TransCanada

TRANSCANADA CORPORATION

ANNUAL INFORMATION FORM

February 22, 2010

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PRESENTATION OF INFORMATION

Unless the context indicates otherwise, a reference in this Annual Information Form ("*AIF*") to "*TransCanada*" or the "*Company*" includes TransCanada Corporation and the subsidiaries of TransCanada Corporation through which its various business operations are conducted. In particular, "*TransCanada*" includes references to TransCanada PipeLines Limited ("*TCPL*"). Where TransCanada is referred to with respect to actions that occurred prior to its 2003 plan of arrangement with TCPL, which is described below under the heading "TransCanada Corporation — Corporate Structure", these actions were taken by TCPL or its subsidiaries. The term "*subsidiary*", when referred to in this AIF, with reference to TransCanada means direct and indirect wholly owned subsidiaries of, and legal entities controlled by, TransCanada or TCPL, as applicable.

Unless otherwise noted, the information contained in this AIF is given at or for the year ended December 31, 2009 ("*Year End*"). Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles ("*Canadian GAAP*").

Certain portions of TransCanada's Management's Discussion and Analysis dated February 22, 2010 ("*MD&A*") are incorporated by reference into this AIF as stated below. The MD&A can be found on SEDAR at www.sedar.com under TransCanada's profile.

The Accounting Standards Board ("*AcSB*") of the Canadian Institute of Chartered Accountants has announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards ("*IFRS*"), as issued by the International Accounting Standards Board, effective January 1, 2011. Effective January 1, 2011, TransCanada will begin reporting under IFRS. TransCanada's conversion plan includes obtaining skilled people, providing education and training, analyzing the impact on TransCanada of key differences between Canadian GAAP and IFRS, and developing and executing a phased approach to conversion and implementation. For more information on TransCanada's conversion project, see TransCanada's MD&A under "Accounting Changes – International Financial Reporting Standards".

Information relating to metric conversion can be found at Schedule "A" to this AIF. Terms defined throughout this AIF are listed in the Glossary found at the end of this AIF.

FORWARD-LOOKING INFORMATION

This AIF, the documents incorporated by reference into this AIF, and other reports and filings made with the securities regulatory authorities may contain certain information that is forward-looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward looking information. Forward-looking statements in this document are intended to provide TransCanada securityholders and potential investors with information regarding TransCanada and its subsidiaries, including management's assessment of TransCanada's and its subsidiaries' future financial and operational plans and outlook. Forward-looking statements in this document may include, among others, statements regarding the anticipated business prospects and financial performance of TransCanada and its subsidiaries, expectations or projections about the future, strategies and goals for growth and expansion, expected and future cash flows, costs, schedules, operating and financial results and expected impact of future commitments and contingent liabilities. All forward-looking statements reflect TransCanada's beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of TransCanada to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of the Company's pipeline and energy assets, the availability and price of energy commodities, capacity payments, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, including those material risks discussed in this AIF under "Risk Factors", which could cause TransCanada's actual results and experience to differ materially from the anticipated results or expectations expressed. Additional information on these and other factors is available in the reports filed by TransCanada with Canadian securities regulators and with the U.S. Securities and Exchange Commission ("*SEC*"). Readers are cautioned to not place undue reliance on this forward-looking information, which is given as of the date it is expressed in this AIF or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. TransCanada undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

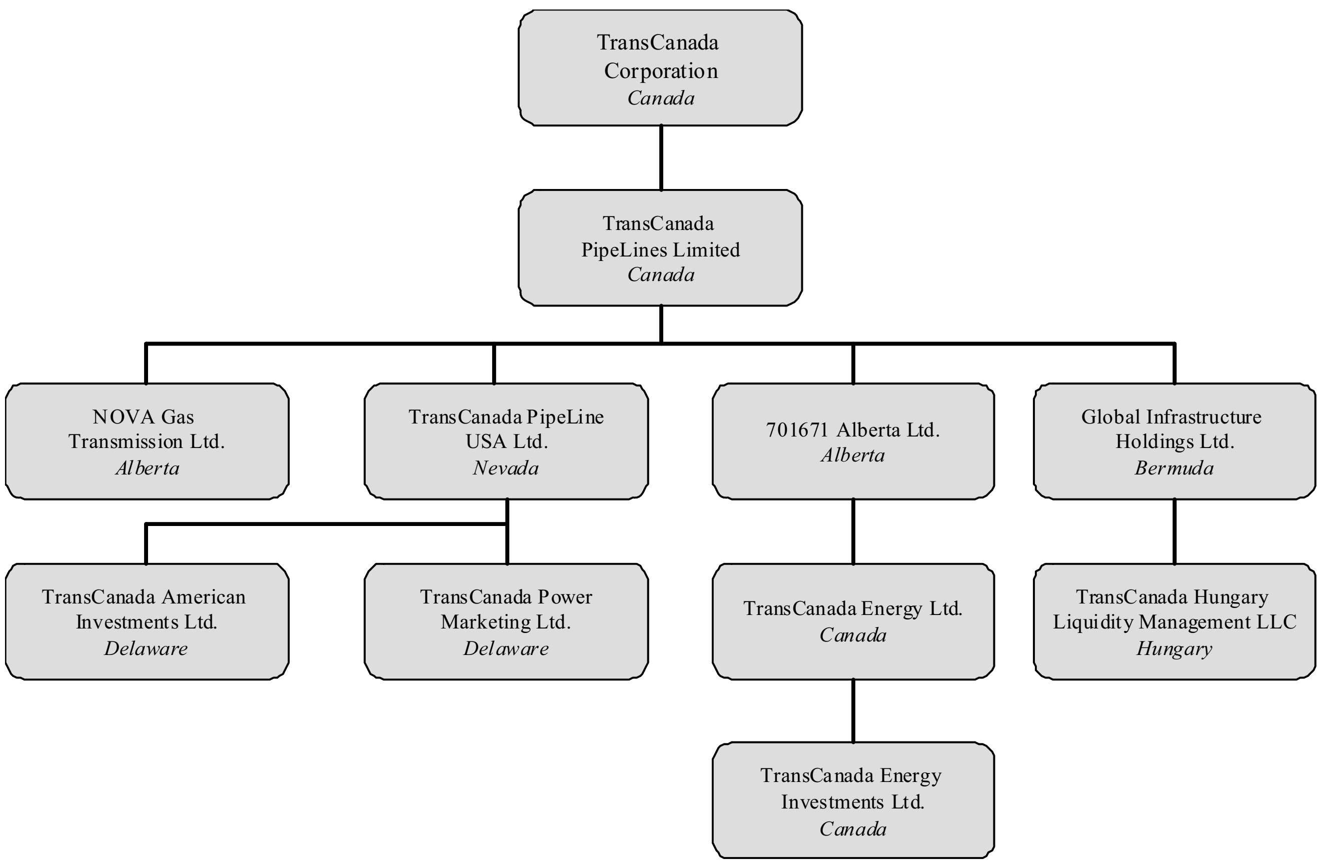
TRANSCANADA CORPORATION

Corporate Structure

TransCanada's head office and registered office are located at 450 - First Street S.W., Calgary, Alberta, T2P 5H1. TransCanada was incorporated pursuant to the provisions of the *Canada Business Corporations Act* on February 25, 2003 in connection with a plan of arrangement which established TransCanada as the parent company of TCPL. The arrangement was approved by TCPL common shareholders on April 25, 2003 and, following court approval and the filing of Articles of Arrangement, the arrangement became effective May 15, 2003. Pursuant to the arrangement, the common shareholders of TCPL exchanged each of their TCPL common shares for one common share of TransCanada. The debt securities and preferred shares of TCPL remained obligations and securities of TCPL. TCPL continues to hold the assets it held prior to the arrangement and continues to carry on business as the principal operating subsidiary of the TransCanada group of entities. TransCanada does not hold any material assets directly other than the common shares of TCPL and receivables from certain of TransCanada's subsidiaries.

Intercorporate Relationships

The following diagram presents the name and jurisdiction of incorporation, continuance or formation of TransCanada's principal subsidiaries as at December 31, 2009. Each of these subsidiaries has total assets that exceeded 10% of the total consolidated assets of TransCanada or revenues that exceeded 10% of the total consolidated revenues of TransCanada as at and for the year ended December 31, 2009. TransCanada owns, directly or indirectly, 100 per cent of the voting shares of each of these subsidiaries.



The above diagram does not include all of the subsidiaries of TransCanada. The assets and revenues of excluded subsidiaries in the aggregate did not exceed 20% of the total consolidated assets or total consolidated revenues of TransCanada as at and for the year ended December 31, 2009.

GENERAL DEVELOPMENT OF THE BUSINESS

The general development of TransCanada's business during the last three financial years, and the significant acquisitions, dispositions, events or conditions which have had an influence on that development, are described below.

TransCanada's reportable business segments are *Pipelines* and *Energy*. Pipelines are principally comprised of the Company's pipelines in Canada, the U.S. and Mexico and its regulated natural gas storage operations in the U.S. Energy includes the Company's power operations and the non-regulated natural gas storage business.

Developments in the Pipelines Business

TransCanada's strategy in Pipelines is focused on both growing its North American natural gas and crude oil transmission network and maximizing the long-term value of its existing pipeline assets. Summarized below are significant developments that have occurred in TransCanada's Pipelines business over the last three years.

2010

Pipeline Developments

- January 29, 2010. TransCanada announced that the proposed Alaska pipeline project (the "*Alaska Pipeline Project*") filed its plan with the United States Federal Energy Regulatory Commission ("*FERC*") to obtain approval to conduct an open season. If approval is granted, an open season offering is expected to be provided to potential shippers at the end of April 2010 for their assessment until July 2010. The Alaska Pipeline Project is a 4.5 billion cubic feet per day ("*Bcf/d*") natural gas pipeline that would extend 2,737 kilometres ("*km*") (1,700 miles) from a new natural gas treatment plant at Prudhoe Bay, Alaska to Alberta.

Regulatory Matters

- February 19, 2010. TransCanada filed an application with the National Energy Board ("*NEB*") for approvals to construct and operate the proposed Horn River pipeline project ("*Horn River Project*"), a 158 km (98 mile) pipeline and related facilities to connect new shale gas supply in the Horn River basin north of Fort Nelson, B.C., to TransCanada's natural gas transmission system in the province of Alberta (the "*Alberta System*"). The Horn River Project will consist of approximately 74 km of new pipelines and the purchase and use of an existing pipeline in the Horn River area and will transport sweet natural gas to a tie in point on the Alberta System. The project is expected to cost approximately $307 million.

2009

Pipeline Developments

- February 26, 2009. TransCanada announced the successful completion of a binding open season, securing support for firm transportation contracts of 378 million cubic feet per day ("*MMcf/d*") for the Horn River Project. Total contractual commitments for the Horn River Project increased to 503 MMcf/d by 2014 as a result of newly contracted volumes from a recently announced natural gas processing facility that will be located in the Horn River area.

- May 7, 2009. TransCanada announced that it was the successful bidder on a contract to build, own and operate a US$320 million pipeline in Mexico, which is supported by a twenty-five year contract for its entire capacity with Comisión Federal de Electridad, Mexico's state-owned electric power company. The proposed pipeline, known as the Guadalajara Pipeline, is an approximately 305 km (190 mile) pipeline capable of transporting 500 MMcf/d of natural gas, and is proposed to extend from a liquefied natural gas terminal under construction near Manzanillo on Mexico's Pacific Coast to Guadalajara, the second largest city in Mexico. Regulatory approvals were received in December 2009 and construction is under way with an expected in-service date of first quarter 2011.

- June 11, 2009. TransCanada reached an agreement with ExxonMobil Corporation to jointly advance the Alaska Pipeline Project. A joint project team is developing the engineering, environmental, aboriginal relations and commercial work.

- July 1, 2009. TransCanada completed the sale of North Baja Pipeline, LLC ("*North Baja*") to its affiliate, TC PipeLines, LP. As part of the transaction, TransCanada agreed to amend its incentive distribution rights with TC PipeLines, LP. Under the amendment, TransCanada received additional common units in exchange for a resetting of its incentive distribution rights at a lower percentage which escalates with increases in TC PipeLines, LP distributions. The aggregate consideration received from the partnership included a combination of cash and common units totaling approximately US$395 million. With the close of the transaction, TransCanada's ownership of the partnership increased to 42.6 per cent. TransCanada continued to operate North Baja following the transfer of ownership. The system is a 129 km (80 mile) natural gas pipeline that extends from southwest Arizona to a point on the California/Mexico border and connects with a natural gas pipeline system in Mexico. TransCanada's ownership in TC PipeLines, LP was subsequently reduced to 38.2 per cent in November 2009 after TC PipeLines, LP completed a public issuance of common units.
- August 14, 2009. TransCanada became the sole owner of the 3,456 km (2,147 mile) Keystone Oil Pipeline project that will transport crude oil from Alberta to markets in the United States (the "*Keystone Oil Pipeline*") through the purchase of ConocoPhillips' remaining approximately 20 per cent interest for US$553 million and the assumption of US$197 million of short-term debt. TransCanada also assumed the responsibility for ConocoPhillips' share of the capital investment required to complete the project resulting in an incremental commitment of approximately US$1.7 billion through the end of 2012.
- September 28, 2009. TransCanada began work on the final phase of the North Central Corridor natural gas pipeline, a 300 km (186 mile) extension of the northern section of the Alberta System. This 160 km Red Earth section is expected to be complete by April 2010. The 140 km North Star section has been completed and two 13 Megawatt ("*MW*") compressor units at the Meikle River compressor station were operational on May 15, 2009 and August 21, 2009, respectively.
- December 2009. A Joint Review Panel of the Canadian government released a report on environmental and socio-economic factors relating to the Mackenzie Gas Pipeline Project, a proposed 1,200 km (746 mile) natural gas pipeline to extend from a point near Inuvik, Northwest Territories to the northern border of Alberta, where it will connect to the Alberta System. The report has been submitted to the NEB as part of the review process for approval of the project. A decision is currently expected by fourth quarter 2010. TransCanada continues funding of the Mackenzie Valley Aboriginal Pipeline Limited Partnership for its participation in the Mackenzie Gas Pipeline Project.

Regulatory Matters

- February 26, 2009. The NEB approved TransCanada's application for federal regulation of its Alberta System, which regulation became effective April 29, 2009. The Alberta System was previously regulated by the Alberta Utilities Commission ("*AUC*"). Under federal regulation, TransCanada is able to apply to the NEB for approval to extend the Alberta System across provincial borders, allowing the Company to provide service to producers outside of Alberta.
- March 20, 2009. TransCanada Québec & Maritimes Pipeline Inc. ("*TQM*") received the NEB's decision on its cost of capital application for 2007 and 2008, which requested an 11 per cent return on 40 per cent deemed common equity. The NEB set a 6.4 per cent after-tax weighted average cost of capital for each of the two years, which equates to a 9.85 per cent return on 40 per cent deemed common equity in 2007 and a 9.75 per cent return on 40 per cent deemed common equity in 2008. Prior to the decision, TQM was subject to the NEB return on equity formula of 8.46 per cent and 8.71 per cent for 2007 and 2008, respectively, on deemed common equity of 30 per cent. In June 2009, the NEB approved TQM's final tolls for 2007 and 2008, which reflected the 6.4 per cent after-tax weighted average cost of capital.
- May 2009. Portland Natural Gas Transmission System ("*Portland System*") reached a settlement with its customers on certain short-term issues contained in its general rate case filed with the FERC in April 2008, which proposed a rate increase of approximately 6 per cent as well as other changes to its tariff. The partial settlement was filed with the FERC for approval and a decision is expected in 2010. The remaining issues were litigated and the initial decision from the administrative law judge was issued in December 2009. Participants in the rate case have an opportunity to respond to the initial decision. The FERC is expected to issue its final decision on the litigated portion of the rate case in fourth quarter 2010.
- September 2009. The NEB held a hearing to review TransCanada's application regarding the Canadian portion of the planned expansion and extension of the Keystone Oil Pipeline, which expansion is expected to provide additional capacity in 2013 of 500,000 barrels per day ("*Bbl/d*") from Western Canada to the United States Gulf

Coast, near existing terminals in Port Arthur, Texas. The expansion, when completed, is expected to increase the capacity of the Keystone Oil Pipeline system from 591,000 Bbl/d to approximately 1.1 million Bbl/d. The NEB is expected to issue a decision in first quarter 2010. Permits for the U.S. portion of the expansion are expected by fourth quarter 2010. Construction of the expansion facilities is expected to commence in first quarter 2011 subject to the receipt of the necessary regulatory approvals.

- October 8, 2009. The NEB determined that its RH-2-94 decision would no longer be in effect. The RH-2-94 decision pursuant to the *National Energy Board Act* (Canada) established a return on equity formula tied to Government of Canada bond yields that had formed the basis for determining tolls for certain pipelines under NEB jurisdiction since January 1, 1995. The NEB decided that the cost of capital would be determined by negotiations between pipeline companies and their shippers or by the NEB if a pipeline company filed a cost of capital application. The decision affects the calculation of future tolls for TransCanada's NEB-regulated natural gas pipelines. In November 2009, the Canadian Association of Petroleum Producers and the Industrial Gas Users Association sought leave to appeal the October 2009 NEB decision to the Federal Court of Appeal and named the NEB as the sole respondent. In January 2010, TransCanada was granted respondent status in the matter and in February 2010 filed its submission opposing the leave application.

- November 2009. The NEB concluded a public hearing process on TransCanada's application for approval to construct and operate the Groundbirch pipeline, which is comprised of a 77 km (48 mile) natural gas pipeline and related above ground facilities. TransCanada has entered into firm transportation agreements with Groundbirch customers that are expected to increase to 1.1 Bcf/d by 2014. The Groundbirch pipeline, if approved, would be an extension of the Alberta System and would connect natural gas supply primarily from the Montney shale gas formation in northeast British Columbia to existing infrastructure in northwest Alberta. Construction of the Groundbirch pipeline is expected to commence in July 2010 with completion anticipated in November 2010. The NEB is expected to issue a decision in first quarter 2010.

- November 2009. The FERC initiated an investigation to determine whether rates on the Great Lakes system, a natural gas pipeline system running from northwestern Idaho, through Washington and Oregon to the California border (the "*Great Lakes System*") are just and reasonable. In response, Great Lakes filed a cost and revenue study with the FERC on February 4, 2010. A hearing is scheduled to commence on August 2, 2010, and an initial decision is required in November 2010. The impact of the investigation on the Great Lakes System's rates and revenues is unknown at this time.

- November 27, 2009. TransCanada filed a combined application with the NEB for approvals of both a new Alberta System Rate Design Settlement, and the integration of Canadian Utilities Limited ("*ATCO Pipelines*"). The rate design was negotiated with all key stakeholders and addresses the evolving nature of the Alberta System and the integration of ATCO Pipelines. It also incorporates a single delivery service for all delivery points resulting from the amalgamation of current intra-Alberta and export delivery services. TransCanada reached a proposed agreement with ATCO Pipelines to provide integrated natural gas transmission service to customers on September 8, 2008. If approved by the regulatory authorities, the two companies will combine physical assets under a single rates and services structure with a single commercial interface with customers but with each company separately managing assets within distinct operating territories in the province. TransCanada and ATCO Pipelines continue to work towards obtaining the necessary regulatory approvals to provide integrated service to shippers on the Alberta System and the ATCO Pipelines system. The integration of the Alberta System and ATCO Pipelines system will create the effect of a single integrated natural gas transmission system in Alberta resulting in a more efficient delivery of service to customers.

- December 2009. The NEB approved TransCanada's application for 2010 final tolls for its Canadian gas pipeline system (the "*Canadian Mainline*") transportation service, effective January 1, 2010. The 2010 calculated ROE for the Canadian Mainline will be 8.52 per cent, a decrease from 8.57 per cent in 2009. The Canadian Mainline will continue to base its return on the NEB's return on equity formula for 2010 and 2011 in accordance with the terms of the current Canadian Mainline tolls settlement. Reduced throughput and greater use of shorter distance transportation contracts has resulted in an increase in Canadian Mainline tolls for 2010 compared to 2009. This situation, coupled with the ongoing development and growth of competitive alternative natural gas supply and infrastructure from the United States shale gas regions, is increasing competitive pressures on the Canadian Mainline. As a result TransCanada indicated that it will develop solutions, involving possible changes to business model, rate design, and services that would be designed to increase throughput and revenue in order to reduce tolls. TransCanada is also pursuing the connection of new sources of U.S. gas supply to the existing Canadian Mainline infrastructure to maintain its existing markets and competitive position.

- December 2009. The FERC issued a Final Environmental Impact Statement ("*FEIS*") for the Bison Pipeline Project ("*Bison*"), a proposed 487 km (303 mile) pipeline from the Powder River Basin in Wyoming to the Northern Border Pipeline system in Morton County, North Dakota.

2008

Pipeline Developments

- February 2008. In 2005, certain subsidiaries of Calpine Corporation ("*Calpine*") filed for bankruptcy protection in both Canada and the U.S. The Portland System and Gas Transmission Northwest Corporation ("*GTNC*") reached agreement with Calpine for allowed unsecured claims in the Calpine bankruptcy of US$125 million and US$192.5 million, respectively. Creditors were to receive shares in the re-organized Calpine and these shares would be subject to market price fluctuations as the new Calpine shares began to trade. In February 2008, the Portland System and GTNC received partial distributions of 6.1 million shares and 9.4 million shares, respectively. Subsequently, these shareholdings were sold into the market. Claims of NOVA Gas Transmission Limited ("*NGTL*") and Foothills Pipe Lines (South B.C.) Ltd., both wholly-owned subsidiaries of TransCanada, for $31.6 million and $44.4 million, respectively, were received in cash in January 2008 and were passed on to shippers on these systems.

- March 14, 2008. TransCanada Keystone Pipeline, LP ("*Keystone U.S.*") received a Presidential Permit authorizing the construction, maintenance and operation of facilities at the United States and Canada border for the transportation of crude oil between the two countries. The Presidential Permit was a significant regulatory approval required to begin construction of the Keystone Oil Pipeline. The Presidential Permit was issued following the issuance by the U.S. Department of State of the FEIS on January 11, 2008 for the construction of the Keystone U.S. pipeline and its Cushing extension. The FEIS stated the pipeline would result in limited adverse environmental impacts. Construction of the Keystone Oil Pipeline began in May 2008 in both Canada and the United States. Commissioning of the segment to Wood River and Patoka commenced in late 2009 with commercial operations expected to follow in mid-2010. Commissioning of the segment providing service to Cushing is expected to commence in late 2010.

- April 2008. An expansion to TransCanada's Alberta System in the Fort McMurray area, comprising a total of approximately 150 km (93 miles), was placed in service on its projected on-stream date.

- July 16, 2008. TransCanada announced plans to expand and extend the Keystone Oil Pipeline system and provide additional capacity in 2013 of 500,000 Bbl/d from Western Canada to the United States Gulf Coast, near existing terminals in Port Arthur, Texas.

- September 3, 2008. TransCanada acquired Bison Pipeline LLC from Northern Border Pipeline Company ("*NBPL*") for US$20 million. The assets of Bison Pipeline LLC included executed precedent agreements as well as regulatory, environmental and engineering work on Bison.

- October 29, 2008. TransCanada announced that the Keystone Oil Pipeline system successfully conducted an open season for expansion and extension to the United States Gulf Coast by securing additional firm, long-term contracts on the system.

- December 5, 2008. The Alaska Commissioner of Revenue and Natural Resources issued the *Alaska Gasline Inducement Act* ("*AGIA*") license to TransCanada to advance the Alaska Pipeline Project, following the approval by the Alaska Senate on August 1, 2008 of TransCanada's application for the license. TransCanada has committed under the AGIA to advance the Alaska Pipeline Project through an open season and subsequent FERC certification. TransCanada has commenced the engineering, environmental, field and commercial work. Under AGIA, the State of Alaska has agreed to reimburse a share of the eligible pre-construction costs to TransCanada to a maximum of US$500 million.

- TransCanada agreed to increase its equity ownership in Keystone U.S. and TransCanada Keystone Pipeline Limited Partnership ("*Keystone Canada*") up to 79.99 per cent from 50 per cent with ConocoPhillips' equity ownership being reduced concurrently to 20.01 per cent through sole funding of cash calls.

Regulatory Matters

- January 2008. GTNC, a wholly-owned subsidiary of TransCanada, filed a Stipulation and Agreement with the FERC on October 31, 2007 comprised of an uncontested settlement of all aspects of its 2006 General Rate Case. On January 7, 2008, the FERC issued an order approving the settlement. The settlement rates were effective retroactive to January 1, 2007.

- March 18, 2008. TransCanada filed an application with the NEB to increase the interim tolls on the Canadian Mainline previously approved in December 2007. This toll increase was a result of a significant decrease in forecasted flows on the Canadian Mainline and was intended to allow TransCanada to meet its 2008 revenue requirement. On March 28, 2008, the NEB approved the amended interim tolls for transportation service effective April 1, 2008.
- June 17, 2008. TransCanada filed an application with the NEB to establish federal regulation for TransCanada's Alberta System. An oral hearing to discuss this matter began on November 18, 2008, concluded on November 28, 2008 and a decision was issued on February 26, 2009.
- June 2008. The NEB approved TransCanada's application for additional pumping facilities required to expand the Canadian portion of the Keystone Oil Pipeline project from a nominal capacity of approximately 435,000 Bbl/d to 591,000 Bbl/d to accommodate volumes to be delivered to the Cushing markets, after holding an oral hearing on April 8, 2008. The hearing and decision followed on an application filed by Keystone Canada with the NEB in November 2007.
- October 10, 2008. The AUC approved TransCanada's application for a permit to construct the North Central Corridor expansion, at a cost of approximately $925 million. Construction on the project began in October 2008. The decision followed on a non-routine application filed with the Alberta Energy and Utilities Board ("*EUB*") on November 20, 2007.
- December 17, 2008. The AUC approved NGTL's 2008-2009 Revenue Requirement Settlement Application as filed, in its entirety. As part of the settlement, fixed costs were established for operation, maintenance and administration costs, return on equity and income taxes. Any variances between actual costs and those agreed to in the settlement accrue to TransCanada, subject to a return on equity and income tax adjustment mechanism, which accounts for variances between actual and settlement rate base and income tax assumptions. The other cost elements of the settlement are treated on a flow-through basis. The AUC also approved the 2008 interim rates of NGTL on a final basis for the period January 1, 2008 to December 31, 2008.
- December 2008. Palomar Gas Transmission LLC applied to the FERC for a certificate to build the 349 km (217 mile) Palomar pipeline which would extend from the GTN System (as defined below) in central Oregon to the Columbia River northwest of Portland. The proposed Palomar pipeline is a 50/50 joint venture of GTNC and Northwest Natural Gas Co. Palomar is currently in discussions with potential shippers to secure additional shipping commitments for the project.

2007

Pipeline Developments

- February 9, 2007. TransCanada received approval from the NEB to transfer a section of its Canadian Mainline transmission facilities to the Keystone Oil Pipeline project to transport crude oil from Alberta to refining centres in the U.S. Midwest and to construct and operate new oil pipeline facilities in Canada. TransCanada announced in January 2007 the start of a binding open season for an expansion and extension of the proposed Keystone Oil Pipeline. The purpose of the open season was to obtain binding commitments to support the expansion of the proposed Keystone Oil Pipeline from approximately 435,000 Bbl/d to 591,000 Bbl/d and the construction of a 468 kilometre extension of the U.S. portion of the pipeline.
- February 22, 2007. TransCanada closed its acquisitions of American Natural Resources Company and ANR Storage Company (collectively, "*ANR*") and acquired an additional 3.6 per cent interest in Great Lakes Gas Transmission Limited Partnership ("*Great Lakes*") from El Paso Corporation for a total of US$3.4 billion, subject to certain post-closing adjustments, including approximately US$491 million of assumed long-term debt. Additionally, TransCanada increased its ownership in TC PipeLines, LP to 32.1 per cent in conjunction with the TC PipeLines, LP acquisition of a 46.4 per cent interest in Great Lakes. The acquisition was financed partly through an offering of 39,470,000 subscription receipts at $38.00 per subscription receipt, which resulted in gross proceeds to TransCanada of approximately $1.725 billion including the exercise of an over-allotment option granted to the underwriters. Upon closing of the acquisition of ANR, the subscription receipts were automatically exchanged, without the payment of any additional consideration by the subscribers, on a one-to-one basis for common shares of TransCanada ("*Common Shares*").
- December 2007. ConocoPhillips contributed $207 million to acquire a 50 per cent ownership interest in the Keystone Oil Pipeline.

Regulatory Matters

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

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

Developments in the Energy Business

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

2009

Energy Developments

- February 19, 2009. The FERC approved two separate applications filed by TransCanada on December 19, 2008 requesting approval to charge negotiated rates and to proceed with an open season in the spring of 2009 for each of the Zephyr ("*Zephyr*") and Chinook ("*Chinook*") transmission line projects. Both projects are proposed 500 kilovolt high voltage direct current transmission projects. Zephyr is a proposed 1,760 km (1,100 mile) transmission line that would originate in Wyoming, and Chinook is a proposed 1,600 km (1,000 mile) project that would originate in Montana. Both projects would terminate in Nevada, and it is anticipated that each would deliver primarily wind generated electricity to markets in the southwestern United States. The open seasons commenced on October 13, 2009 and closed in December 2009. A comprehensive review of the bids submitted for each project will be undertaken.
- April 2009. Portlands Energy Centre, a natural gas fired combined-cycle power plant near downtown Toronto, Ontario ("*Portlands Energy Centre*") was fully commissioned, ahead of time and under budget. Portlands Energy Centre, which is 50 per cent owned by TransCanada, is able to provide 550 MW of electricity under a 20 year Accelerated Clean Air Supply contract with the Ontario Power Authority.
- June 9, 2009. Hydro-Québec Distribution notified the Régie the L'énergie that it would exercise its option to extend the suspension of all electricity generation from TransCanada's 550 MW Bécancour cogeneration power plant near Trois-Rivières, Québec ("*Bécancour*") through 2010. This followed on TransCanada's agreement with Hydro-Québec Distribution to temporarily suspend all electricity generation from Bécancour during 2009. TransCanada will continue to receive payments under the agreement similar to those that would have been received under the normal course of operation.
- July 2009. Bruce Power and the Ontario Power Authority amended certain terms and conditions included in the Bruce Power Refurbishment Implementation Agreement. The amendments are consistent with the intent of the agreement, originally signed in 2005, and recognize the significant changes in Ontario's electricity market. Under the original agreement, Bruce Power A L.P. ("*Bruce A*") committed to refurbish and restart the currently idle Units 1 and 2, extend the operating life of Unit 3 and replace the steam generators on Unit 4. An amendment in 2007 provided for a full refurbishment of Unit 4, which will extend the expected operating life of the unit. This most recent amendment included amendments to the Bruce Power L.P. ("*Bruce B*") floor price mechanism, the removal of a support payment cap for Bruce A, an amendment to the capital cost-sharing mechanism, and provision for deemed generation payments to Bruce Power at the contract prices under circumstances where generation from Bruce A and Bruce B is reduced due to system curtailments on the Independent Electricity System Operator controlled grid in Ontario. The Bruce A Unit 1 and 2 refurbishment and restart project continues. Unit 2 is expected to be restarted in mid-2011 with the Unit 1 restart to follow approximately four months later. TransCanada expects its share of the capital costs to complete the project to be approximately $2 billion. Bruce Power continues to advance an initiative to further extend the operating lives of Units 3 and 4. Unit 4 is now expected to continue to operate beyond 2018 and plans are in place to implement an extensive maintenance

program that, if successful and approved by the Canadian Nuclear Safety Commission, would result in the life of Unit 3 being extended for a similar period of time.

- August 2009. TransCanada began construction of the US$500 million Coolidge Generating Station ("*Coolidge*"), a 575 MW simple-cycle natural gas-fired peaking power generation station to be located 72 km (45 miles) southeast of Phoenix in Coolidge, Arizona. The facility is expected to be placed in service in second quarter 2011.
- September 30, 2009. The Ontario Power Authority advised TransCanada that it was awarded a 20-year clean energy supply contract to build, own and operate the 900 MW Oakville Generating Station in Oakville, Ontario. TransCanada expects to invest approximately $1.2 billion in the natural gas fired combined cycle plant which is scheduled to be in service in first quarter 2014. Commencement of construction of the project is dependent on receipt of permits and approvals from the municipal authority and on approval from the Ministry of Environment on impacts such as air quality and noise.
- October 9, 2009. Operations began at the Kibby Wind Power Project in northern Franklin County, Maine, with half of the project's 44 wind turbines operational by October 30, 2009. The second phase is under construction and is expected to be in service in third quarter 2010. The Kibby Wind Power Project is expected to have the capacity to produce 132 MW. Capital cost is expected to be approximately US$320 million.
- Third quarter 2009. Construction activity began on the 212 MW Gros-Morne and 58 MW Montagne-Sèche wind farms. These are the fourth and fifth Québec–based wind farms of a wind energy project contracted by Hydro-Québec Distribution in the Gaspé Region of Québec (the "*Cartier Wind Energy Project*"), which is 62 per cent owned by TransCanada. The Montagne-Sèche project and phase one of the Gros-Morne project (101 MW) are expected to be operational by 2011. Phase two of the Gros-Morne project (111 MW) is expected to be operational by 2012.

Regulatory Matters

- April 13, 2009. The United States Secretary of Commerce issued its decision denying the appeal filed by Broadwater Energy, LLC on the ruling by the New York State Department of State ("*NYSDOS*") regarding the Broadwater liquefied natural gas ("*LNG*") project ("*Broadwater*"). A joint venture with Shell U.S. Gas & Power LLC, Broadwater is a proposed offshore LNG facility in Long Island Sound, New York, which received approval by FERC in March 2008. In April 2008, NYSDOS determined that construction and operation of the project would not be consistent with the state's coastal zone policies. Broadwater Energy, LLC filed the appeal on the decision of the NYSDOS on June 6, 2008, asking the Secretary of Commerce to override the NYSDOS decision on the basis that the project meets the criteria for approval under the *Coastal Zone Management Act* and applicable regulations.

2008

Energy Developments

- January 2008. A milestone in the Bruce A Units 1 and 2 refurbishment and restart project was completed when the sixteenth and final new steam generator was installed. This process was expected to result in a further increase in the total project cost to complete the Unit 1 and 2 restart. Project cost increases are subject to the capital cost-sharing mechanism under the agreement with the Ontario Power Authority, as amended in July 2009. Bruce A Units 1 and 2 are expected to produce 1,500 MW when completed.
- February 2008. The potential anchor LNG supplier for the Cacouna LNG project ("*Cacouna*") terminal in Québec announced it would no longer be pursuing the development of its LNG supply as originally planned. Although Cacouna received its primary regulatory approvals, project development has been suspended until alternate LNG supply is acquired and the North American market for LNG grows.
- April 2008. A comprehensive review of costs to complete the Bruce A Units 1 and 2 refurbishment and restart project was completed. Based on this assessment, the capital cost for the restart and refurbishment of Bruce A Units 1 and 2 was expected to be approximately $3.4 billion, up from an original 2005 cost estimate of $2.75 billion. TransCanada's share was expected to be approximately $1.7 billion compared to an original estimate of $1.4 billion.
- May 12, 2008. TransCanada announced that the Phoenix, Arizona based utility, Salt River Project Agricultural Improvement and Power District, signed a 20 year power purchase agreement to secure 100 per cent of the output from Coolidge. In December 2008, the Arizona Corporation Commission granted a Certificate of Environmental Compatibility approving Coolidge.

- July 9, 2008. TransCanada announced that the Kibby Wind Power Project received unanimous final development plan approval from Maine's Land Use Regulation Commission. Construction on the project began in July 2008. Commissioning of the first phase occurred in October 2009.
- August 26, 2008. TransCanada completed its acquisition of the 2,480 MW Ravenswood Generating Station ("*Ravenswood*") located at Queen's, New York for US$2.9 billion, subject to certain post-closing adjustments. The acquisition was completed pursuant to a purchase agreement with KeySpan Corporation and certain subsidiaries. The acquisition was financed through a combination of equity and term debt offerings, funds drawn on a newly established bridge loan facility and cash on hand (see "Financing Activities" below).
- November 22, 2008. The Carleton wind farm, the third of five phases of the Cartier Wind Energy Project, went into service and is capable of generating 109 MW of power.
- In fourth quarter 2008, Bruce Power completed a review of the end of life estimates for Units 3 and 4. As a result of the review, Unit 3 was expected to be in commercial service until 2011, providing an additional two years of generation before refurbishment. After the refurbishment, the end of life estimate for Unit 3 was to be extended to 2038. The review also showed that Unit 4 was expected to remain in commercial service until 2016, providing seven years of generation before refurbishment, after which the end of life estimate for Unit 4 was expected to be extended to 2042.

Regulatory Matters

- January 11, 2008. The FERC issued its FEIS for Broadwater. The FEIS confirmed project need, supported the location of the project with acknowledgement of its target market and delivery goals, and found safety and security risks to be limited and acceptable. The FEIS concluded that with adherence to federal and state permit requirements and regulations, Broadwater's proposed mitigation measures and the FERC's recommendations, the project would not result in a significant impact on the environment.
- March 24, 2008. FERC authorized the construction and operation of Broadwater, subject to the conditions reflected in the authorization. On April 10, 2008, the NYSDOS determined that construction and operation of the project would not be consistent with the state's coastal zone policies. As a result of this unfavourable decision, TransCanada wrote down $27 million after tax of costs for Broadwater that had been capitalized to March 31, 2008. On June 6, 2008, Broadwater Energy, LLC filed an appeal with the United States Secretary of Commerce.

2007

Energy Developments

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

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

Financing Activities

2009

- January 9, 2009. TransCanada completed the issuance of US$750 million and US$1.25 billion of Senior Unsecured Notes maturing on January 15, 2019 and January 15, 2039, respectively, and bearing interest at 7.125 per cent and 7.625 per cent, respectively. The proceeds from this offering were used to partially fund TransCanada's capital projects, retire maturing debt obligations and for general corporate purposes. These notes were issued by way of prospectus supplement under a US$3.0 billion debt base shelf prospectus filed on January 2, 2009.

- February 17, 2009. TransCanada completed the issuance of $300 million and $400 million of Medium-Term Notes maturing on February 14, 2014 and February 17, 2039, respectively, and bearing interest at 5.05 per cent and 8.05 per cent, respectively. The proceeds from these notes were used to fund the Alberta System and Canadian Mainline rate bases. These notes were issued by way of pricing supplements under a $1.5 billion debt base shelf prospectus filed in March, 2007.

- June 16, 2009. TransCanada entered into an underwriting agreement with a syndicate of underwriters led by RBC Capital Markets, BMO Capital Markets and TD Securities Inc. under which the underwriters agreed to purchase from TransCanada 50,800,000 Common Shares and sell the Common Shares to the public at a purchase price of $31.50 per Common Share. The underwriters were also granted an over-allotment option to purchase an additional 7,620,000 Common Shares at the same price. The offering was completed on June 24, 2009 and, together with the full exercise of the over-allotment option by the underwriters, 58,420,000 Common Shares were issued resulting in gross proceeds to TransCanada of approximately $1.84 billion which were used to partially fund capital projects, including the acquisition of the remaining interests in the Keystone Oil Pipeline system, for general corporate purposes and to repay short-term indebtedness. These shares were issued by way of prospectus supplement to a $3.0 billion base shelf prospectus dated July 2, 2008.

- September 22, 2009. TransCanada entered into an underwriting agreement with a syndicate of underwriters led by Scotia Capital Inc. and RBC Capital Markets, under which the underwriters agreed to purchase from TransCanada 22,000,000 cumulative redeemable first preferred shares, series 1 ("*Series 1 Preferred Shares*") and sell the Series 1 Preferred Shares to the public at a purchase price of $25.00 per share. The offering was completed on September 30, 2009 resulting in gross proceeds to TransCanada of $550 million which were used by TransCanada to partially fund capital projects, for general corporate purposes and to repay short-term indebtedness. These shares were issued by way of prospectus supplement to a $3.0 billion base shelf prospectus dated September 21, 2009.

- December 2009. TransCanada PipeLine USA Ltd. established a US$1.0 billion committed, syndicated revolving credit facility maturing December 2012, with a one year term extension at the option of the borrower. The facility is guaranteed by TransCanada and was fully available at December 31, 2009.

2008

- May 5, 2008. TransCanada entered into an underwriting agreement with a syndicate of underwriters led by BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., and TD Securities Inc. under which the underwriters agreed to purchase from TransCanada 30,200,000 Common Shares and sell the Common Shares to the public at a purchase price of $36.50 per Common Share. The underwriters were also granted an over-allotment option to purchase an additional 4,530,000 Common Shares at the same price. The offering was completed on May 13, 2008 and, together with the full exercise of the over-allotment option by the underwriters, 34,730,000 Common Shares were issued resulting in gross proceeds to TransCanada of approximately $1.27 billion to be used to partially fund acquisitions and capital projects of TransCanada including, amongst others, the acquisition of Ravenswood, the construction of the Keystone Oil Pipeline, and for general corporate purposes. These Common Shares were issued by way of prospectus supplement under a $3.0 billion base shelf prospectus filed in January, 2007.

- June 27, 2008. TransCanada executed an agreement with a syndicate of banks for a US$1.5 billion, committed, unsecured, one-year bridge loan facility which was extendible by the Company for an additional six month term. On August 25, 2008, TransCanada used US$255 million from this facility to fund a portion of the Ravenswood acquisition and cancelled the remainder of the commitment. In February 2009, the US$255 million was repaid and the facility was cancelled.

- August 11, 2008. TransCanada completed the issuance of US$850 million and US$650 million of Senior Unsecured Notes maturing on August 15, 2018 and August 15, 2038, respectively, and bearing interest at 6.50 per cent and 7.25 per cent, respectively. The proceeds from these notes were used to partially fund the Ravenswood acquisition and for general corporate purposes. These notes were issued by way of a prospectus supplement under a US$2.5 billion debt base shelf prospectus filed in September, 2007.

- August 20, 2008. TransCanada completed the issuance of $500 million of Medium-Term Notes maturing in August 2013 and bearing interest at 5.05 per cent. The proceeds from these notes were used to partially fund the Alberta System's capital program and for general corporate purposes. These notes were issued by way of a pricing supplement under a $1.5 billion debt base shelf prospectus filed in March, 2007.

- November 17, 2008. TransCanada entered into an underwriting agreement with a syndicate of underwriters led by RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., and TD Securities Inc. under which the underwriters agreed to purchase from TransCanada 30,500,000 Common Shares and sell the Common Shares to the public at a purchase price of $33.00 per Common Share. The underwriters were also granted an over-allotment option to purchase an additional 4,575,000 Common Shares at the same price. The offering was completed on November 25, 2008 and resulted in gross proceeds to TransCanada of approximately $1 billion to be used by TransCanada to partially fund its capital projects, including the Keystone Oil Pipeline, for general corporate purposes and to repay short-term indebtedness. The syndicate of underwriters fully exercised the over-allotment option on December 5, 2008 for additional gross proceeds to TransCanada of $151 million. The Common Shares were issued by way of prospectus supplement under a $3.0 billion base shelf prospectus filed in July 2008.

- November 2008. Keystone U.S. established a US$1.0 billion committed, syndicated revolving credit facility, guaranteed by TransCanada, maturing November 2010 but extendible to November 2011 at the option of the borrower. The facility was fully available at December 31, 2009 and supports a commercial paper program dedicated to funding a portion of expenditures for Keystone U.S. and for Keystone U.S. general partnership purposes.

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

BUSINESS OF TRANSCANADA

TransCanada is a leading North American energy infrastructure company focused on pipelines and energy. At Year End, Pipelines accounted for approximately 53 per cent of revenues and 67 per cent of TransCanada’s total assets and Energy accounted for approximately 47 per cent of revenues and 28 per cent of TransCanada’s total assets. The following is a description of each of TransCanada's two main areas of operation.

The following table shows TransCanada's revenues from operations by segment, classified geographically, for the years ended December 31, 2009 and 2008.

Revenues From Operations *(millions of dollars)*	**2009**	**2008**
Pipelines		
Canada - Domestic	$2,389	$2,005
Canada - Export(1)	755	1,123
United States	1,585	1,522
	4,729	4,650
Energy(2)		
Canada - Domestic	2,788	2,594
Canada - Export(1)	1	2
United States	1,448	1,373
	4,237	3,969
Total Revenues(3)	$8,966	$8,619

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

(2) Revenues include sales of natural gas.

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

Pipelines Business

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas pipelines, regulated gas storage facilities and projects related to oil pipelines. TransCanada’s network of wholly owned pipelines extends more than 60,000 km (37,282 miles), tapping into virtually all major gas supply basins in North America.

TransCanada has substantial Canadian and U.S. natural gas pipeline and related holdings, and one oil pipeline project, including those listed below. The following pipelines are owned 100 per cent by TransCanada unless otherwise stated.

Canada

- TransCanada's Canadian Mainline is a 14,101 km (8,762 mile) natural gas transmission system in Canada that extends from the Alberta/Saskatchewan border east to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S.
- TransCanada's Alberta System is a natural gas transmission system in Alberta which gathers natural gas for use within the province and delivers it to provincial boundary points for connection with the Canadian Mainline and the Foothills System and with third party natural gas pipelines. The 23,905 km (14,854 mile) system is one of the largest carriers of natural gas in North America.
- Keystone Oil Pipeline is a 3,456 km (2,147 mile) crude oil pipeline project that will initially transport crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka, Illinois, and to Cushing, Oklahoma. Commissioning of the segment to Wood River and Patoka began in late 2009 and commercial operation is expected to commence in mid-2010. Commissioning of the segment to Cushing is expected to begin in late 2010 and operations expected to commence in first quarter 2011. Pending regulatory approval, an expansion to the United States Gulf Coast is expected to be completed and in service in first quarter 2013, adding approximately 2,720 km (1,690 miles) of pipe to the system. In August of 2009, TransCanada became the sole owner of the Keystone Oil Pipeline system.
- TransCanada's Foothills System is a 1,241 km (771 mile) natural gas transmission system in Western Canada which carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada. Effective April 1, 2007, the B.C. System was integrated into the Foothills System.
- TransCanada Pipeline Ventures LP owns a 161 km (100 mile) pipeline and related facilities that supply natural gas to the oilsands region of northern Alberta as well as a 27 km (17 mile) pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.
- TQM is 50 per cent owned by TransCanada. TQM is a 572 km (355 mile) pipeline system that connects with the Canadian Mainline and transports natural gas from Montréal to Québec City in Québec, and connects with the Portland System. TQM is operated by TransCanada.

United States

- TransCanada's ANR System ("*ANR System*") is a 17,000 km (10,563 mile) natural gas transmission system which transports natural gas from producing fields located primarily in Texas and Oklahoma on its southwest leg, and in the Gulf of Mexico and Louisiana on its southeast leg. The system extends to markets located mainly in Wisconsin, Michigan, Illinois, Ohio and Indiana. ANR's natural gas pipeline also connects with other natural gas pipelines, providing access to diverse sources of North American supply, including Western Canada, and the mid-continent and Rocky Mountain supply regions, and a variety of markets in the Midwestern and northeastern U.S.
- Underground gas storage facilities owned and operated by ANR provide regulated gas storage services to customers on the ANR System and the Great Lakes System in upper Michigan. In 2008, ANR completed its storage enhancement project and added 14 billion cubic feet ("*Bcf*") of storage. In total, the ANR business unit operates sixteen underground natural gas storage facilities throughout the State of Michigan with total natural gas storage capacity of 250 Bcf.
- The GTN System ("*GTN System*") is TransCanada's natural gas transmission system which extends 2,174 km (1,351 miles) and links the Foothills System and Rocky Mountain sourced natural gas with third party natural gas pipelines in Washington, Oregon and California, and with the Tuscarora Gas Transmission Company ("*Tuscarora*") pipeline.
- Bison pipeline is a proposed 487 km (303 mile) natural gas pipeline from the Powder River Basin in Wyoming connecting to the Northern Border Pipeline System in North Dakota. The FERC issued a FEIS for Bison in December 2009 and the project is in the final stages of the regulatory approval process. TransCanada expects to begin construction in May 2010. The Bison pipeline has shipping commitments for approximately 407 MMcf/d and is expected to be placed in-service in fourth quarter 2010.
- The Great Lakes System is owned 53.6 per cent by TransCanada and 46.4 per cent by TC PipeLines, LP. The 3,404 km (2,115 mile) Great Lakes System serves markets primarily in Central Canada and the Midwestern U.S. TransCanada operates the Great Lakes System and effectively owns 71.3 per cent of the system through its 53.6 per cent ownership interest and its indirect ownership, which it has through its 38.2 per cent interest in TC PipeLines, LP.
- The Northern Border Pipeline System ("*NBPL System*") is 50 per cent owned by TC PipeLines, LP and is a 2,250 km (1,398 mile) natural gas transmission system, which serves the U.S. Midwest. TransCanada operates and effectively owns 19.1 per cent of the NBPL System through its 38.2 per cent interest in TC PipeLines, LP.

- Tuscarora is 100 per cent owned by TC PipeLines, LP and has a 491 km (305 mile) pipeline system transporting natural gas from the GTN System at Malin, Oregon to Wadsworth, Nevada (the "*Tuscarora System*") with delivery points in northeastern California and northwestern Nevada. TransCanada operates the Tuscarora System and effectively owns 38.2 per cent of the system through its 38.2 per cent interest in TC PipeLines, LP.
- North Baja is 100 per cent owned by TC PipeLines, LP and is a natural gas transmission system which extends 129 km (80 miles) from Ehrenberg in southwestern Arizona to a point near Ogilby, California on the California/Mexico border and connects with a third party natural gas pipeline system in Mexico. TransCanada operates the North Baja system and effectively owns 38.2 per cent of the system through its 38.2 per cent interest in TC PipeLines, LP
- The Iroquois Gas Transmission System ("*Iroquois System*") connects with the Canadian Mainline near Waddington, New York and delivers natural gas to customers in the northeastern U.S. TransCanada has a 44.5 per cent ownership interest in this 666 km (414 mile) pipeline system.
- The Portland System is a 474 km (295 mile) pipeline that connects with TQM near East Hereford, Québec and delivers natural gas to customers in the northeastern U.S. TransCanada has a 61.7 per cent ownership interest in the Portland System and operates this pipeline.
- TransCanada holds a 38.2 per cent interest in TC PipeLines, LP, a publicly held limited partnership of which a subsidiary of TransCanada acts as the general partner. The remaining interest of TC PipeLines, LP is widely held by the public. TC PipeLines, LP owns a 50 per cent interest in the NBPL System, 46.4 per cent in the Great Lakes System, 100 per cent of Tuscarora and 100 per cent of North Baja.

International

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

- TransGas is a 344 km (214 mile) natural gas pipeline system which runs from Mariquita in the central region of Colombia to Cali in the southwest of Colombia. TransCanada holds a 46.5 per cent ownership interest in this pipeline.
- Gas Pacifico is a 540 km (336 mile) natural gas pipeline extending from Loma de la Lata, Argentina to Concepción, Chile. INNERGY is an industrial natural gas marketing company based in Concepción that markets natural gas transported on Gas Pacifico. TransCanada holds a 30 per cent ownership interest both in Gas Pacifico and INNERGY.
- Tamazunchale is a 130 km (81 mile) natural gas pipeline in east-central Mexico which extends from the facilities of Pemex Gas near Naranjos, Veracruz to an electricity generating station near Tamazunchale, San Luis Potosi.
- The proposed Guadalajara Pipeline is under construction and when completed will extend approximately 305 km (190 miles) from Manzanillo on Mexico's Pacific coast to Guadalajara.

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

Regulation of the Pipeline Business

Canada

<u>CANADIAN MAINLINE, TQM, FOOTHILLS AND ALBERTA SYSTEMS</u>

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

<u>KEYSTONE OIL PIPELINE</u>

The NEB regulates the terms and conditions of service, including rates, and the physical operation of the Canadian portion of the Keystone Oil Pipeline. NEB approval is also required for facility additions, such as the Canadian portion of the proposed Gulf Coast expansion project, which was sought through an application in 2009. The NEB is expected to issue a decision in first quarter 2010.

United States
TransCanada's wholly owned and partially owned U.S. pipelines, including the ANR System, the GTN System, the Great Lakes System, the Iroquois System, the Portland System, the NBPL System, North Baja and the Tuscarora System, are "natural gas companies" operating under the provisions of the *Natural Gas Act of 1938* and the *Natural Gas Policy Act of 1978*, and are subject to the jurisdiction of the FERC. The *Natural Gas Act of 1938* grants the FERC authority over the construction and operation of pipelines and related facilities. The FERC also has authority to regulate rates for natural gas transportation and interstate commerce.

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

Energy Business

The Energy segment of TransCanada's business includes the acquisition, development, construction, ownership and operation of electrical power generation plants, the purchase and marketing of electricity, the provision of electricity account services to energy and industrial customers, the development, construction and ownership and operation of non-regulated natural gas storage in Alberta.

The electrical power generation plants and power supply that TransCanada has an interest in, including those under development, in the aggregate, represent more than 11,700 MW of power generation capacity. Power plants and power supply in Canada account for approximately 63 per cent of this total, and power plants in the U.S. account for the balance, being approximately 37 per cent.

TransCanada owns and operates the following facilities:

- Ravenswood, located in Queen’s, New York, is a 2,480 MW power plant that consists of multiple units employing steam turbine, combined cycle and combustion turbine technology. Ravenswood has the capacity to serve approximately 21 per cent of New York City’s peak load.
- TC Hydro, TransCanada’s hydroelectric facilities located in New Hampshire, Vermont and Massachusetts on the Connecticut and Deerfield Rivers, consists of 13 stations and associated dams and reservoirs with a total generating capacity of 583 MW.
- Ocean State Power, a 560 MW natural gas-fired, combined-cycle facility in Burrillville, Rhode Island.
- Bécancour, a 550 MW natural gas-fired cogeneration power plant located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec Distribution under a 20-year power purchase contract expiring in 2026. Steam is also sold to an industrial customer for use in commercial processes. Since 2008, electricity generation at the Bécancour power plant has been temporarily suspended due to an agreement entered into with Hydro-Québec. Under this agreement, TransCanada continues to receive payments similar to those that would have been received under the normal course of operation.
- Natural gas-fired cogeneration plants in Alberta at Carseland (80 MW), Redwater (40 MW), Bear Creek (80 MW) and MacKay River (165 MW).
- Grandview, a 90 MW natural gas-fired cogeneration power plant located on the site of the Irving Oil Limited oil refinery in Saint John, New Brunswick. Irving Oil Limited is under a 20 year tolling arrangement that expires in 2025, to supply fuel for the plant and to contract 100 per cent of the plant's heat and electricity output.
- Cancarb, a 27 MW facility located in Medicine Hat, Alberta fuelled by waste heat from TransCanada's adjacent thermal carbon black facility.
- Edson, an underground natural gas storage facility connected to the Alberta System near Edson, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 725 MMcf/d of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.

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

- TransCanada has the rights to 100 per cent of the generating capacity of the 560 MW Sundance A coal-fired power generation facility under a Power Purchase Agreement ("*PPA*") that expires in 2017. TransCanada also has the rights to

50 per cent of the generating capacity of the 706 MW Sundance B facility under a PPA, which expires in 2020 ("*Sundance*"). The Sundance facilities are located in south-central Alberta.

- The Sheerness facility, which consists of two 390 MW coal-fired thermal power generating units, is located in southeastern Alberta. TransCanada has the rights to 756 MW of generating capacity from the Sheerness PPA that expires in 2020 ("*Sheerness*").

TransCanada has interests in the following:

- Two nuclear power generating stations, Bruce A, which is owned 48.8 per cent by TransCanada and has four 750 MW reactors, of which two are currently operating and two are being refurbished, and Bruce B, which is owned 31.6 per cent by TransCanada and has four operating reactors with a combined capacity of approximately 3,200 MW. Bruce Power is two partnerships with generating facilities and offices located on 2,300 acres northwest of Toronto, Ontario on which are housed Bruce A and Bruce B.
- A 60 per cent ownership in CrossAlta, which is a 68 Bcf underground natural gas storage facility connected to the Alberta System near Crossfield, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 550 MMcf/d of natural gas.
- A 62 per cent interest in the Carleton (109 MW), Anse-à-Valleau (101 MW), and Baie-des-Sables (110 MW) wind farms, the first three phases of the Cartier Wind Energy Project, which commenced commercial operation in November 2008, November 2007 and November 2006, respectively.
- The Portlands Energy Centre, a 550 MW, combined-cycle natural gas generation power plant located in Toronto, Ontario is 50 per cent owned by TransCanada. The plant went into service in simple-cycle mode, capable of delivering 340 MW of electricity in the summer of 2008 and was fully commissioned in April of 2009. This facility provides power under a 20 year Accelerated Clean Energy Supply contract with the Ontario Power Authority.

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

- Oakville Generating Station, a proposed 900 MW natural gas fired combined cycle plant in Oakville, Ontario. TransCanada was awarded a 20-year clean energy supply contract to build, own and operate the Oakville Generating Station in September 2009. TransCanada expects to invest approximately $1.2 billion in the project which is scheduled to be in service in first quarter 2014.
- The Cartier Wind Energy Project consists of five wind projects in the Gaspé region of Québec contracted by Hydro-Québec Distribution representing a total of 590 MW when all five wind projects are complete. Three of the wind farms are constructed and in service as noted above, and two are currently under construction. The two remaining projects are expected to be placed in service at the end of 2011 and 2012, respectively and have a generating capacity of 270 MW, subject to the necessary approvals. Cartier Wind is 62 per cent owned by TransCanada. All of the power produced by Cartier Wind Energy Project is sold to Hydro-Québec Distribution under a 20-year power purchase agreement. In fourth quarter 2009, the proposed 150 MW Les Méchins wind farm project was cancelled due to unavailability of cost-effective wind turbines and difficulty reaching acceptable agreements with private landowners. This decision has no impact on the other Cartier Wind Energy projects.
- A 683 MW natural gas-fired power plant near the town of Halton Hills, Ontario is under construction and is expected to be placed in service in the third quarter of 2010. All of the power produced by the facility is contracted to be sold to the Ontario Power Authority under a 20-year clean energy supply contract.
- The Coolidge generating station is a simple-cycle, natural gas-fired peaking power generation station under development in Coolidge, Arizona. Based on optimal operating conditions, TransCanada expects an electrical output of approximately 575 MW from this facility, designed to provide a quick response to peak power demands. The project has received its required permits, construction commenced in August 2009 and the project is expected to be placed in service in second quarter 2011. The power output will be supplied to the Phoenix, Arizona based Salt River Project Agricultural Improvement and Power District under a 20-year power purchase contract.
- The 132 MW Kibby wind power project is under construction and is planned to include 44 turbines located in Kibby and Skinner townships in Maine. Construction began in July 2008 and commissioning of the first phase occurred in October 2009 with half the turbines operational and a generating capacity of 66 MW, and the second phase which consists of the remaining 22 turbines is expected to go into service in 2010 with a generating capacity of 66 MW.

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

GENERAL

Employees

At Year End, TransCanada's principal operating subsidiary, TCPL, had approximately 4,165 full time active employees, substantially all of whom were employed in Canada and the U.S., as set forth in the following table.

Western Canada (excluding Calgary)		444
Calgary		1,832
Eastern Canada		258
U.S. West Coast		150
U.S. Mid West		476
U.S. Northeast		408
U.S. Southeast/Gulf Coast		201
Houston		387
Mexico and South America		9
	Total	4,165

Social and Environmental Policies

Health, safety and environment ("*HS&E*") are top priorities in all of TransCanada's operations and activities in these areas are guided by the Company's HS&E Commitment Statement (the "*Commitment Statement*"). The Commitment Statement outlines guiding principles for a safe and healthy environment for TransCanada's employees, contractors and the public, and for TransCanada's commitment to protect the environment. All employees are held responsible and accountable for HS&E performance. TransCanada is committed to being an industry leader in conducting its business so that it meets or exceeds all applicable laws and regulations, and minimizes risk to people and the environment. TransCanada is committed to tracking and improving its HS&E performance, and to promoting safety on and off the job, in the belief that all occupational injuries and illnesses are preventable. TransCanada endeavors to do business with companies and contractors that share its perspective on HS&E performance and to influence them to improve their collective performance. TransCanada is committed to respecting the diverse environments and cultures in which it operates and to supporting open communication with the public, policy makers, scientists and public interest groups.

TransCanada is committed to ensuring compliance with its internal policies and legislated requirements. The HS&E Committee of TransCanada's board of directors (the "*Board*") monitors compliance with the Company's HS&E corporate policy through regular reporting. TransCanada's HS&E management system is modeled on the International Organization for Standardization's ("*ISO*") standard for environmental management systems, ISO 14001, and focuses resources on the areas of significant risk to the organization's HS&E business activities. Management is informed regularly of all important HS&E operational issues and initiatives through formal reporting processes. TransCanada's HS&E management system and performance are assessed by an independent outside firm every three years. The most recent assessment occurred in December 2009 and did not identify any material issues. The HS&E management system also is subject to ongoing internal review to ensure that it remains effective as circumstances change.

In 2009, employee and contractor health and safety performance continued to be a top priority. TransCanada's objective is a health and safety performance consistent with top quartile companies in its sectors. Overall, TransCanada's safety frequency rates in 2009 continued to be better than most industry benchmarks.

The safety and integrity of TransCanada's existing and newly developed energy infrastructure also continued to be top priorities. All new assets are designed, constructed and commissioned with full consideration given to safety and integrity, and are not brought into service until all necessary requirements are satisfied. The Company expects to spend approximately $181 million in 2010 for pipeline integrity on its wholly owned pipelines, which is $10 million higher than in 2009 primarily due to increased levels of in-line pipeline inspection on all systems. Under the approved regulatory models in Canada, pipeline integrity expenditures on NEB regulated pipelines are treated on a flow-through basis and, as a result, have no impact on TransCanada's earnings. Under the Keystone Oil Pipeline contracts, pipeline integrity expenditures are recovered through the tolling mechanism and, as a result, have no impact on TransCanada's earnings. Expenditures for the GTN System may also be recovered through a cost recovery mechanism in its rates. TransCanada's pipeline safety record in 2009 continued to be above industry benchmarks. TransCanada experienced three pipeline breaks in 2009. The first occurred in a remote part of northern Alberta. The other two occurred in rural parts of northern Ontario. The breaks resulted in minimal impact with no injuries and only minor property damage in one of the incidents. All three incidents were subject to a Level 3 investigation by the Transportation Safety Board of Canada. Spending associated with public safety on the Energy assets is focused primarily on TransCanada's hydro dams and associated equipment, and is consistent with previous years.

Environmental Protection

TransCanada's facilities are subject to various federal, provincial, state and local statutes and regulations regarding environmental quality and pollution control. TransCanada has ongoing inspection programs designed to keep all of its facilities in compliance with environmental requirements and TransCanada is confident that its systems are in material compliance with the applicable requirements.

In 2009, TransCanada conducted environmental risk assessments and remediation work, as well as various retirement, reclamation and restoration activities on its Canadian and U.S. facilities. At December 31, 2009, TransCanada had recorded liabilities of approximately $91 million (2008 - $86 million) for remediation obligations and compliance costs associated with greenhouse gas ("*GHG*") legislation, including contingencies. The Company believes it has considered all necessary contingencies and established appropriate reserves for environmental liabilities, however, there is the risk that unforeseen matters may arise requiring the Company to set aside additional amounts.

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

North American climate change policy continues to evolve at regional and national levels. In 2009, TransCanada owned assets in three Canadian provinces where regulations exist to address industrial GHG emissions. TransCanada has put in place procedures to address these regulations.

In Alberta, under the Specified Gas Emitters Regulation, industrial facilities are required to reduce GHG emissions intensities by 12 per cent effective July 2007. TransCanada's Alberta-based facilities are subject to this regulation, as are the Sundance and Sheerness coal-fired power facilities with which TransCanada has power purchase agreements. As an alternative to reducing emissions intensities, compliance can be achieved through the retirement of offsets or payments to a technology fund at a cost of $15 per tonne of carbon dioxide ("*CO2*") emissions in excess of the mandated reduction. A program is in place to manage the compliance costs incurred by these assets as a result of regulation. Compliance costs on the Alberta System are recovered through tolls paid by customers. Recovery of compliance costs at TransCanada's power generation facilities in Alberta is dependent ultimately on market prices for electricity. TransCanada has estimated and recorded costs of $17 million for 2009. These costs will be finalized when compliance reports are submitted in March 2010.

The hydrocarbon royalty in Québec is collected by the natural gas distributor on behalf of the Québec government through a green fund contribution charge on gas consumed. In 2009, the cost pertaining to the Bécancour facility arising from the hydrocarbon royalty was less than $1 million as a result of an agreement between TransCanada and Hydro-Québec to temporarily suspend the facility's power generation. The cost is expected to increase substantially when the plant returns to service.

British Columbia's carbon tax, which came into effect in mid-2008, applies to CO2 emissions arising from fossil fuel combustion. Compliance costs for fuel combustion at the Company's compressor and meter stations in British Columbia are recovered through tolls paid by customers. Costs related to the carbon tax in 2009 were $3 million. The cost per tonne of CO2 was $15 in 2009 and will increase to $20 per tonne and $25 per tonne in 2010 and 2011, respectively.

Northeastern U.S. states that are members of the Regional Greenhouse Gas Initiative ("*RGGI*") implemented a CO2 cap and trade program for electricity generators effective January 1, 2009. Under the RGGI, both the Ravenswood and Ocean State Power generation facilities will be required to submit allowances by December 31, 2011. TransCanada participated in the quarterly auctions of allowances for the Ravenswood and Ocean State power generation facilities and incurred related costs of $8 million in 2009. These costs were generally recovered through the power market and the net impact on TransCanada was not significant.

RISK FACTORS

Environmental Risk Factors

Environmental risks from TransCanada's operating facilities typically include: air emissions, such as nitrogen oxides, particulate matter and greenhouse gases; potential impacts on land, including land reclamation or restoration following construction; the use, storage or release of chemicals or hydrocarbons; the generation, handling and disposal of wastes and hazardous wastes; and water impacts such as uncontrolled water discharge. Environmental controls including physical design, programs, procedures and processes are in place to effectively manage these risks and TransCanada believes it has considered all necessary contingencies and established appropriate reserves for environmental liabilities. However, there is the risk that unforeseen matters may arise requiring TransCanada to set aside additional monies.

As mentioned above, TransCanada's operations are subject to various environmental laws and regulations that establish compliance and remediation obligations. Compliance obligations can result in significant costs associated with installing and maintaining pollution controls, fines and penalties resulting from any failure to comply, and potential limitations on operations. Remediation obligations can result in significant costs associated with the investigation and remediation of contaminated properties, some of which have been designated as Superfund sites by the United States Environmental Protection Agency under the *Comprehensive Environmental Response, Compensation and Liability Act*, and with damage claims arising out of the contamination of properties. It is not possible for TransCanada to estimate the amount and timing of all future expenditures related to environmental matters due to:

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

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

The Canadian government has continued to express interest in pursuing a harmonized continental climate change strategy. In January 2010, Environment Canada listed a revised target to the United Nations Framework Convention on Climate Change as part of its submission for the Copenhagen Accord. The submitted target represents a 17 per cent GHG emissions reduction by 2020 relative to 2005 levels. The submission states that Canada will align with the final economy-wide emissions targets of the United States in enacted legislation. TransCanada expects that pipeline and power generation facility emissions will be subject to the reduction targets for industrial emitters.

Climate change is a strategic issue for the United States government and federal policy to manage domestic GHG emissions continues to be a priority. The Environmental Protection Agency has released an endangerment finding regarding GHG emissions under the *Clean Air Act*. This finding was to determine whether the six types of GHGs in the atmosphere threaten the health and welfare of current and future generations. The United States House passed a climate bill in June and the Senate is deliberating on a series of climate bills.

At a regional level, TransCanada has assets located in provinces where members of the Western Climate Initiative ("*WCI*") have drafted regulations that apply to industrial GHG emitters. The Canadian WCI members include B.C., Manitoba, Ontario and Québec. The draft climate change strategies are expected to come into effect in 2012 and are expected to affect TransCanada's pipeline and power facilities. The details of how these provincial programs will align with the Canadian government's climate change policies remain uncertain.

Seven western U.S. states, along with the four Canadian provinces discussed above, are focused on the implementation of a cap and trade program under the WCI. Members of the WCI have set a GHG emission target of 15 per cent below 2005 levels by 2020. California, a WCI founding member, has released draft cap and trade regulations that, if enacted, are anticipated to have an impact on the Company's pipeline assets in the state. The financial implications are not expected to be material. Under the current form of draft regulations in Washington and Oregon it is expected that there will not be a significant cost of compliance in these states. TransCanada will continue to monitor these developments.

Participants in the Midwestern Greenhouse Gas Reduction Accord, which involves six U.S. states and the province of Manitoba, are developing a regional strategy for reducing members' GHG emissions that will include a multi-sector cap and trade mechanism. Draft recommendations have been released but as yet not formally endorsed by participant states and Manitoba.

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

Other Risk Factors

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

DIVIDENDS

The Board has not adopted a formal dividend policy. The Board reviews the financial performance of TransCanada quarterly and makes a determination of the appropriate level of dividends to be declared in the following quarter. Currently, TransCanada's payment of dividends is primarily funded from dividends TransCanada receives as the sole common shareholder of TCPL. Provisions of various trust indentures and credit arrangements to which TCPL is a party restrict TCPL's ability to declare and pay dividends to TransCanada under certain circumstances and, if such restrictions apply, they may, in turn, have an impact on TransCanada's ability to declare and pay dividends. In the opinion of TransCanada's management, such provisions do not currently restrict or alter TransCanada's ability to declare or pay dividends. Holders of Series 1 Preferred Shares are entitled to receive fixed cumulative preferential dividends, at an annual rate of $1.15 per share, payable quarterly, as and when declared by the Board, for the initial five-year period ending December 31, 2014. For the period from issuance on September 30, 2009 to December 31, 2009, dividends in the amount of $0.2899 per share were declared and paid on the Series 1 Preferred Shares. The dividend rate on the Series 1 Preferred Shares will reset on December 31, 2014 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 1.92%. The holders of Series 1 Preferred Shares have the right to convert their shares into cumulative redeemable first preferred shares, series 2 (the "*Series 2 Preferred Shares*") as set out under "First Preferred Shares" below.

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

	2009	**2008**	**2007**
Dividends declared on Common Shares	$1.52	$1.44	$1.36

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

TransCanada's authorized share capital consists of an unlimited number of Common Shares, of which 684,358,621 were issued and outstanding at Year End, and an unlimited number of first preferred shares and second preferred shares, issuable in series, of which 22,000,000 Series 1 Preferred Shares are issued and outstanding. The following is a description of the material characteristics of each of these classes of shares.

Common Shares

The Common Shares entitle the holders thereof to one vote per share at all meetings of shareholders, except meetings at which only holders of another specified class of shares are entitled to vote, and, subject to the rights, privileges, restrictions and conditions attaching to the first preferred shares and the second preferred shares, whether as a class or a series, and to any other class or series of shares of TransCanada which rank prior to the Common Shares, entitle the holders thereof to receive (i) dividends if, as and when declared by the Board out of the assets of TransCanada properly applicable to the payment of the dividends in such amount and payable at such times and at such place or places as the Board may from time to time determine and (ii) the remaining property of TransCanada upon a dissolution.

TransCanada has a Shareholder Rights Plan (the "*Plan*") that is designed to ensure, to the extent possible, that all shareholders of TransCanada are treated fairly in connection with any take-over bid for the Company. The Plan creates a right attaching to each Common Share outstanding and to each Common Share subsequently issued. Each right becomes exercisable ten trading days after a person has acquired, or commences a take-over bid to acquire, 20 per cent or more of the Common Shares, other than by an acquisition pursuant to a take-over bid permitted under the terms of the Plan. Prior to a flip-in event (as described below), each right permits registered holders to purchase from the Company Common Shares of TransCanada at the exercise price equal to three times the market price of such shares, subject to adjustments and anti-dilution provisions (the "*Exercise Price*"). The beneficial acquisition by any person of 20 percent or more of the Common Shares, other than by way of a take-over bid permitted under the terms of the Plan, is referred to as a "Flip-in Event". Ten trading days after a Flip-in Event, each TransCanada right will permit registered holders to receive, upon payment of the exercise price, the number of Common Shares with an aggregate market price equal to twice the Exercise Price. The Plan was reconfirmed at the 2007 annual and special meeting of shareholders and must be reconfirmed every third annual meeting thereafter.

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

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

First Preferred Shares

Subject to certain limitations, the Board may, from time to time, issue first preferred shares in one or more series and determine for any such series, its designation, number of shares and respective rights, privileges, restrictions and conditions. The first preferred shares as a class have, among others, provisions to the following effect.

The first preferred shares of each series rank on a parity with the first preferred shares of every other series, and are entitled to preference over the Common Shares, the second preferred shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends, the repayment of capital and the distribution of assets of TransCanada in the event of a liquidation, dissolution or winding up of TransCanada.

Except as provided by the *Canada Business Corporations Act* or as referred to below, the holders of the first preferred shares will not have any voting rights nor will they be entitled to receive notice of or to attend shareholders' meetings. The holders of any particular series of first preferred shares will, if the directors so determine prior to the issuance of such series, be entitled to such voting rights as may be determined by the directors if TransCanada fails to pay dividends on that series of preferred shares for any period as may be so determined by the directors.

The provisions attaching to the first preferred shares as a class may be modified, amended or varied only with the approval of the holders of the first preferred shares as a class. Any such approval to be given by the holders of the first preferred shares may be given by the affirmative vote of the holders of not less than 66⅔ per cent of the first preferred shares represented and voted at a meeting or adjourned meeting of such holders.

The Series 1 Preferred Shares are entitled to the payment of dividends as set out above under "Dividends". The Series 1 Preferred Shares are redeemable by TransCanada in whole or in part on or after December 31, 2014, by the payment of an amount in cash for each share to be redeemed equal to $25.00 plus all accrued and unpaid dividends thereon. The holders of Series 1 Preferred Shares have the right to convert their shares into cumulative redeemable first preferred shares, series 2 (the "*Series 2 Preferred Shares*"), subject to certain conditions, on December 31, 2014 and on December 31 of every fifth year thereafter. The holders of Series 2 Preferred Shares will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate plus 1.92%. In the event of liquidation, dissolution or winding up of TransCanada, the holders of Series 1 Preferred Shares shall be entitled to receive $25.00 per Series 1 Preferred Share plus all accrued and unpaid dividends thereon in preference over the Common Shares or any other shares ranking junior to the Series 1 Preferred Shares. Except as provided by the *Canada Business Corporations Act*, the holders of Series 1 Preferred Shares are not entitled to receive notice of, attend at, or vote at any meeting of shareholders unless and until TransCanada shall have failed to pay eight quarterly dividends, whether or not consecutive, in which case holders of Series 1 Preferred Shares shall have the right to receive notice of an to attend each meeting of shareholders at which directors are to be elected and which take place more than 60 days after the date on which the failure first occurs, and to one vote with respect to resolutions to elect directors for each Series 1 Preferred Share until all arrears of dividends have been paid.

Second Preferred Shares

The rights, privileges, restrictions and conditions attaching to the second preferred shares are substantially identical to those attaching to the first preferred shares, except that the second preferred shares are junior to the first preferred shares with respect to the payment of dividends, repayment of capital and the distribution of assets of TransCanada in the event of a liquidation, dissolution or winding up of TransCanada.

CREDIT RATINGS

Although TransCanada has not issued debt to the public, it has been assigned credit ratings by Moody's Investors Service, Inc. ("*Moody's*") and Standard and Poor's ("*S&P*"). Moody's has assigned an issuer rating of Baa1 with a stable outlook and S&P has assigned a long-term corporate credit rating of A- with a stable outlook. In third quarter 2009, TransCanada completed the issuance of $550 million of Series 1 Preferred Shares, which were assigned ratings by DBRS Limited ("*DBRS*") and S&P of Pfd-2 (low) and P-2, respectively. TransCanada does not presently intend to issue debt securities to the public in its own name and any future debt financing requirements are expected to continue to be funded primarily through its subsidiary, TCPL. The following table sets out the current credit ratings assigned to those outstanding classes of securities of TCPL which have been rated by DBRS, Moody's and S&P:

	DBRS	**Moody's**	**S&P**
Senior Unsecured Debt			
Debentures	A	A3	A-
Medium-Term Notes	A	A3	A-
Junior Subordinated Notes	BBB (high)	Baa1	BBB
Preferred Shares	Pfd-2 (low)	Baa2	P-2
Commercial Paper	R-1 (low)	-	-
Trend/Rating Outlook	Stable	Stable	Stable

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. A description of the rating agencies' credit ratings listed in the table above is set out below.

DBRS Limited (DBRS)

DBRS has different rating scales for short and long-term debt and preferred shares. "High" or "low" grades are used to indicate the relative standing within a rating category. The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The R-1 (low) rating assigned to TCPL's short-term debt is in the third highest of ten rating categories and indicates satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. The A rating assigned to TCPL's senior unsecured debt is in the third highest of ten categories for long-term debt. Long-term debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated securities. While a respectable rating, entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The BBB (high) rating assigned to junior subordinated notes is in the fourth highest of the ten categories for long-term debt. Long-term debt rated BBB is of adequate credit quality. Protection of interest and principal is considered acceptable but there may be other adverse conditions present which reduce the strength of the entity and its rated securities. The Pfd-2 (low) rating assigned to TCPL's and TransCanada's preferred shares is in the second highest of six rating categories for preferred shares. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial; however, earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies.

Moody's Investors Service, Inc. (Moody's)

Moody's has different rating scales for short and long-term obligations. Numerical modifiers 1, 2 and 3 are applied to each rating classification, with 1 being the highest and 3 being the lowest. The A3 rating assigned to TCPL's senior unsecured debt is in the third highest of nine rating categories for long-term obligations. Obligations rated A are considered upper medium grade and are subject to low credit risk. The Baa1 and Baa2 ratings assigned to TCPL's junior subordinated debt and preferred shares, respectively, are in the fourth highest of nine rating categories for long-term obligations, with the junior subordinated debt ranking slightly higher within the Baa rating category with a modifier of 1 as opposed to the modifier of 2 on the preferred shares. Obligations rated Baa are subject to moderate credit risk, are considered medium-grade, and as such, may possess certain speculative characteristics.

Standard & Poor's (S&P)

S&P has different rating scales for short- and long-term obligations. Ratings may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within a particular rating category. The A- rating assigned to TCPL's senior unsecured debt is in the third highest of ten rating categories for long-term obligations. An A rating indicates the obligor's capacity to meet its financial commitment is strong; however, the obligation is slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. The BBB and P-2 ratings assigned to TCPL's junior subordinated notes and TCPL's and TransCanada's preferred shares exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

MARKET FOR SECURITIES

TransCanada's Common Shares are listed on the Toronto Stock Exchange ("*TSX*") and the New York Stock Exchange ("*NYSE*"). TransCanada's Series 1 Preferred Shares have been listed for trading on the TSX since September 30, 2009. The following tables set forth the reported monthly high, low, and month-end closing trading prices and monthly trading volumes of the Common Shares of TransCanada on the TSX and the NYSE and the Series 1 Preferred Shares on the TSX for the period indicated:

Common Shares

	TSX (TRP)				NYSE (TRP)			
Month	High ($)	Low ($)	Close ($)	Volume Traded	High (US$)	Low (US$)	Close (US$)	Volume Traded
December 2009	36.49	33.51	36.19	28,627,985	34.59	32.15	34.37	6,351,654
November 2009	34.13	31.92	34.13	37,471,954	32.54	29.66	32.27	7,399,434
October 2009	33.95	32.31	33.16	31,079,808	32.90	29.86	30.54	7,941,688
September 2009	34.00	31.81	33.37	39,471,205	31.74	28.88	31.02	6,821,758
August 2009	32.76	30.78	32.60	33,574,588	30.29	28.05	29.68	8,761,058
July 2009	31.47	30.19	30.64	37,841,226	28.77	25.88	28.45	5,345,338
June 2009	34.40	30.25	31.32	60,066,715	30.93	26.17	26.91	9,109,155
May 2009	32.86	29.68	32.38	36,231,746	29.94	24.94	29.74	7,608,353
April 2009	30.76	29.34	29.78	35,458,519	25.63	23.20	24.97	10,426,740
March 2009	32.29	28.86	29.83	53,753,101	26.19	22.24	23.65	15,520,736
February 2009	34.24	29.61	30.90	30,216,886	28.05	20.01	24.06	15,409,226
January 2009	35.00	32.08	32.98	29,712,401	29.01	25.51	26.85	11,211,484

Series 1 Preferred Shares

	TSX (TRP.PR.A)			
Month	High ($)	Low ($)	Close ($)	Volume Traded
December 2009	26.20	25.51	26.00	917,214
November 2009	25.90	25.35	25.56	914,033
October 2009	25.50	25.01	25.40	1,866,602
September 2009	25.03	24.91	25.00	896,387

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

DIRECTORS AND OFFICERS

As of February 22, 2010, the directors and officers of TransCanada as a group beneficially owned, or exercised control or direction, directly or indirectly, over an aggregate of 504,537 Common Shares of TransCanada. This constitutes less than one per cent of TransCanada's Common Shares. TransCanada collects this information from its directors and officers but otherwise has no direct knowledge of individual holdings of its securities.

Directors

Set forth below are the names of the thirteen directors who served on the Board at Year End, together with their jurisdictions of residence, all positions and offices held by them with TransCanada and its significant affiliates, their principal occupations or employment during the past five years and the year from which each director has continually served as a director of TransCanada and, prior to the arrangement, with TCPL. Positions and offices held with TransCanada are also held by such person at TCPL. Each director holds office until the next annual meeting or until his or her successor is earlier elected or appointed.

Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
Kevin E. Benson(1) DeWinton, Alberta Canada	President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) from June 2003 to October 2007. Director, Emergency Medical Services Corporation.	2005
Derek H. Burney(2), O.C. Ottawa, Ontario Canada	Senior strategic advisor at Ogilvy Renault LLP (law firm), Chair, Canwest Global Communications Corp. (communications) and Chair, International Advisory Board for Garda World Consulting & Investigation, a division of Garda World Security Corporation. Director, Canwest Global Communications Corp. Lead director at Shell Canada Limited (oil and gas) from April 2001 to May 2007.	2005
Wendy K. Dobson Uxbridge, Ontario Canada	Professor, Rotman School of Management and Co-Director, Institute for International Business, University of Toronto. Director, the Toronto-Dominion Bank. Vice Chair of the Canadian Public Accountability Board until February 2010 and Chair of the audit committee of the same organization from 2003 to 2009.	1992
E. Linn Draper Lampasas, Texas United States	Director, Alliance Data Systems Corporation (data processing and services), Lead Director, Alpha Natural Resources, Inc. (mining), Director, NorthWestern Corporation (conducting business as NorthWestern Energy) (oil and gas) and Lead Director of Temple-Inland Inc. (materials).	2005
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C. Québec, Québec Canada	Senior Partner, Stein Monast LLP (law firm). Director, Metro Inc., RBC Dexia Investor Services Trust and Royal Bank of Canada. Director, Cossette Inc. until December 23, 2009. Director, Institut Québecois des Hautes Études Internationales, Laval University from 2002 until 2009.	2002
Kerry L. Hawkins Winnipeg, Manitoba Canada	Director, NOVA Chemicals Corporation until July 6, 2009. President, Cargill Limited (agricultural) from September 1982 to December 2005.	1996
S. Barry Jackson Calgary, Alberta Canada	Chair of the Board, TransCanada since April 2005. Director, Nexen Inc. (oil and gas). Director, WestJet Airlines Ltd. Chair of Resolute Energy Inc. (oil and gas) from January 2002 to April 2005 and Chair of Deer Creek Energy Limited (oil and gas) from April 2001 to September 2005.	2002

Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
Paul L. Joskow New York, New York United States	Economist and President of the Alfred P. Sloan Foundation. On leave from his position as Professor of Economics and Management, Massachusetts Institute of Technology ("MIT") where he has been on the faculty since 1972. Trustee of Yale University since July 1, 2008 and member of the Board of Overseers of the Boston Symphony Orchestra since September 2005. Director of the MIT Center for Energy and Environmental Policy Research from 1999 to 2007 and Director of National Grid plc from 2000 to 2007. Director of Exelon Corporation (energy) since July 2007. Trustee of Putnam Mutual Funds.	2004
Harold N. Kvisle Calgary, Alberta Canada	President and Chief Executive Officer of TransCanada since May 2003 and TCPL since May 2001. Director, Bank of Montreal and ARC Energy Trust.	2001
John A. MacNaughton(3), C.M. Toronto, Ontario Canada	Chair of the Business Development Bank of Canada and of CNSX Markets Inc. (formerly the Canadian Trading and Quotation System Inc.) (stock exchange). Director, Nortel Networks Corporation and Nortel Networks Limited (the principal operating subsidiary of Nortel Networks Corporation) (technology). Chair of the Independent Nominating Committee of the new Canada Employment Insurance Financing Board since 2008. Founding President and Chief Executive Officer of the Canada Pension Plan Investment Board from 1999 to 2005.	2006
David P. O'Brien(4) Calgary, Alberta Canada	Chair, EnCana Corporation (oil and gas) since April 2002 and Chair, Royal Bank of Canada since February 2004. Director, Molson Coors Brewing Company, Enerplus Resources Fund and C.D. Howe Institute. Chancellor, Concordia University and a member of the Science, Technology and Innovation Council of Canada.	2001
W. Thomas Stephens Greenwood Village, Colorado United States	Chair and Chief Executive Officer of Boise Cascade, LLC from November 2004 to November 30, 2008. Director, Boise Inc.	2007(5)
D. Michael G. Stewart Calgary, Alberta Canada	Director, Canadian Energy Services & Technology Corp., Pengrowth Corporation and Orleans Energy Ltd. Chairman and a trustee of Esprit Energy Trust (oil and gas) from August 2004 to October 2006; and a director of Creststreet Power & Income General Partner Limited, the General Partner of Creststreet Power & Income Fund L.P. (wind power) from December 2003 to February 2006.	2006

(1) Mr. Benson was President and Chief Executive Officer of Canadian Airlines International Ltd. from July 1996 to February 2000. Canadian Airlines International Ltd. filed for protection under the *Companies' Creditors Arrangement Act* (Canada) and applicable bankruptcy protection statutes in the U.S. on March 24, 2000.

(2) Canwest Global Communications Corp. ("*Canwest*") voluntarily entered into, and successfully obtained an Order from the Ontario Superior Court of Justice (Commercial Division) commencing proceedings under the *Companies' Creditors Arrangement Act* on October 6, 2009. Following the filing, Canwest shares were de-listed from trading on the TSX and now trade on the TSX Venture Exchange.

(3) Nortel Networks Limited is the principal operating subsidiary of Nortel Networks Corporation (collectively referred to as "*Nortel*"). Mr. MacNaughton became a director of Nortel on June 29, 2005. Nortel was subject to a management cease trade order on April 10, 2006 issued by the Ontario Securities Commission ("*OSC*") and other provincial securities regulators. The cease trade order related to a delay in filing certain of Nortel's 2005 financial statements. The order was revoked by the OSC on June 8, 2006 and by the other provincial securities regulators very shortly thereafter. On January 14, 2009, Nortel, and certain of Nortel's other Canadian subsidiaries filed for creditor protection under the *Companies' Creditors Arrangement Act* (Canada).

(4) Mr. O'Brien was a director of Air Canada in April 2003 when Air Canada filed for protection under the *Companies' Creditors Arrangement Act* (Canada) and applicable bankruptcy protection statutes in the U.S. Mr. O'Brien resigned as a director of Air Canada on November 26, 2003.

(5) Mr. Stephens previously served on the Board from 2000 to 2005.

Board Committees

TransCanada has four committees of the Board: the Audit Committee, the Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee. The voting members of each of these committees, as of Year End, are identified below:

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

The charters of the Audit Committee, Governance Committee, the Health, Safety & Environment Committee and the Human Resources Committee can be found on TransCanada's website under the Corporate Governance - Board Committees page located at www.transcanada.com. Information about the audit committee can be found in this AIF under the heading "Audit Committee".

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

Officers

All of the executive officers and corporate officers of TransCanada reside in Calgary, Alberta, Canada. References to positions and offices with TransCanada prior to May 15, 2003 are references to the positions and offices held with TCPL. Current positions and offices held with TransCanada are also held by such person at TCPL. As of the date hereof, the officers of TransCanada, their present positions within TransCanada and their principal occupations during the five preceding years are as follows:

Executive Officers

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Harold N. Kvisle	President and Chief Executive Officer	President and Chief Executive Officer
Russell K. Girling	Chief Operating Officer and President, Pipelines	Prior to July 2009, President, Pipelines. Prior to June 2006, Executive Vice-President, Corporate Development and Chief Financial Officer
Gregory A. Lohnes	Executive Vice-President and Chief Financial Officer	Prior to June 2006, President and Chief Executive Officer of Great Lakes Gas Transmission Company
Dennis J. McConaghy	Executive Vice-President, Pipeline Strategy and Development	Prior to June 2006, Executive Vice-President, Gas Development
Sean McMaster	Executive Vice-President, Corporate, and General Counsel and Chief Compliance Officer	Prior to October 2006, General Counsel and Chief Compliance Officer. Prior thereto, General Counsel since June 2006. Prior to June 2006, Vice-President, Transactions, Power Division, TCPL and concurrently, prior to August 2005, President TransCanada Power Services Ltd., general partner of TransCanada Power, L.P.
Alexander J. Pourbaix	President, Energy and Executive Vice-President, Corporate Development	Prior to July 2009, President, Energy. Prior to June 2006, Executive Vice-President, Power
Sarah E. Raiss	Executive Vice-President, Corporate Services	Executive Vice-President, Corporate Services
Donald M. Wishart	Executive Vice-President, Operations and Major Projects	Prior to July 2009, Executive Vice-President, Operations and Engineering

Corporate Officers

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Ronald L. Cook	Vice-President, Taxation	Vice-President, Taxation
Donald J. DeGrandis	Vice-President and Corporate Secretary	Prior to February 2009, Corporate Secretary. Prior to June 2006, Associate General Counsel, Corporate
Garry E. Lamb	Vice-President, Risk Management	Vice-President, Risk Management
Donald R. Marchand	Vice-President, Finance and Treasurer	Vice-President, Finance and Treasurer
G. Glenn Menuz	Vice-President and Controller	Prior to June 2006, Assistant Controller

Conflicts of Interest

Directors and officers of TransCanada and its subsidiaries are required to disclose the existence of existing or potential conflicts in accordance with TransCanada policies governing directors and officers and in accordance with the *Canada Business Corporations Act*. Although some of the directors sit on boards or may be otherwise associated with companies that ship natural gas on TransCanada's pipeline systems, TransCanada, as a common carrier in Canada, cannot, under its tariff, deny transportation service to a credit-worthy shipper. Further, due to the specialized nature of the industry, TransCanada believes that it is important for its Board to be composed of qualified and knowledgeable directors, so some of them must come from the oil and gas producer and shipper community; the Governance Committee monitors relationships among directors to ensure that business associations do not affect the Board's performance. In a circumstance where a director declares an interest in any material contract or material transaction being considered at a meeting, the director generally absents himself or herself from the meeting during the consideration of the matter, and does not vote on the matter.

CORPORATE GOVERNANCE

The Board and the members of TransCanada's management are committed to the highest standards of corporate governance. TransCanada's corporate governance practices comply with the governance rules of the Canadian Securities Administrators ("*CSA*"), those of the NYSE and of the SEC applicable to foreign issuers, and those mandated by the U.S. *Sarbanes-Oxley Act of 2002*. As a non-U.S. company, TransCanada is not required to comply with most of the NYSE corporate governance listing standards; however, except as summarized on our website at www.transcanada.com, the governance practices followed are in compliance with the NYSE standards for U.S. companies in all significant respects. TransCanada is in compliance with the CSA's National Instrument 52-110 pertaining to audit committees; National Policy 58-201, Corporate Governance Guidelines; and National Instrument 58-101, Disclosure of Corporate Governance Practices. Further information about TransCanada's corporate governance can be found on TransCanada's website at www.transcanada.com under the heading "Corporate Governance" or at Schedule "A" to TransCanada’s management proxy circular.

AUDIT COMMITTEE

TransCanada has an Audit Committee which is responsible for assisting the Board in overseeing the integrity of TransCanada's financial statements and compliance with legal and regulatory requirements and in ensuring the independence and performance of TransCanada's internal and external auditors. The Charter of the Audit Committee can be found in Schedule "C" of this AIF and on TransCanada's website under the Corporate Governance - Board Committees page, at www.transcanada.com.

Relevant Education and Experience of Members

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

The Board believes that the composition of the Audit Committee reflects a high level of financial literacy and expertise. Each member of the Audit Committee has been determined by the Board to be "independent" and "financially literate" within the meaning of the definitions under Canadian and U.S. securities laws and the NYSE rules. In addition, the Board has determined that Mr. Benson is an "Audit Committee Financial Expert" as that term is defined under U.S. securities laws. The Board has made these determinations based on the education and breadth and depth of experience of each member of the Audit Committee. The following is a description of the education and experience, apart from their respective roles as directors of TransCanada, of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee:

Kevin E. Benson

Mr. Benson earned a Bachelor of Accounting from the University of Witwatersrand (South Africa) and was a member of the South African Society of Chartered Accountants. Mr. Benson was the President and Chief Executive Officer of Laidlaw International, Inc. until October, 2007. In prior years, he has held several executive positions including one as President and Chief Executive Officer of Canadian Airlines International Ltd. and has served on other public company boards and on the audit committees of certain of those boards.

Derek H. Burney

Mr. Burney earned a Bachelor of Arts (Honours) and Master of Arts from Queen's University. He is currently a senior strategic advisor at Ogilvy Renault LLP. Mr. Burney previously served as President and Chief Executive Officer of CAE Inc. and as Chairman and Chief Executive Officer of Bell Canada International Inc. Mr. Burney was the lead director at Shell Canada Limited until May 2007 and is the Chairman of Canwest Global Communications Corp. He has served on one other organization's audit committee.

E. Linn Draper

Dr. Draper holds a Bachelor of Science in Chemical Engineering from Rice University and a Ph.D. in Nuclear Science and Engineering from Cornell University. Dr. Draper was Chairman, President and Chief Executive Officer of American Electric Power Co., Inc. until 2004. He previously served as Chairman, President and Chief Executive Officer of Gulf States Utilities Company. Dr. Draper has served and continues to serve on several other public company boards.

Paul L. Joskow

Mr. Joskow earned a Bachelor of Arts with Distinction in Economics from Cornell University, a Masters of Philosophy in Economics from Yale University, and a Ph.D. in Economics from Yale University. He is currently the President of the Alfred P. Sloan Foundation and on leave from his position as a Professor of Economics and Management, MIT. He has served on the boards of several public companies and other organizations and on the audit committees of certain of those boards.

John A. MacNaughton

Mr. MacNaughton earned a Bachelor of Arts in Economics from the University of Western Ontario. Mr. MacNaughton is currently the Chairman of the Business Development Bank of Canada and of CNSX Markets Inc. (formerly Canadian Trading and Quotation System Inc.) In prior years, he has held several executive positions including founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board and President of Nesbitt Burns Inc. He has served on the audit committee of other public companies.

D. Michael G. Stewart

Mr. Stewart earned a Bachelor of Science (Honours) in Geological Science from Queen’s University. Mr. Stewart has served and continues to serve on the boards of several public companies and other organizations and on the audit committees of certain of those boards. He has been active in the Canadian energy industry for over 36 years.

Pre-Approval Policies and Procedures

TransCanada's Audit Committee has adopted a pre-approval policy with respect to permitted non-audit services. Under the policy, the Audit Committee has granted pre-approval for specified non-audit services. For engagements of $25,000 or less which are not within the annual pre-approved limit, approval by the Audit Committee is not required, and for engagements between $25,000 and $100,000, approval of the Audit Committee Chair is required, and the Audit Committee is to be informed of the engagement at the next scheduled Audit Committee meeting. For all engagements of $100,000 or more, pre-approval of the Audit Committee is required. In all cases, regardless of the dollar amount involved, where there is a potential for conflict of interest involving the external auditor to arise on an engagement, the Audit Committee Chair must pre-approve the assignment.

To date, TransCanada has not approved any non-audit services on the basis of the de-minimus exemptions. All non-audit services have been pre-approved by the Audit Committee in accordance with the pre-approval policy described above.

External Auditor Service Fees

The following table provides information about the fees paid by the Company to KPMG LLP, the external auditor of the TransCanada group of companies, for professional services rendered for the 2009 and 2008 fiscal years.

Fee Category	2009	2008	Description of Fee Category
	(millions of dollars)		
Audit Fees	**$7.14**	**$6.69**	Aggregate fees for audit services rendered for the audit of the annual consolidated financial statements or services provided in connection with statutory and regulatory filings or engagements, the review of interim consolidated financial statements and information contained in various prospectuses and other offering documents.
Audit Related Fees	**$0.15**	**$0.08**	Aggregate fees for assurance and related services that are reasonably related to performance of the audit or review of the consolidated financial statements and are not reported as Audit Fees. The nature of services comprising these fees related to the audit of the financial statements of certain pension plans.
Tax Fees	**$1.13**	**$0.14**	Aggregate fees rendered for tax planning and tax compliance advice. The nature of these services consisted of domestic and international tax planning advice and tax compliance matters including the review of income tax returns and other tax filings.
All Other Fees	**$0.43**	**$0.37**	Aggregate fees for products and services other than those reported elsewhere in this table. The nature of these services consisted primarily of advice and training primarily related to compliance with IFRS.
Total	**$8.85**	**$7.28**	

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

MATERIAL CONTRACTS

The underwriting agreement between TransCanada Corporation and RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., TD Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., and UBS Securities Canada Inc., as underwriters, dated June 16, 2009 as described in this AIF under the heading "General Development of the Business – Financing Activities" is available on SEDAR at www.sedar.com under TransCanada's profile.

The underwriting agreement between TransCanada Corporation and Scotia Capital Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., TD Securities Inc., CIBC World Markets Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc. and UBS Securities Canada Inc., as underwriters, dated September 22, 2009 as described in this AIF under the heading "General Development of the Business – Financing Activities" is available on SEDAR at www.sedar.com under TransCanada's profile.

TRANSFER AGENT AND REGISTRAR

TransCanada's transfer agent and registrar is Computershare Trust Company of Canada with its Canadian transfer facilities in the cities of Vancouver, Calgary, Winnipeg, Toronto, Montréal and Halifax.

INTEREST OF EXPERTS

TransCanada's auditors, KPMG LLP, have confirmed that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

1. Additional information in relation to TransCanada may be found under TransCanada's profile on SEDAR at www.sedar.com.

2. Additional information including directors' and officers' remuneration and indebtedness, principal holders of TransCanada's securities and securities authorized for issuance under equity compensation plans (all where applicable), is contained in TransCanada's management proxy circular for its most recent annual meeting of shareholders that involved the election of directors and can be obtained upon request from the Corporate Secretary of TransCanada.

3. Additional financial information is provided in TransCanada's audited consolidated financial statements and MD&A for its most recently completed financial year.

GLOSSARY

AcSB	Accounting Standards Board
AGIA	*Alaska Gasline Inducement Act*
AIF	Annual Information Form of TransCanada Corporation dated February 22, 2010
Alaska Pipeline Project	A 4.5 Bcf/d natural gas pipeline that would extend 2,737 km (1,700 miles) from a new natural gas treatment plant at Prudhoe Bay, Alaska to Alberta.
Alberta System	A natural gas transmission system throughout the province of Alberta
ANR	American Natural Resources Company and ANR Storage Company
ANR System	A natural gas transmission system which extends approximately 17,000 km from producing fields in Louisiana, Oklahoma, Texas and the Gulf of Mexico to markets in Wisconsin, Michigan, Illinois, Ohio and Indiana
ATCO Pipelines	A subsidiary of Canadian Utilities Limited
AUC	Alberta Utilities Commission
Bbl/d	Barrels per day
Bcf	Billion cubic feet
Bécancour	A natural gas-fired cogeneration plant near Trois-Rivières, Québec
Bison	The Bison Pipeline Project, a proposed 303-mile pipeline from the Powder River Basin in Wyoming to the NBPL System
Board	TransCanada's Board of Directors
Broadwater	A proposed offshore LNG facility in Long Island Sound, New York
Bruce A	Bruce Power A L.P.
Bruce B	Bruce Power L.P.
Cacouna	The proposed Cacouna Energy LNG facility in Cacouna, Québec
Calpine	Calpine Corporation
Canadian Mainline	A natural gas pipeline system running from the Alberta border east to delivery points in eastern Canada and along the U.S. border
Cartier Wind Energy Project	Five wind energy projects contracted by Hydro-Québec Distribution representing a total of 590 MW in the Gaspé region of Québec
Chinook	A proposed 500 Kilovolt high voltage direct current transmission project, originating in Montana and extending 1,600 km to Nevada
CO_2	Carbon dioxide
Common Shares	Common shares of TransCanada
Coolidge	Coolidge Generating Station
CSA	Canadian Securities Administrators
DBRS	DBRS Limited
EUB	Alberta Energy and Utilities Board
FEIS	Final Environment Impact Statement
FERC	Federal Energy Regulatory Commission (USA)
Foothills System	A natural gas pipeline system in southeastern B.C., southern Alberta and southwestern Saskatchewan
GHG	Greenhouse gas
GTNC	Gas Transmission Northwest Corporation
GTN System	A natural gas transmission system running from northwestern Idaho, through Washington and Oregon to the California border
Great Lakes	Great Lakes Gas Transmission Limited Partnership
Great Lakes System	A natural gas pipeline system in the north central U.S., roughly parallel to the Canada-U.S. Border
Horn River Project	A proposed 158 km (98 mile) pipeline to connect new shale gas supply in the Horn River basin north of Fort Nelson, B.C., to the Alberta System
HS&E	Health, Safety and Environment
IFRS	International Financial Reporting Standards
Iroquois System	A natural gas pipeline system in New York and Connecticut
ISO	International Organization of Standardization
Keystone Canada	TransCanada Keystone Pipeline Limited Partnership
Keystone Oil Pipeline	A 3,456 km (2,147 mile) crude oil pipeline project currently under construction
Keystone U.S.	TransCanada Keystone Pipeline, LP
LNG	Liquefied Natural Gas
MD&A	TransCanada's Management's Discussion and Analysis dated February 22, 2010
MMcf/d	Million cubic feet per day
Moody’s	Moody’s Investors Service, Inc.
MW	Megawatts
NBPL	Northern Border Pipeline Company
NBPL System	A natural gas transmission system located in the upper Midwestern portion of the U.S.
NEB	National Energy Board
NGTL	NOVA Gas Transmission Limited
North Baja	A natural gas pipeline in southern California
NYSDOS	New York Department of State
NYSE	New York Stock Exchange
Portland System	A natural gas pipeline that runs through Maine and New Hampshire into Massachusetts
Portlands Energy Centre	A natural gas-fired combined-cycle power plant near downtown Toronto, Ontario
PPA	Power Purchase Arrangement
Ravenswood	Ravenswood Generating Station, a natural gas and oil-fired generating facility located in Queens, New York
RGGI	Regional Greenhouse Gas Initiative
S&P	Standard and Poor’s
SEC	United States Securities and Exchange Commission
Series 1 Preferred Shares	Cumulative, redeemable, first preferred shares, series 1, of TransCanada
Sheerness	A power plant consisting of two 390 MW coal-fired thermal powered generating units
SIP&P	TransCanada’s Statement of Investment Policies and Procedures
Sundance	Two coal fired electrical generating facilities which produce 560 MW and 706 MW, respectively
TCPL	TransCanada PipeLines Limited
TQM	Trans Québec & Maritimes Pipeline Inc.
TransCanada or the Company	TransCanada Corporation
TSX	Toronto Stock Exchange
Tuscarora	Tuscarora Gas Transmission Company
Tuscarora System	A natural gas pipeline that runs from Oregon through northeast California to Reno, Nevada
U.S.	United States
WCI	Western Climate Initiative
Year End	December 31, 2009
Zephyr	A proposed 500 Kilovolt high voltage direct current transmission project, originating in Wyoming and extending 1,760 km to Nevada

SCHEDULE "A"

METRIC CONVERSION TABLE

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

Metric	**Imperial**	**Factor**
Kilometres (km)	Miles	0.62
Millimetres	Inches	0.04
Gigajoules	Million British thermal units	0.95
Cubic metres*	Cubic feet	35.3
Kilopascals	Pounds per square inch	0.15
Degrees Celsius	Degrees Fahrenheit	to convert to Fahrenheit multiply by 1.8, then add 32 degrees; to convert to Celsius subtract 32 degrees, then divide by 1.8

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

SCHEDULE "B"

CHARTER OF THE AUDIT COMMITTEE

1. Purpose

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

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

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

2. Roles and Responsibilities

I. Appointment of the Company's External Auditors

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

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

II. Oversight in Respect of Financial Disclosure

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

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

(b) review, discuss with management and the external auditors and recommend to the Board for approval the release to the public of the Company's interim reports, including the financial statements, management discussion and analysis and press releases on quarterly financial results;

(c) review and discuss with management and external auditors the use of "pro forma" or "adjusted" non-GAAP information and the applicable reconciliation;

(d) review and discuss with management and external auditors financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made). The Audit Committee need not discuss in advance each instance in which the Company may provide earnings guidance or presentations to rating agencies;

(e) review with management and the external auditors major issues regarding accounting and auditing principles and practices, including any significant changes in the Company's selection or application of accounting principles, as well as major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies that could significantly affect the Company's financial statements;

(f) review and discuss quarterly reports from the external auditors on:

(i) all critical accounting policies and practices to be used;

(ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;

(iii) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences;

(g) review with management and the external auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements;

(h) review with management, the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;

(i) review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the periodic reports filed with securities regulators about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls;

(j) discuss with management the Company's material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies;

III. Oversight in Respect of Legal and Regulatory Matters

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

IV. Oversight in Respect of Internal Audit

(a) review the audit plans of the internal auditors of the Company including the degree of coordination between such plan and that of the external auditors and the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control, fraud or other illegal acts;

(b) review the significant findings prepared by the internal auditing department and recommendations issued by the Company or by any external party relating to internal audit issues, together with management's response thereto;

(c) review compliance with the Company's policies and avoidance of conflicts of interest;

(d) review the adequacy of the resources of the internal auditor to ensure the objectivity and independence of the internal audit function, including reports from the internal audit department on its audit process with associates and affiliates;

(e) ensure the internal auditor has access to the Chair of the Audit Committee and of the Board and to the Chief Executive Officer and meet separately with the internal auditor to review with him any problems or difficulties he may have encountered and specifically:

  (i) any difficulties which were encountered in the course of the audit work, including restrictions on the scope of activities or access to required information, and any disagreements with management;

  (ii) any changes required in the planned scope of the internal audit; and

  (iii) the internal audit department responsibilities, budget and staffing;

and to report to the Board on such meetings;

V. Insight in Respect of the External Auditors

(a) review the annual post-audit or management letter from the external auditors and management's response and follow-up in respect of any identified weakness, inquire regularly of management and the external auditors of any significant issues between them and how they have been resolved, and intervene in the resolution if required;

(b) review the quarterly unaudited financial statements with the external auditors and receive and review the review engagement reports of external auditors on unaudited financial statements of the Company;

(c) receive and review annually the external auditors' formal written statement of independence delineating all relationships between itself and the Company;

(d) meet separately with the external auditors to review with them any problems or difficulties the external auditors may have encountered and specifically:

  (i) any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management; and

  (ii) any changes required in the planned scope of the audit;

and to report to the Board on such meetings;

(e) review with the external auditors the adequacy and appropriateness of the accounting policies used in preparation of the financial statements;

(f) meet with the external auditors prior to the audit to review the planning and staffing of the audit;

(g) receive and review annually the external auditors' written report on their own internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, and any steps taken to deal with such issues;

(h) review and evaluate the external auditors, including the lead partner of the external auditor team;

(i) ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law, but at least every five years;

VI. Oversight in Respect of Audit and Non-Audit Services

(a) pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all permitted non-audit services, other than non-audit services where:

   (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than 5% of the total fees paid by the Company and its subsidiaries to the external auditor during the fiscal year in which the non-audit services are provided;

   (ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and

   (iii) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee or by one or more members of the Audit Committee to whom authority to grant such approvals has been delegated by the Audit Committee;

(b) approval by the Audit Committee of a non-audit service to be performed by the external auditor shall be disclosed as required under securities laws and regulations;

(c) the Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals required by this subsection. The decisions of any member to whom authority is delegated to pre-approve an activity shall be presented to the Audit Committee at its first scheduled meeting following such pre-approval;

(d) if the Audit Committee approves an audit service within the scope of the engagement of the external auditor, such audit service shall be deemed to have been pre-approved for purposes of this subsection;

VII. Oversight in Respect of Certain Policies

(a) review and recommend to the Board for approval the implementation and amendments to policies and program initiatives deemed advisable by management or the Audit Committee with respect to the Company's codes of business ethics and Risk Management and Financial Reporting policies;

(b) obtain reports from management, the Company's senior internal auditing executive and the external auditors and report to the Board on the status and adequacy of the Company's efforts to ensure its businesses are conducted and its facilities are operated in an ethical, legally compliant and socially responsible manner, in accordance with the Company's codes of business conduct and ethics;

(c) establish a non-traceable, confidential and anonymous system by which callers may ask for advice or report any ethical or financial concern, ensure that procedures for the receipt, retention and treatment of complaints in respect of accounting, internal controls and auditing matters are in place, and receive reports on such matters as necessary;

(d) annually review and assess the adequacy of the Company's public disclosure policy;

(e) review and approve the Company's hiring policies for partners, employees and former partners and employees of the present and former external auditors (recognizing the Sarbanes-Oxley Act of 2002 does not permit the CEO, controller, CFO or chief accounting officer to have participated in the Company's audit as an employee of the external auditors' during the preceding one-year period) and monitor the Company's adherence to the policy;

VIII. Oversight in Respect of Financial Aspects of the Company's Pension **Plans, specifically:**

(a) provide advice to the Human Resources Committee on any proposed changes in the Company's pension plans in respect of any significant effect such changes may have on pension financial matters;

(b) review and consider financial and investment reports and the funded status relating to the Company's pension plans and recommend to the Board on pension contributions;

(c) receive, review and report to the Board on the actuarial valuation and funding requirements for the Company's pension plans;

(d) review and approve annually the Statement of Investment Policies and Procedures ("SIP&P");

(e) approve the appointment or termination of auditors and investment managers;

IX. Oversight in Respect of Internal Administration

(a) review annually the reports of the Company's representatives on certain audit committees of subsidiaries and affiliates of the Company and any significant issues and auditor recommendations concerning such subsidiaries and affiliates;

(b) review the succession plans in respect of the Chief Financial Officer, the Vice President, Risk Management and the Director, Internal Audit;

(c) review and approve the policy and guidelines for the Company's hiring of partners, employees and former partners and employees of the external auditors who were engaged on the Company's account;

X. Oversight Function

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the external auditors. The Audit Committee, its Chair and any of its members who have accounting or related financial management experience or expertise, are members of the Board, appointed to the Audit Committee to provide broad oversight of the financial disclosure, financial risk and control related activities of the Company, and are specifically not accountable nor responsible for the day to day operation of such activities. Although designation of a member or members as an "audit committee financial expert" is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Audit Committee, designation as an "audit committee financial expert" does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit Committee and Board in the absence of such designation. Rather, the role of any audit committee financial expert, like the role of all Audit Committee members, is to oversee the process and not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure.

3. Composition of Audit Committee

The Audit Committee shall consist of three or more Directors, a majority of whom are resident Canadians (as defined in the Canada Business Corporations Act), and all of whom are unrelated and/or independent for the purposes of applicable Canadian and United States securities law and applicable rules of any stock exchange on which the Company's shares are listed. Each member of the Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise (as those terms are defined from time to time under the requirements or guidelines for audit committee service under securities laws and the applicable rules of any stock exchange on which the Company's securities are listed for trading or, if it is not so defined as that term is interpreted by the Board in its business judgment).

4. Appointment of Audit Committee Members

The members of the Audit Committee shall be appointed by the Board from time to time, on the recommendation of the Governance Committee and shall hold office until the next annual meeting of shareholders or until their successors are earlier appointed or until they cease to be Directors of the Company.

5. Vacancies

Where a vacancy occurs at any time in the membership of the Audit Committee, it may be filled by the Board on the recommendation of the Governance Committee.

6. Audit Committee Chair

The Board shall appoint a Chair of the Audit Committee who shall:

(a) review and approve the agenda for each meeting of the Audit Committee and as appropriate, consult with members of management;

(b) preside over meetings of the Audit Committee;

(c) make suggestions and provide feedback from the Audit Committee to management regarding information that is or should be provided to the Audit Committee;

(d) report to the Board on the activities of the Audit Committee relative to its recommendations, resolutions, actions and concerns; and

(e) meet as necessary with the internal and external auditors.

7. Absence of Audit Committee Chair

If the Chair of the Audit Committee is not present at any meeting of the Audit Committee, one of the other members of the Audit Committee present at the meeting shall be chosen by the Audit Committee to preside at the meeting.

8. Secretary of Audit Committee

The Corporate Secretary shall act as Secretary to the Audit Committee.

9. Meetings

The Chair, or any two members of the Audit Committee, or the internal auditor, or the external auditors, may call a meeting of the Audit Committee. The Audit Committee shall meet at least quarterly. The Audit Committee shall meet periodically with management, the internal auditors and the external auditors in separate executive sessions.

10. Quorum

A majority of the members of the Audit Committee, present in person or by telephone or other telecommunication device that permit all persons participating in the meeting to speak to each other, shall constitute a quorum.

11. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Audit Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

12. Attendance of Company Officers and Employees at Meeting

At the invitation of the Chair of the Audit Committee, one or more officers or employees of the Company may attend any meeting of the Audit Committee.

13. Procedure, Records and Reporting

The Audit Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board when the Audit Committee may deem appropriate but not later than the next meeting of the Board.

14. Review of Charter and Evaluation of Audit Committee

The Audit Committee shall review its Charter annually or otherwise, as it deems appropriate, and if necessary propose changes to the Governance Committee and the Board. The Audit Committee shall annually review the Audit Committee's own performance.

15. Outside Experts and Advisors

The Audit Committee is authorized, when deemed necessary or desirable, to retain and set and pay the compensation for independent counsel, outside experts and other advisors, at the Company's expense, to advise the Audit Committee or its members independently on any matter.

16. Reliance

Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations and (iii) representations made by Management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to the Company and its subsidiaries.