 million (1997 – US$400 million).

Reconciliation of Foreign Exchange Adjustment

December 31 (millions of dollars)	1998	1997
Balance at beginning of year	**84**	61
Translation gains on foreign currency denominated net assets	**66**	53
Foreign exchange losses on derivatives, net of income taxes	**(61)**	(30)
Adjustments related to the business combination with NOVA	**(74)**	—
	15	84

U.S. Dollar Transaction Hedges

The Company purchases and sells energy commodities in U.S. dollars. To reduce risk and protect margins when purchase and sale contracts are denominated in different currencies, the Company enters into forward foreign exchange contracts which establish the foreign exchange rate for the cash flows from these purchase and sale transactions.

Energy Price Risk Management

The Company uses derivatives to manage the price risk associated with sales, purchases and inventories of energy commodities in its business activities. The derivatives have terms ranging from less than one month to four years. The fair values shown in the table below are offset by related fair values on physical positions.

Asset/(Liability) December 31 (millions of dollars)	1998		1997	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Natural gas				
Futures contracts	**1**	**1**	1	1
Swaps	**—**	**3**	—	(36)
Options	**—**	**—**	—	—
Crude oil and petroleum products				
Futures contracts	**5**	**5**	(3)	(3)

Notional volumes for natural gas futures contracts are 27 Bcf (1997 – 28 Bcf), 965 Bcf (1997 – 558 Bcf) for swaps and 111 Bcf (1997 – nil) for options. Notional volumes for crude oil and petroleum products futures contracts are 2 MMBbls (1997 – 4 MMBbls).

Canadian Regulatory Foreign Exchange and Interest Rate Management Activity

The Company manages the foreign exchange risk of U.S. dollar debt of the Alberta System and U.S. dollar expenses and the interest rate exposure of the Canadian Mainline and the Alberta System through the use of foreign currency and interest rate derivatives. The realized gains and losses on these derivatives are shared with shippers on predetermined terms.

Asset/(Liability) December 31 (millions of dollars)	1998		1997	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Foreign exchange risk				
Cross-currency swaps and options	**74**	**74**	43	43
Interest rate risk				
Interest rate swaps	**6**	**13**	3	7

The principal amounts of the cross-currency swaps are US$305 million (1997 – US$305 million) and the notional principal amounts of the options are US$363 million (1997 – US$363 million). Notional principal amounts for interest rate swaps are $646 million (1997 – $746 million) and US$150 million (1997 – US$150 million).

Hedging Activities of Joint Ventures

Certain of the Company's joint ventures use interest rate derivatives to manage interest rate exposures. The Company's proportionate share of the credit exposure related to derivatives of the joint ventures is $17 million at December 31, 1998.

Other Fair Values

December 31 (millions of dollars)	1998		1997	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Long-term debt				
Canadian Mainline	**5,818**	**6,821**	4,968	5,459
Alberta System	**3,631**	**4,210**	3,495	4,021
Other	**3,809**	**3,999**	1,582	1,595
Non-recourse debt of joint ventures	**1,732**	**1,894**	1,271	1,373
Junior subordinated debentures	**266**	**279**	235	247

These fair values are provided solely for information purposes and are not recorded in the Consolidated Balance Sheet.

NOTE 13 Income Taxes

Reconciliation of Income Tax Expense

Year ended December 31 (millions of dollars)	1998	1997	1996
Income from continuing operations before income taxes	**547**	843	932
Income not subject to tax currently	**(353)**	(340)	(334)
	194	503	598
Federal and provincial statutory tax rate	**44.6%**	44.6%	44.6%
Expected income tax expense	**87**	224	267
Non-deductible expenses	**33**	50	24
Non-deductible capital losses	**7**	1	11
Net difference between the federal and provincial statutory tax rate and rates of foreign authorities	**(19)**	(20)	(11)
Large corporations tax	**34**	33	27
Equity income	**(30)**	(21)	(30)
Other	**9**	(4)	10
Actual income tax expense	**121**	263	298

Deferred Income Taxes

At the direction of the NEB and the EUB, the Company follows the taxes payable method of accounting for income taxes related to the operations of the Canadian Mainline and the Alberta System. Had the deferral method of accounting been prescribed by these regulatory bodies for the Canadian Mainline and the Alberta System from the date of commencement of operations, additional deferred income taxes in the amount of $1,011 million and $560 million, respectively to December 31, 1998 for each operation (1997 – $902 million and $520 million, respectively) would have been recorded and recovered in tolls.

Provision for Income Taxes

Year ended December 31 (millions of dollars)	1998	1997	1996
Current			
Canada	**205**	208	190
Foreign	**15**	28	81
	220	236	271
Deferred			
Canada	**(88)**	20	23
Foreign	**(11)**	7	4
	(99)	27	27
	121	263	298

Geographic Components of Income from Continuing Operations before Income Taxes

Year ended December 31 (millions of dollars)	1998	1997	1996
Canada	**406**	638	711
Foreign	**141**	205	221
	547	843	932

Unremitted Earnings of Foreign Investments

Income taxes have not been provided on the unremitted earnings of foreign investments which the Company intends to indefinitely reinvest in foreign operations. If provision for these taxes had been made, deferred income taxes would increase by approximately $60 million at December 31, 1998 (1997 – $42 million; 1996 – $26 million).

Income Tax Payments

Income tax payments of $332 million, $160 million and $281 million were made during the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE 14 Notes Payable

	1998		1997	
	Outstanding December 31 (millions of dollars)	**Weighted Average Interest Rate Per Annum at December 31**	Outstanding December 31 (millions of dollars)	Weighted Average Interest Rate Per Annum at December 31
Bank indebtedness				
Canadian dollars	**–**	**–**	48	4.2%
U.S. dollars	**–**	**–**	146	6.2%
Commercial paper				
Canadian dollars	**422**	**5.5%**	733	4.0%
U.S. dollars	**30**	**5.6%**	226	5.7%
Notes payable of joint ventures				
Canadian dollars	**114**	**5.5%**	20	3.9%
U.S. dollars	**3**	**9.8%**	55	6.8%
	569		1,228	

The Company has unused lines of credit of $2.3 billion at December 31, 1998, which support the Company's commercial paper program and are available to secure energy commodity purchases and for general corporate purposes. If used, interest on the lines of credit would be charged at prime rates of Canadian chartered and U.S. banks and at other negotiated financial bases. The cost to maintain the unused portion of the lines of credit is approximately $2 million for the year ended December 31, 1998 (1997 – $2 million).

NOTE 15 Pension Plans

The Company's non-contributory defined benefit and defined contribution pension plans cover substantially all employees.

Year ended December 31 (millions of dollars)	**1998**	1997	1996
Pension expense	**19**	21	25

The defined benefit pension plans are based on years of service and highest average earnings over three consecutive years of employment. The cost of defined benefit pension benefits earned by employees is determined using the projected benefit method pro-rated on services and is expensed as the employees provide services. Actuarial reports are prepared regularly by independent actuaries for accounting and funding purposes. Defined benefit pension plan assets consist primarily of publicly traded equity and fixed income securities. The assumed future rates of return on pension assets and discount rates used to determine the projected pension benefit obligations of the plans ranged from 7.5 per cent to 8.5 per cent for 1998, 1997 and 1996. The rate of projected increase in future compensation levels used ranged from 1.75 per cent to 3.5 per cent for 1998, and 3.0 per cent to 5.0 per cent for 1997 and 1996.

Status of the Pension Plans

December 31 (millions of dollars)	**1998**	1997
Assets available at average market value	**647**	615
Actuarial present value of accumulated benefit obligations	**582**	566
Surplus on an accounting basis	**65**	49

Under the defined contribution pension plan which was introduced in 1997, Company contributions are based on the participating employees' pensionable earnings.

NOTE 16 Operating Working Capital

Year ended December 31 (millions of dollars)	**1998**	1997	1996
Increase in accounts receivable	**(123)**	(136)	(569)
Increase in inventories	**(40)**	(141)	(59)
(Increase)/decrease in other current assets	**(5)**	(18)	2
Increase in accounts payable	**132**	279	493
Increase in accrued interest	**48**	10	4
	12	(6)	(129)

NOTE 17 Contingencies

(a) The Company and its subsidiaries are subject to various legal proceedings and actions arising in the normal course of business. Management considers the aggregate liability, if any, to the Company and its subsidiaries in respect of these actions and proceedings not to be material.

Among these actions and proceedings is one in which a subsidiary of the Company is one of the subjects of a civil action initiated by a competitor in connection with its gas marketing activities in Montana alleging anti-trust conspiracy and violations and claiming treble damages. The Company is unable to determine at this time how this matter will be resolved but believes that it will not have a material effect on its financial position.

(b) The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

NOTE 18 Significant Differences Between Canadian and U.S. GAAP

Net Income Reconciliation

Year ended December 31 (millions of dollars except per share amounts)	1998	1997	1996
Net income from continuing operations as reported in accordance with Canadian GAAP	**426**	580	634
U.S. GAAP adjustments			
Transaction costs of business combination (1)	**(182)**	—	—
Preferred securities charges, net of tax (2)	**(21)**	(13)	(2)
Income taxes (3)	**(11)**	(7)	(3)
Asset impairments (4)	**(50)**	—	—
Foreign currency translation	**—**	—	(3)
Net income from continuing operations in accordance with U.S. GAAP	**162**	560	626
Net (loss)/income from discontinued operations in accordance with U.S. GAAP (5)	**(45)**	35	214
Net income in accordance with U.S. GAAP	**117**	595	840
Basic and diluted net income/(loss) per share in accordance with U.S. GAAP			
Continuing operations	**$0.24**	$1.12	$1.29
Discontinued operations	**($0.10)**	$0.08	$0.47
	$0.14	$1.20	$1.76

(1) Under U.S. GAAP, the transaction costs related to the business combination with NOVA are recognized as an expense, rather than a charge to retained earnings.

(2) Under U.S. GAAP, the financial charges related to Preferred Securities are recognized as an expense, rather than dividends.

(3) Under U.S. GAAP, the liability method is used to calculate deferred income taxes and deferred income tax expense is calculated as the net change in the deferred tax liability in the year.

(4) Under U.S. GAAP, the amount of an impairment is determined by comparing the net carrying value to the discounted future net cash flows. Under Canadian GAAP, the net carrying amount is compared to undiscounted future net cash flows.

(5) Net (loss)/income from discontinued operations reconciliation

Year ended December 31 (millions of dollars)	1998	1997	1996
Net income from discontinued operations in accordance with Canadian GAAP	**6**	168	222
U.S. GAAP adjustments			
Foreign exchange losses	**(54)**	(115)	(9)
Equity in earnings of affiliates	**(1)**	(3)	1
Inventory valuation adjustment	**2**	(5)	5
Prior period adjustment under Canadian GAAP	**—**	—	(9)
Other losses	**—**	(12)	—
Development costs	**—**	4	3
Other	**2**	(2)	1
Net (loss)/income from discontinued operations in accordance with U.S. GAAP	**(45)**	35	214

Condensed Statement of Consolidated Income (6)

Year ended December 31 (millions of dollars)	1998	1997	1996
Revenues	**16,421**	15,761	11,353
Cost of sales	**12,117**	11,904	7,710
Other costs and expenses	**2,219**	1,895	1,655
Depreciation	**598**	529	471
Transaction costs of business combination	**182**	—	—
Integration costs	**207**	—	—
Asset impairments	**141**	—	—
	15,464	14,328	9,836
Operating income	**957**	1,433	1,517
Other (income)/expenses			
Equity income	**(283)**	(198)	(227)
Other expenses	**968**	816	824
Income taxes	**110**	255	294
	795	873	891
Net income from continuing operations in accordance with U.S. GAAP	**162**	560	626
Net (loss)/income from discontinued operations in accordance with U.S. GAAP	**(45)**	35	214
Net income in accordance with U.S. GAAP	**117**	595	840

Comprehensive Income in Accordance with U.S. GAAP

Year ended December 31 (millions of dollars)	**1998**	1997	1996
Net income in accordance with U.S. GAAP	**117**	595	840
Adjustments affecting comprehensive income under U.S. GAAP			
Foreign currency translation adjustment	**5**	23	(5)
Adjustments related to the business combination with NOVA	**(74)**	—	—
Comprehensive income in accordance with U.S. GAAP	**48**	618	835

Condensed Balance Sheet (6)

December 31 (millions of dollars)	**1998**	1997
Current assets	**2,380**	2,341
Long-term investments	**2,927**	2,125
Plant, property and equipment	**17,578**	14,987
Regulatory asset	**3,057**	2,545
Other assets	**557**	487
Net assets of discontinued operations	—	1,578
	26,499	24,063
Current liabilities	**3,219**	3,524
Deferred amounts	**521**	113
Long-term debt	**12,001**	9,281
Deferred income taxes	**3,190**	2,732
Preferred securities (7)	**1,000**	286
Trust originated preferred securities	**218**	218
Non-controlling interests	**165**	96
Shareholders' equity	**6,185**	7,813
	26,499	24,063

(6) In accordance with U.S. GAAP, the condensed Statement of Consolidated Income and Balance Sheet are prepared using the equity method of accounting for joint ventures. Excluding the impact of other U.S. GAAP adjustments, the use of the proportionate consolidation method of accounting for joint ventures, as required under Canadian GAAP, results in the same net income and shareholders' equity.

(7) Under U.S. GAAP, the Preferred Securities are classified as a liability. The fair value of the Preferred Securities at December 31, 1998 is $1,042 million (1997 - $297 million).

(8) Under U.S. GAAP, transaction costs of the business combination reduce net income. Cash generated from operations would be $182 million less than the amounts reported under Canadian GAAP.

Income Taxes

U.S. GAAP requires that the Company record a deferred income tax liability for its cost-of-service regulated businesses. As these deferred income taxes are recoverable through future revenues, a corresponding regulatory asset is recorded for U.S. GAAP purposes. Deferred tax assets and liabilities are adjusted for changes in enacted tax rates.

The tax effects of differences between the accounting value and the tax value of assets and liabilities are as follows.

December 31 (millions of dollars)	1998	1997
Deferred tax liabilities		
Accelerated tax depreciation on plant and equipment	**1,838**	1,537
Taxes on future revenue requirement	**1,341**	1,123
Undistributed earnings of subsidiaries and joint ventures	**132**	93
Other	**57**	63
	3,368	2,816
Deferred tax assets		
Net operating and capital loss carryforwards	**103**	98
Deferred amounts	**77**	—
Other	**59**	46
	239	144
Valuation allowance	**(61)**	(60)
	178	84
	3,190	2,732

Stock Based Compensation

The Company uses the measurement rules of APB Opinion No. 25 to account for employee stock options. The use of the fair value method of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation", would have resulted in net income of $109 million in 1998 (1997 – $588 million; 1996 – $836 million) and net income per share of $0.13 in 1998 (1997 – $1.19; 1996 – $1.75).

Other

The Financial Accounting Standards Board issued a new standard, Statement of Financial Accounting Standards No. 133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities", which for the Company will be effective January 1, 2000. As at December 31, 1998, the Company has not determined the impact of SFAS 133 on financial statements prepared under U.S. GAAP.

SUPPLEMENTARY INFORMATION

Selected Quarterly Consolidated Financial Data

The following sets forth selected quarterly financial data for the four quarters of 1998 and 1997 in millions of dollars except for per share amounts.

Three months ended (unaudited)	March 31	June 30	September 30	December 31
1998				
Revenues	**4,091**	**4,064**	**4,431**	**4,642**
Net income applicable to common shares from continuing operations before unusual charges	**155**	**136**	**143**	**141**
Net income per share from continuing operations before unusual charges	**$0.34**	**$0.29**	**$0.31**	**$0.31**
1997				
Revenues	4,216	3,952	3,908	4,707
Net income applicable to common shares from continuing operations before unusual charges	159	151	157	153
Net income per share from continuing operations before unusual charges	$0.35	$0.33	$0.34	$0.34

Consolidated Ratio of Earnings to Fixed Charges

The following table sets forth the Company's consolidated ratio of earnings to fixed charges for the periods indicated.

Year ended December 31	**1998**	1997	1996
Ratio of earnings to fixed charges (1)	**1.4**	1.8	2.0

(1) The ratio of earnings to fixed charges is determined by dividing the financial charges incurred by the Company (before capitalized interest) into its income from operations before financial charges and income taxes, excluding undistributed income of less than 50 per cent owned persons.

The following table sets forth the Company's consolidated ratio of earnings to fixed charges for the periods indicated, determined in the manner described in (1) above, but utilizing similar information determined in accordance with U.S. GAAP.

Year ended December 31	**1998**	1997	1996
Ratio of earnings to fixed charges	**1.2**	1.8	2.0

Differences are described in Note 18 "Significant Differences Between Canadian and U.S. GAAP", to the Consolidated Financial Statements.

THREE-YEAR FINANCIAL HIGHLIGHTS (1)

(millions of dollars except where indicated)	1998	1997	1996
Operating Results			
Revenues	**17,228**	16,783	12,701
Net income			
Continuing operations before unusual charges	**646**	678	634
Continuing operations after unusual charges	**426**	580	634
Discontinued operations	**6**	168	222
Assets			
Plant, property and equipment			
Alberta System	**5,240**	5,032	4,835
Canadian Mainline	**9,119**	8,113	7,288
North American pipeline investments	**4,004**	2,981	2,749
Energy processing and other	**2,708**	1,824	1,171
Total assets	**25,561**	23,294	20,827
Capitalization			
Long-term debt	**12,001**	9,281	8,041
Non-recourse debt of joint ventures	**1,677**	1,220	1,237
Junior subordinated debentures	**239**	224	223
Preferred securities	**978**	280	261
Preferred shares	**908**	713	513
Common shareholders' equity	**5,349**	7,285	7,094
Cash Flow Data			
Funds generated from operations	**1,241**	1,237	1,251
Capital expenditures	**3,382**	2,428	1,825
Share Statistics			
Net income per share			
Continuing operations before unusual charges	**$1.25**	$1.36	$1.30
Continuing operations after unusual charges	**$0.77**	$1.14	$1.30
Discontinued operations	**$0.01**	$0.37	$0.49
Funds generated from operations per share	**$2.70**	$2.71	$2.75
Registered Common Shareholders, December 31	**33,346**	N/A	N/A
U.S. GAAP Information			
Net income/(loss)			
Continuing operations before unusual charges	**594**	658	626
Continuing operations after unusual charges	**162**	560	626
Discontinued operations	**(45)**	35	214
Net income/(loss) per share			
Continuing operations before unusual charges	**$1.18**	$1.34	$1.29
Continuing operations after unusual charges	**$0.24**	$1.12	$1.29
Discontinued operations	**($0.10)**	$0.08	$0.47
Common shareholders' equity	**5,277**	7,100	7,068

(1) The merger of TransCanada and NOVA was completed on July 2, 1998 and has been accounted for using the pooling of interests method. As a result, these three-year financial highlights have been prepared as though the companies had always been combined.

CORPORATE INFORMATION

Board of Directors
As at December 31, 1998

Ronald B. Coleman
President
R. B. Coleman Consulting Co. Ltd.
Calgary, Alberta

Sir J. Graham Day
Chancellor
Dalhousie University
Hantsport, Nova Scotia

Wendy Dobson
Professor
University of Toronto
Institute for
International Business
Toronto, Ontario

Richard F. Haskayne
Chairman
TransCanada PipeLines Limited
Calgary, Alberta

Kerry L. Hawkins
President
Cargill Limited
Winnipeg, Manitoba

J. Joseph Healy
President and
Chief Executive Officer
HEMCO Corp.
Edmonton, Alberta

Harley N. Hotchkiss
President
Spartan Resources Ltd.
Calgary, Alberta

The Hon. Donald S. Macdonald, *P.C., C.C.*
Counsel
McCarthy Tétrault
Toronto, Ontario

J. M. (Jack) MacLeod
Director of
several public companies
Calgary, Alberta

Gerald J. Maier
Chairman Emeritus
TransCanada PipeLines Limited
Calgary, Alberta

Harold P. Milavsky
Chairman
Quantico Capital Corp.
Calgary, Alberta

James R. Paul
Chairman
James and Associates
Houston, Texas

Cedric E. Ritchie
Former Chairman
The Bank of Nova Scotia
Toronto, Ontario

Harry G. Schaefer
President
Schaefer & Associates Ltd.
and Vice Chairman
TransCanada PipeLines Limited
Calgary, Alberta

Allan Richard Taylor
Fomer Chairman and
Chief Executive Officer
Royal Bank of Canada
Toronto, Ontario

Joseph D. Thompson
Chairman
PCL Construction Group Inc.
Edmonton, Alberta

George W. Watson
President and
Chief Executive Officer
TransCanada PipeLines Limited
Calgary, Alberta

Corporate Governance
As at December 31, 1998

TransCanada's board of directors (the Board) and the members of TransCanada's management are committed to a high standard of corporate governance. TransCanada's corporate governance practices comply with the guidelines for effective corporate governance in Canada adopted by The Toronto Stock Exchange (TSE) and The Montreal Exchange. The Company's principal objective in directing and managing its business and affairs is to enhance shareholder value. The Company believes that effective corporate governance improves corporate performance and benefits all shareholders.

The by-laws of the TSE and the policy statement of The Montreal Exchange require that companies listed thereon disclose on an annual basis their approach to corporate governance as it relates to the guidelines for effective corporate governance adopted by these exchanges and which were first outlined in the report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the TSE Report).

The principal matters relating to TransCanada's corporate governance practices as required by the TSE and The Montreal Exchange are discussed in the Company's Management Proxy Circular dated March 2, 1999. The Management Proxy has been approved by the Governance Committee of the Board and by the Board as a whole. The Board has also approved corporate governance guidelines that set out in detail TransCanada's governance regime. A copy of these guidelines is available on request by contacting the Corporate Secretary at the Company's corporate office in Calgary.

TransCanada's public affairs, investor relations and corporate secretarial departments provide information to and respond to inquiries from shareholders and other stakeholders. Inquiries or suggestions are forwarded to the appropriate person or committee. TransCanada has a toll-free number shareholders and others can call to receive information; telephone numbers are provided on the back cover of this Annual Report.

Officers
As at December 31, 1998

Office of the Chief Executive Officer

George W. Watson
President and Chief Executive Officer

Bruce W. Simpson
Executive Vice-President

Walentin Mirosh
Senior Vice-President, Business Development and Corporate Strategy

Executive Officers

Albrecht W.A. Bellstedt
*Senior Vice-President, Law and Chief Compliance Officer**

Randall J. Findlay
Senior Vice-President

Stephen J.J. Letwin
Senior Vice-President, Corporate Services and Chief Financial Officer

Garry P. Mihaichuk
Senior Vice-President

Brian F. Olson
Senior Vice-President, Human Resources

Robert J. Reid
Senior Vice-President

G. Lawrence Spackman
Senior Vice-President

Ronald J. Turner
Senior Vice-President

Corporate Officers

Graham R. Bennett
Vice-President, Legal Resources

Karyn A. Brooks
Vice-President and Controller

A. Jake Epp
Senior Vice-President, Public and Government Affairs

Alan R. Glasgow
Vice-President, Health, Safety and Environment

Rhondda E.S. Grant
Corporate Secretary and Associate General Counsel, Corporate

Lennard Jaskula
Vice-President, Centre for Innovation

Richard C. Milner
Vice-President, Administrative Services and Special Projects

Dennis J. McConaghy
Vice-President, Corporate Strategy and Planning

Gary G. Penrose
Vice-President, Taxation

Wendy M. Richardson
Vice-President, Corporate Customer Interface

Perry Schuldhaus
Vice-President, Internal Audit

Marshal L. Thompson
Vice-President, Employee Relations

W. Russ Wells
Vice-President, Information Services and Chief Information Officer

Bruce A. Westell
Vice-President and Treasurer

*Appointed February 1, 1999

Business Unit Officers

Energy Transmission

Robert J. Reid
President, Gas Transmission

Ronald J. Turner
President, Alberta Gas Transmission

John W. Carruthers
Vice-President, Business Development

Max Feldman
Vice-President, Customer Service

Greg Fisher
Vice-President, Business Strategy

Paul Jeffrey
Associate General Counsel

Janet A. Love
Vice-President, People and Organizational Excellence

Bruce A. McNaught
Vice-President, Business Systems

Brian McNulty
Associate General Counsel

Shelagh M. Ricketts
Vice-President, Facilities Engineering

Eric H. Shelton
Vice-President, Product Innovation and Pricing

Barbara L. Tate
Vice-President, Facilities Maintenance

John G. Walker
Vice-President, Facilities Maintenance

Energy Marketing

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President, TransCanada Energy Ltd.

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Cliff W. Howe
Vice-President, Trading

Dilan Perera
Vice-President, Human Resources

Scott Woronuik
Vice-President, Strategy and Business Development

Petroleum & Products Operations

Gregg W. Reulbach
Executive Vice-President, Petroleum & Products, TransCanada Energy USA Inc.

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Senior Vice-President, Cross Commodity Trading

Randy Robertson
Senior Vice-President, U.S. Petroleum Products

Larry Avakian
Vice-President, Refined Products Marketing, Western Region

Bob Callahan
Vice-President, Refined Products Marketing, Mid Continent Region

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Vice-President, Canadian Crude Oil and Refined Products Marketing

Charles Glazzard
Vice-President, General Counsel and Secretary

Randy O'Connor
Vice-President, U.S. Crude Oil

Bob Patton
Vice-President, Refined Products Supply, Western Region

Dennis Straw
Vice-President, Refined Products Marketing, Eastern Region

Elyse Taylor
Controller

Natural Gas Services

Steven D. Becker
Executive Vice-President, TransCanada Gas Services

Joel G. Johnson
Senior Vice-President, Marketing and Customer Service

Michael J. O'Brien
Senior Vice-President, Producer Services

Stefan Pohlod
Senior Vice-President, Gas Supply

Mark B. Smith
Senior Vice-President, Business Development, Trading and Transportation

Mark Brown
Vice-President, Marketing, Northeast U.S. Region

Erin M. Delsing
Vice-President, Marketing, Western Region

Deborah A. Heap
Vice-President, Alberta Services

Francis Kelton
Vice-President, Marketing, Canadian Region

Neil D.D. Patterson
Vice-President, Marketing, Gulf Coast Region

Jeff Peacock
Vice-President, Trading

Robert W. Pirt
Vice-President, Transportation

Craig L. Pohlman
President, Cibola Energy Services

Sean M. Reavis
Executive Vice-President, Cibola Energy Services

Murray Samuel
Associate General Counsel, TransCanada Gas Services

Mark P. Stauft
Vice-President, Regulatory

Wendy A. Thomas
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David K. Wilson
Vice-President, Structured Products Trading

Power Operations

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Executive Vice-President, TransCanada Power

Alexander J. Pourbaix
Senior Vice-President, Corporate Development

John B. Cashin
Secretary and Associate General Counsel

James R. Fitzowich
Vice-President, Marketing and Development

Finn Greflund
Vice-President, Generation and Development

Michael L. McCleish
Vice-President, Northeast U.S. Operations

Sean D. McMaster
Vice-President, Corporate Development

William C. Taylor
Vice-President, Northeast U.S. Marketing

Energy Processing

Gas Gathering & Processing

Randall J. Findlay
President, Midstream Assets & NGLs Business

Jack W. Trykoski
President, TransCanada Gas Processing USA Inc.

John A. Henry
Senior Vice-President, Planning and Business Services

S. James Arsenych
Corporate Secretary

Stephen M.V. Clark
Vice-President, Customer Services – Gathering & Processing South

A. Dale Dexter
Vice-President, Human Resources

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Vice-President, Law and External Affairs

Gordon K. Good
Vice-President, Technical Services

David M. Kohlenberg
Assistant Corporate Secretary

Greg A. Lohnes
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Hal O. Retzer
Vice-President, Operations – Canada

Dennis E. Shute
Vice-President, Business Systems and Treasurer – Midstream

Timothy L. Stauft
Vice-President, NGL Services

Cancarb Limited

Bob Hale
President

International

Garry P. Mihaichuk
President, TransCanada International (TCI)

Donald M. Wishart
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Marcel Coutu
Senior Vice-President, TCI

David Byers
President, TCI Europe

Patrick Chu
President, TCI Business Development – Asia Pacific

John W. Harkins
President, TCI – Latin America North

Gabriel Leon
President, TCI – Latin American South

Michael J. Tucker
President, TCI – Energy Services

Tracey L. Braun
Vice-President, TCI – Health, Safety and Environment

Daniel Huras
Vice-President, TCI Business Systems

Robert M. Jensen
Vice-President and General Counsel, TCI

Anthony M. Palmer
Vice-President, TCI Strategy and Business Development

Kenneth P. Zdunich
Vice-President, TCI Human Resources

INVESTOR INFORMATION

Stock Exchanges

Common and preferred shares are listed on the Toronto, Montreal, Vancouver, Alberta and Winnipeg stock exchanges. Common shares, 8.75% TOPrS[SM], 8.50% COPrS[SM], 8.25% Preferred Securities, and 7.875% NOVA Gas Transmission Ltd. (NGTL) Debentures are listed on the New York Stock Exchange.

Stock Symbols

Common all exchanges: TRP; $2.80 Cumulative redeemable first preferred: TRP.PR.A; Cumulative redeemable first preferred Series O: TRP.PR.O; Cumulative redeemable retractable first preferred Series Q: TRP.PR.Q; and Series R: TRP.PR.R; Cumulative redeemable first preferred Series S: TRP.PR.S; and Series U: TRP.PR.X on the Toronto, Montreal, Vancouver, Alberta and Winnipeg stock exchanges. 8.75% TOPrS[SM]: TCL.Pr.; 8.50% COPrS[SM]: TRP.Pr.C; 8.25% Preferred Securities: TRP.Pr; and 7.875% NGTL Debentures: NVA 23 on the New York Stock Exchange.

Important Dates

Scheduled dividend payment dates in 1999 are January 29, April 30, July 30 and October 29.

Dividend Reinvestment and Share Purchase Plan

TransCanada's dividend reinvestment and share purchase plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage or administrative fees. Participants in the plan may make optional cash payments to buy additional shares of up to $10,000 (US$7,000) per quarter.

Non-resident Investors

Dividends paid by TransCanada to shareholders outside Canada are subject to Canadian non-resident withholding tax. The general rate is 15 per cent for the investors resident in United States and other countries where Canadian tax treaties apply. Residents of non-treaty countries are subject to a 25 per cent withholding tax on dividends.

Certain exemptions related to the tax may be available to residents of the United States. Corporate investors holding more than 10 per cent of the voting shares of a company may pay withholding tax at a rate of five per cent for dividends paid in 1998 and beyond. Shareholders should consult their tax advisors.

Common Shares

Transfer agents and registrars: Montreal Trust Company of Canada (Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver) and Bank of Montreal Trust Company (New York).

Preferred Shares

Transfer agent and registrar for the preferred shares listed below: Montreal Trust Company of Canada (Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver).

$2.80 cumulative redeemable first preferred shares
Cumulative redeemable first preferred shares, Series O, Series P, Series S and Series U
Cumulative redeemable retractable first preferred shares, Series Q and Series R

8.75% Trust Originated Preferred Securities[SM] (TOPrS[SM])

Trustee: IBJ Schroder Bank & Trust Company (New York). 8.75% TOPrS are obligations of TransCanada Capital, an unaffiliated business trust. Listed on the New York Stock Exchange.

8.50% Canadian Originated Preferred Securities[SM] (COPrS[SM])

Trustee: IBJ Schroder Bank & Trust Company (New York). Listed on the New York Stock Exchange.

8.25% Preferred Securities

Trustee: IBJ Schroder Bank & Trust Company (New York). Listed on the New York Stock Exchange.

[SM]Service marks of Merrill Lynch & Co., Inc.

First Mortgage Pipe Line Bonds

Trustee and Registrar: CIBC Mellon Trust Company, as agent for National Trust Company (Toronto). Co-Registrar and Paying Agent U.K. Series, 16 1/2%: Computershare Services plc (London, England).

TransCanada Debentures

Trustee and Registrar for Canadian series listed below: Montreal Trust Company of Canada (Montréal, Toronto, Winnipeg, Calgary and Vancouver).

11.40% series J	10.50% series P	11.65% series T	8.40% series A
10.80% series L	10.625% series Q	11.80% series U	
11.10% series N	11.85% series R	9.80% series V	
10.50% series O	11.90% series S	9.45% series W	

Trustee and registrar for U.S. series 9.875%, 8.625% and 8.50%: Bank of Montreal Trust Company (New York).

NGTL Debentures

Trustee and Registrar for Canadian series listed below: CIBC Mellon Trust Company (Halifax, Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver).

11.95% series 13	11.20% series 18	12.20% series 21
10.75% series 14	12.625% series 19	8.30% series 22
11.70% series 15	12.20% series 20	8.90% series 23

Trustee and registrar for U.S. Debentures series 8.50% and 7.875%; and for U.S. Notes series 7.875%, 7.25% and 8.50%: U.S. Bank Trust National Association.

Subordinated Debentures

Trustee and registrar for U.S. series 9.125%: The Bank of Nova Scotia Trust Company of New York.

TransCanada Canadian Medium Term Notes

Trustee: CIBC Mellon Trust Company (Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver).

NGTL Canadian Medium Term Notes

Trustee: CIBC Mellon Trust Company (Calgary).

TransCanada U.S. Medium Term Notes

Trustees: Bank of Montreal Trust Company, New York (unsubordinated notes); The Bank of Nova Scotia Trust Company of New York (subordinated notes).

NGTL U.S. Medium Term Notes

Trustees: U.S. Bank Trust National Association.

TRP PERFORMANCE

Common Share Price Range

Toronto Stock Exchange	High	Low
July 3 – September 30, 1998	$27.10	$21.20
Fourth Quarter 1998	$24.50	$20.95

New York Stock Exchange (US dollars)	High	Low
July 13 – September 30, 1998	$17.63	$13.56
Fourth Quarter 1998	$15.81	$13.38

ADDITIONAL INFORMATION

Annual Information Form

TransCanada's 1998 Annual Information Form, as filed with Canadian securities commissions and as filed under Form 40-F with the U.S. Securities and Exchange Commission, may be obtained from:

Corporate Secretary
TransCanada PipeLines Limited
P. O. Box 1000, Station M
Calgary, Alberta, Canada T2P 4K5

Si vous désirez vous procurer un exemplaire de ce rapport en français, veuillez vous adresser par écrit à TransCanada PipeLines Limited, bureau du secrétaire.

Quarterly Updates

If you would like to receive quarterly reports but are not a registered shareholder, please write or call us with your name and address. To receive our news releases by fax, please forward your fax number to us.

To change your address, eliminate multiple mailings, request information regarding cheques, share certificates, stock transfers or dividend reinvestment plan account updates, please contact the transfer agent:

Montreal Trust Company of Canada
Stock Transfer Services
600, 530 – 8th Avenue S.W.
Calgary, Alberta, Canada T2P 3S8
Telephone: (403) 267-6555 or toll-free: 1-800-558-0046

Internet Site

To access TransCanada's corporate and financial information, including quarterly reports and news releases, visit our Internet site at http://www.transcanada.com.

Metric Conversion Table

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

Metric	Imperial	Factor
kilometres	miles	0.62
millimetres	inches	0.04
kilowatts	horsepower	1.34
gigajoules	million British thermal units	0.95
cubic metres*	cubic feet	35.3
cubic metres (liquid measure)	barrels	6.29
degrees Celsius	degrees 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 a base temperature of 15 degrees Celsius.

THE INFORMATION IN THIS DOCUMENT CONTAINS FORWARD-LOOKING STATEMENTS WITH RESPECT TO TRANSCANADA PIPELINES LIMITED, ITS SUBSIDIARIES OR AFFILIATED COMPANIES. BY THEIR NATURE, THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTEMPLATED IN THE FORWARD-LOOKING STATEMENTS. THESE RISKS AND UNCERTAINTIES INCLUDE COMMODITY, INTEREST RATE AND CURRENCY FLUCTUATIONS, REGULATORY AND ENVIRONMENTAL ISSUES, COMPETITION IN ALL BUSINESS SEGMENTS, INTERNATIONAL POLITICAL RISKS, DISRUPTIONS OF OPERATIONS DUE TO EVENTS SUCH AS EXPLOSIONS, FIRES AND SEVERE WEATHER CONDITIONS AND OTHER RISKS AS DETAILED FROM TIME TO TIME IN THE PUBLICLY FILED DISCLOSURE DOCUMENTS AND SECURITIES COMMISSION REPORTS OF TRANSCANADA PIPELINES LIMITED AND ITS SUBSIDIARIES OR AFFILIATED COMPANIES.

Annual Meeting THE 1999 ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS IS SCHEDULED FOR APRIL 30, 1999 AT 10:30 A.M. AT THE TELUS CONVENTION CENTRE, CALGARY, ALBERTA.

Project Management > Lynn LaForge-Tieman **Design** > Eldon B. Rice Design **Production** > Graphic Communications, TransCanada **Photography** > Gerard Yunker, Kate Kunz, Paul Connor, Graeme Reid **Printing** > Arthurs-Jones Clarke Lithographing Limited

THIS ANNUAL REPORT IS PRINTED ON PAPER WITH A 50 PER CENT RECYCLED FIBER CONTENT AND A MINIMUM OF 10 PER CENT POST-CONSUMER WASTE CONTENT.

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TransCanada welcomes questions from shareholders and potential investors.

Please telephone David Moneta, Investor Relations, at **1-800-361-6522** (Canada and U.S. Mainland) or direct dial **(403) 267-8521**.

The investor fax line is **(403) 267-8538**.

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

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