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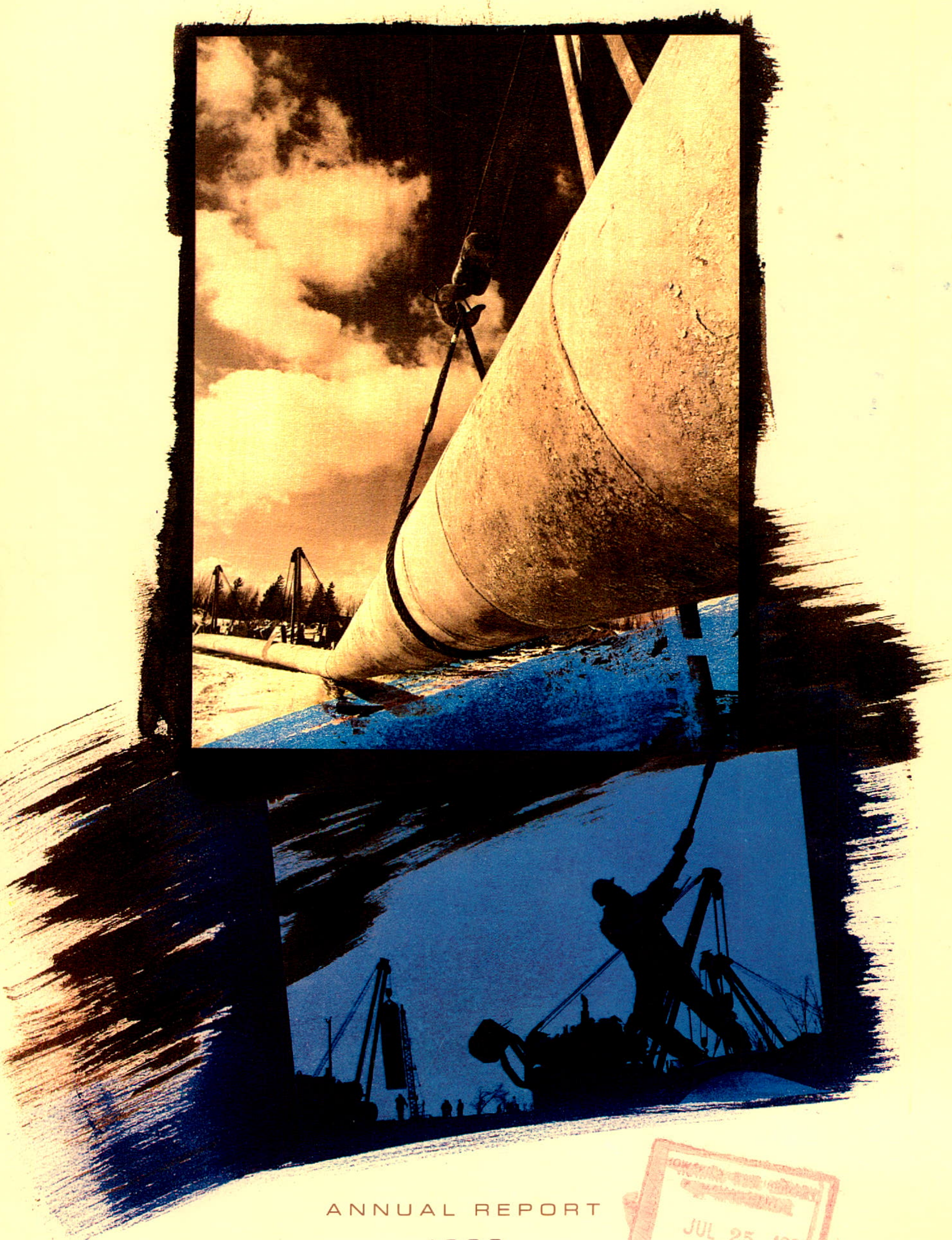
TRANSCANADA PIPELINES



ANNUAL REPORT

1988

CONTENTS

COVER

TransCanada has begun a two-year, $1.3 billion pipeline expansion program to meet a dramatic rise in the demand for western Canadian natural gas.

This report uses the Imperial System of Units for oil and gas and pipeline operations. Approximate conversions can be calculated using the following table:

convert from	multiply by	to obtain
miles	1.609	kilometres
inches	25.4	millimetres
horsepower	0.746	kilowatts
British thermal units	1.055	kilojoules
cubic feet	0.028	cubic metres
pound-force per square inch	6.894	kilopascals
barrels	0.159	cubic metres (liquid measure)

The 1988 Annual and Special Meeting of Shareholders is scheduled for Monday, April 24, 1989 at 10 a.m. in the Metro Toronto Convention Centre.

TransCanada PipeLines, a Canadian-owned energy company, is one of North America's leading transporters and marketers of natural gas with assets of $5 billion.

The company owns and manages one of the world's longest pipelines from Alberta to Quebec and has investments in other major pipeline systems in Canada and the United States.

To meet growing demand for natural gas the company is greatly expanding its original pipeline system to continue to provide safe, reliable and efficient service to customers in eastern Canada and the United States.

A subsidiary, Western Gas Marketing Limited, is the largest buyer of western Canadian natural gas. Western Gas administers long-standing natural gas supply and sales contracts and competes for new markets in Canada and the United States.

Through other subsidiaries the company manufactures and markets worldwide a premium quality carbon black used in a variety of industrial processes, is involved in a combined-cycle power generation plant fuelled by natural gas, and advanced pipeline inspection technology and service.

TransCanada
PipeLines
Limited

	1988	1987	1986
Financial *(millions of dollars except per common share data)*			
Income from continuing operations			
Before provisions	**144.5**	171.4	211.4
After provisions	**72.3**	171.4	197.5
Loss from discontinued operations	**(80.9)**	(11.4)	(145.3)
Net (loss)/income	**(8.6)**	160.0	52.2
Net (loss)/income applicable to common shares	**(46.0)**	121.4	9.4
Funds generated from continuing operations	**286.5**	246.2	376.7
Cash generated from discontinued operations	**155.5**	69.6	22.1
Per common share data			
Income applicable to common shares from continuing operations			
Before provisions	**$ 0.73**	$ 1.05	$ 1.53
After provisions	**$ 0.24**	$ 1.05	$ 1.40
Loss from discontinued operations	**$(0.55)**	$(0.09)	$(1.31)
Net (loss)/income applicable to common shares	**$(0.31)**	$ 0.96	$ 0.09
Funds generated from continuing operations	**$ 1.96**	$ 1.95	$ 3.42
Dividends declared	**$ 0.68**	$ 1.12	$ 1.12
Operating Statistics			
Continuing operations			
Gas transmission volumes delivered *(billions of cubic feet)*			
Domestic	**1,007.7**	954.1	965.1
Export	**337.9**	197.9	202.8
Gas sales and marketing volumes sold *(billions of cubic feet)*			
Domestic	**792.4**	839.7	838.5
Export	**280.1**	150.5	123.1
Discontinued Operations			
Oil and gas volumes produced			
Oil and natural gas liquids *(barrels per day)*	**42,795**	20,931	19,886
Natural gas *(millions of cubic feet per day)*	**211.0**	100.4	92.4

In last year's Report to Shareholders we stated that even though a turnaround in our business environment was not yet evident, we foresaw 1988 as a year when an improved outlook would emerge. That projection now appears valid as we review our accomplishments of the past year and the improvements and opportunities that are now evident.

G.J. Maier
President and Chief Executive Officer (left)

G.P. Osler
Chairman (right)

A review of the objectives we set for 1988 and the results achieved shows good progress. With the actions taken over the past few years, and which are continuing, the company is well positioned to take advantage of exciting growth opportunities in its core businesses and to achieve much improved financial results.

Our comments to you in connection with the 1988 financial results were forwarded in a Preliminary Report to Shareholders dated January 24, 1989. These results are discussed in considerable detail later as part of the Financial Statement Review. In this message, we would like to concentrate on some of the more important initiatives we have taken in the past year.

OIL AND GAS ACHIEVEMENTS

A high priority issue was to improve the profitability of our widespread investments in oil and gas, and to assume management of what had been primarily a passive investment with Dome Petroleum Limited. As a consequence of that company's financial situation and changed relationship with TransCanada, the acquisition of Encor was an important step to protect and enhance our existing investments in oil and gas which were largely held in TCPL Resources.

The integration of staff from TCPL Resources and Encor into a single team went extremely well. Some dislocations and layoffs were bound to occur because of duplication and our ongoing moves over the past few years to improve productivity and reduce expenses. However, the staff of the two organizations complemented each other and demonstrated a most admirable and professional approach to the entire integration project.

From an operational viewpoint, our oil and gas operations had a satisfactory year as finding, developing and operating costs were essentially on target, although produced volumes were not fully replaced with reserve *additions from exploration because of cutbacks in expenditures. A number of promising oil and gas discoveries were made in foreign countries, but are not yet sufficiently proven to include as proved reserves.*

We also continued the consolidation, cost-cutting and property disposition program started in 1987. Even though we had made much progress in this regard in the United States, it was decided to sell TransCanada's entire oil and gas interests in that country, which had been consolidated into one company, Wessely Energy Company, in 1987.

The most important oil and gas initiative was the decision made in early January 1989 to restructure TransCanada. Under this plan, which is subject to various approvals including shareholder approval of a plan of arrangement, TransCanada will combine its oil and gas businesses under one wholly-owned subsidiary, Encor Energy Corporation Inc. The shares of this oil and gas company will then be distributed to TransCanada's common shareholders.

This action will provide positive benefits to TransCanada's shareholders. We believe the value of the shares in the separate companies will be worth more than the stock in the combined entity. In addition, shareholders will have the opportunity of selecting which investment best suits their interests if they so desire.

From a corporate point of view the restructuring should be seen as very positive for both Encor and TransCanada. The separation will provide each with greater flexibility, make TransCanada easier to understand from a credit perspective, and ensure the company will continue to have financial strength in a new era of major pipeline growth. The restructuring will also create an opportunity for Encor to expand under a new shareholder structure where the major shareholder is not constrained by utility regulation or guidelines.

PIPELINE EXPANSION

Another high priority issue arose from increases in natural gas demand brought on in part by concerns over the environment and the utilization of gas to generate electricity. This resulted in requests from numerous shippers for new pipeline capacity at a level that far exceeded our earlier expectations, and which required the company to advance its financial and operational planning.

The large amount of capital required for the 1988 construction program, together with the prospect of requiring approximately $1.3 billion over the next two years, and the very considerable, but as yet undefined, sums needed for several years thereafter, requires the company to be in a strong financial position.

During 1988, preparatory steps were taken, including raising $247 million through an equity issue, disposing of approximately $284 million in non-essential assets, and the corporate restructuring referred to earlier.

As a result of these and other actions, the level of debt at the end of 1988 was less than it was before the acquisition of Encor. TransCanada is now in excellent financial condition to handle these major pipeline investments, and there does not appear to be a need for a common equity issue before the second half of 1990.

The stronger financial structure has assisted in the request recently filed with the National Energy Board (NEB) for an increase in deemed common equity for 1989 from 30 per cent to 32.5 per cent. If granted, this would improve net income.

The 1988 pipeline construction program was completed essentially on time and under its budget. Most of the proposed pipeline facilities expansion program for 1989 received prompt approval from the NEB and work in certain muskeg areas has already started.

In total, approximately $650 million is expected to be invested by TransCanada in new pipeline facilities in Canada in 1989. An application for further additions in 1990, expected to cost $652 million, has been submitted to the NEB and will be the subject of a hearing commencing in April, 1989. Great Lakes Gas Transmission Company, in which TransCanada holds a 50 per cent interest, expects to spend about U.S. $640 million on new facilities in 1989 and 1990.

This level of activity strongly reinforces the observation that an improved business environment has emerged for the company. The prospect of additional pipeline systems, such as Iroquois, being built in the early 1990s creates even further growth prospects for TransCanada both as a 29 per cent owner of Iroquois and through additions to the mainline in Canada.

RECORD PIPELINE VOLUMES

The Pipeline Division had an excellent year in 1988, delivering record volumes of natural gas efficiently under reduced tolls. This was accomplished in the face of the immense change brought about by deregulation and while preparing for what could be the largest expansion program in TransCanada's history.

The number of shippers on TransCanada's system has grown from 25 to more than 600 in just three years, thereby significantly affecting many aspects of our business. Nevertheless, efforts towards cost containment and productivity improvement are continuing with success, as the need to be competitive becomes even more pronounced.

INNOVATIVE MARKETING

The third high priority issue arose as a consequence of the deregulation of the pricing and marketing of natural gas, and the major issues regarding the supply contracts for the ''core'' market of consumers.

Through extraordinary effort by the staff of Western Gas Marketing, TransCanada's wholly-owned subsidiary, new contracts with virtually all distribution company customers were negotiated before the year-end deadline. Through commercial action we essentially helped to defuse what could have become a difficult industry problem. While provincial regulatory agencies have yet to endorse those agreements, it is hoped they will do so.

Western Gas Marketing then completed negotiation of amendments to about 2,500 gas supply agreements with more than 750 producers. Taken together, these newly negotiated agreements form the basis for a reliable, high quality and secure gas supply for that portion of the market that requires it – an arrangement that is in the best interests of both producers and consumers.

COMPETITIVE CHALLENGES

Another fallout of deregulation has been the emergence of hundreds of natural gas sellers in a market that is already characterized with excess deliverability. In spite of this intense competition, Western Gas Marketing increased sales in 1988, and has entered into new export sales contracts that will allow producers to increase production substantially over the next few years. These sales are an important achievement for both TransCanada and the producers who received *the TOPGAS prepayments. We believe the $1.5 billion still outstanding under TOPGAS will be fully refunded on schedule by 1994.*

OCEAN STATE POWER

Efforts spanning more than four years finally came to fruition as the Ocean State Power project on Rhode Island gained all regulatory approvals and the construction contract was awarded. This U.S.$400 million combined-cycle project, in which TransCanada holds a 40 per cent interest, is an important first step for the company in furthering ancillary business investments. The gas supply for Ocean State will be transported by TransCanada to the U.S. border and part of the volume will be provided by Western Gas Marketing.

Combined-cycle power generation using natural gas as fuel is an important new industry in the United States and other countries. Its application in Canada is unlikely to parallel that in the U.S., but nevertheless it will grow in importance. The experience gained from Ocean State is of assistance to TransCanada as it now negotiates similar projects in Canada.

INCREASED PROFITABILITY

In conclusion, TransCanada PipeLines is now well positioned to capitalize on the growth opportunities in the natural gas industry. With the proposed new corporate structure in place, and with unprecedented demand for new pipeline facilities, we expect increased profits for the company in 1989 and beyond.

Following the restructuring, Encor will be Canada's twelfth largest oil and gas company. While oil prices remain uncertain, Encor has excellent assets that provide a sound foundation for growth. For example, it has a strong land position, possesses good quality reserves of oil and gas, the potential to increase gas production substantially, good international exposure, and also capable and innovative management. With these attributes, we look for Encor to show a turnaround in financial performance as well as sound asset growth as stability returns to the petroleum industry.

ACKNOWLEDGEMENT

In 1988, TransCanada celebrated the thirtieth anniversary of the final weld on its original pipeline. We have built a strong and successful company in three *decades through the energy and dedication of our employees and the confidence and support of our shareholders. Their contributions are highly valued and appreciated.*

We would also like to acknowledge the guidance of our Board of Directors who provided counsel and support during an eventful and challenging year. We regret that Robert H. Knight will not be standing for re-election this year as a director, having reached the mandatory age for retirement. Mr. Knight's experience and expertise contributed significantly to TransCanada's Board and his leadership and contributions will be missed.

The Annual and Special Meeting will be held at the Metro Toronto Convention Centre on Monday, April 24, 1989 at 10 a.m. We hope to see as many shareholders there as possible.

G.J. Maier
President and
Chief Executive Officer

G.P. Osler
Chairman


PATROL

As a technician, Yvonne Garson is part of a dedicated team of engineers, helicopter patrol pilots, and other specialists who keep TransCanada's pipeline system operating safely, reliably and efficiently.

TransCanada's pipeline division made solid progress in 1988 towards its goals of managing current challenges while positioning itself to meet the needs of the future. In 1988, the pipeline division set out to:

- *Maximize throughput.*
- *Complete a major construction program in time for the 1988-89 contract year.*
- *Obtain National Energy Board (NEB) approval for a major expansion in 1989.*
- *Prepare and file an application for 1990 facilities.*

The company achieved all these objectives in 1988 and put in place the key elements for its continued success in 1989 and beyond.

TransCanada's 10 000-kilometre-long transmission system delivered record volumes of gas in 1988. Driven by improving markets in Canada and the United States, the company delivered 1.346 trillion cubic feet of gas, a 17 per cent increase over 1987's level of 1.152 trillion cubic feet. The TransCanada system east of Winnipeg and the Great Lakes Gas Transmission Company's system operated at nearly full capacity throughout the year.

Export deliveries led the increase, reaching 338 billion cubic feet, up 71 per cent from 198 billion cubic feet in 1987. Most of the additional volumes were delivered to existing customers in the U.S midwest through the Midwestern and Great Lakes pipeline systems. The increase resulted from competitive market pricing combined with improved access to U.S. markets under the U.S. Federal Energy Regulatory Commission's Order 500. In Canada, the company delivered 1.008 trillion cubic feet, compared with 1987's level of 954 billion cubic feet. Domestic and export demand is expected to continue to grow through the next decade.

Deregulation of the natural gas industry, which began three years ago, has brought significant change to TransCanada's operations. The number of gas transportation contracts has grown from 25 to more than 600, and daily nominations for gas transportation have increased substantially. TransCanada has responded by adjusting its tariffs and adapting its operations to its much increased customer base.

During 1988, TransCanada embarked on the largest expansion it has undertaken since the early 1980s, building 75.2 kilometres of new pipeline and other facilities to bring additional gas to eastern markets.

The $126 million program marked the first time in five years that capital investment has exceeded depreciation.

An expanded level of activity is expected for the foreseeable future. In December 1988, TransCanada received NEB approval for an additional $567 million in facilities to be built in 1989. This construction will add 320 kilometres of pipeline loop, mainly in Ontario, and allow TransCanada to deliver an additional 114 billion cubic feet of gas a year, starting in November 1989.

In late 1988, TransCanada sought NEB approval to spend $652 million in 1990 to add 471 kilometres of pipeline and new compression to its system primarily in Manitoba and Saskatchewan. This expansion will allow TransCanada to move an additional 537 million cubic feet of gas a day and provide additional net revenues of $450 million to western Canadian gas producers during the 1990-91 contract year. The NEB hearing to consider the application will begin in April 1989.

About 85 per cent of the increased volumes linked to the 1989 and 1990 expansions will go to the United States, while the balance will supply Canadian markets.

The 1988-89 tolls hearings began in May 1988. The first phase of the hearings dealt with toll design, tariffs and contract matters resulting from deregulation.

The second phase of the hearings, dealing with the cost of service, rate of return and tariff issues, began on January 9, 1989. TransCanada has requested a 14.65 per cent rate of return on a deemed common equity of 30 per cent of capitalization for 1988, and a 14.5 per cent rate of return on a deemed common equity of 32.5 per cent for 1989. The company has operated on a series of interim tolls since January 1, 1988. The current interim tolls, made effective January 1, 1989, are marginally higher than the average 1988 interim tolls, but still 23 per cent lower than the final tolls set in 1987.

In 1989, TransCanada will continue its commitment to meeting the needs of today while positioning itself to meet the demands of tomorrow. TransCanada will continue to provide its customers with safe, efficient, reliable service at reasonable cost, while expanding capacity to meet the increased demand for service.

Annual Deliveries *(billion cubic feet)*
■ **Domestic**
■ **Export**

ANNUAL DELIVERIES

(billion cubic feet)	**1988**	1987	1986	1985	1984
Canadian Deliveries					
Saskatchewan	**28.6**	20.3	23.4	28.2	28.3
Manitoba	**64.3**	61.1	65.1	68.3	65.7
Ontario	**716.7**	680.4	688.9	659.3	674.7
Quebec	**198.1**	192.3	187.7	180.3	155.6
Total	**1007.7**	954.1	965.1	936.1	924.3
Export Deliveries					
Emerson, Manitoba	**243.5**	137.5	157.8	212.5	198.1
Niagara Falls, Ontario	**74.3**	43.4	28.6	39.7	21.2
Philipsburg, Québec	**5.8**	5.2	5.1	5.2	5.0
Cornwall, Ontario	**8.2**	7.7	7.4	8.0	8.1
Fort Frances, Ontario	**4.2**	3.5	3.9	3.6	5.5
Sabrevois, Québec	**1.9**	0.6	0.0	0.0	0.0
Total	**337.9**	197.9	202.8	269.0	237.9
Total Deliveries	**1345.6**	1152.0	1167.9	1205.1	1162.2

ASSOCIATED PIPELINES AND PROJECTS

The demand for service on three of TransCanada's associated pipelines grew significantly in 1988, encouraging the companies' ongoing plans for substantial expansion of these systems in 1989 and beyond.

Gas deliveries through Great Lakes Gas Transmission Company's system, which is 50 per cent owned by TransCanada, reached a record 536.7 billion cubic feet, a 23 per cent increase over 1987's level. Great Lakes plans to construct U.S.$200 million in new facilities in 1989 to transport an additional 157.5 million cubic feet of gas daily, including an additional 62.5 million cubic feet a day for TransCanada. Once in service in early 1990, the expansion will double the rate base of Great Lakes.

Northern Border Pipeline Company delivered 366.8 billion cubic feet of natural gas in 1988, an increase of 65 per cent over its 1987 record of 223.0 billion cubic feet. The pipeline, which is 30 per cent owned by TransCanada, operated at 83 per cent of capacity during the year. With the addition of two new long-term firm shippers in 1988, the pipeline's capacity is *fully contracted. In January 1989, Northern Border applied to the Federal Energy Regulatory Commission (FERC) for permission to construct U.S.$16 million in new compression facilities to enable the pipeline to meet commitments for additional firm transportation service in 1990. Plans for a U.S.$530 million expansion and extension of Northern Border are on file with the FERC.*

Foothills Pipe Lines (Sask.) Ltd., owned 44 per cent by TransCanada, transported 311.2 billion cubic feet of gas, an 81 per cent increase over last year's record deliveries of 171.9 billion cubic feet. In October 1988, Foothills applied to the NEB to build a $38 million compressor station near Val Marie, Saskatchewan.

Trans Québec & Maritimes Pipeline Inc., 50 per cent owned by TransCanada, delivered 90.0 billion cubic feet in 1988, matching 1987's record level. The company reached a record peak daily delivery of 387.9 million cubic feet in December.

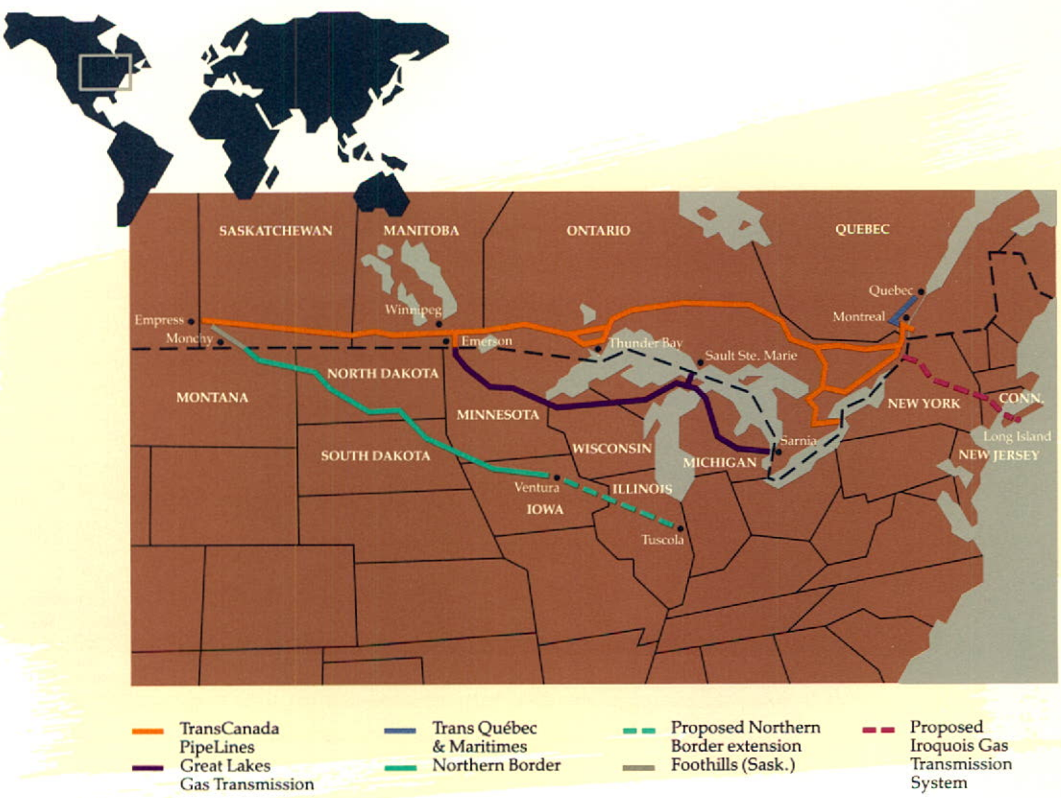
Iroquois Gas Transmission System, a proposed U.S.$524 million natural gas pipeline to the U.S. northeast, made major gains in 1988 towards obtaining regulatory approval in the United States. In November 1988, Iroquois and others proposing to serve the northeastern U.S. signed a settlement agreement providing for three separate gas pipeline projects. In January 1989, the FERC approved the principles of settlement and the project sponsors filed offers of settlement and applications to implement their respective projects.

The final agreement calls for construction of an expanded version of the original Iroquois pipeline backed by TransCanada, and admission of several new partners to the Iroquois project. TransCanada now holds a 29 per cent interest in the project. The agreement removes the need for potentially long competitive regulatory hearings and contemplates the Iroquois system being in operation by October 31, 1991.

The Iroquois system, extending from Iroquois, Ontario to Long Island, New York is designed to initially carry 433.9 million cubic feet of western Canadian gas per day to serve markets in New York, New Jersey and New England. The volumes transported are slated to increase to 533.9 million cubic feet a day in the second year of operation. Earlier in 1988, the NEB deferred authorizing new Canadian facilities required to move the gas from Alberta to Iroquois, Ontario but stated that it was doing so because the U.S. regulatory *process was not sufficiently advanced to meet the then proposed in-service date. TransCanada will re-apply to the NEB in 1989 for facilities required on its system in Canada to transport gas to Iroquois and others seeking to serve the northeastern U.S. market commencing in 1991.*

In 1988, the Ocean State Power Project in Rhode Island was successful in gaining all Canadian and U.S. regulatory approvals and completing the necessary financing arrangements for the first phase of the project. Construction began early this year. The plant is scheduled to start producing 250 megawatts of electricity in late 1990. A second phase of 250 megawatts is expected to be in operation in 1991. TransCanada has a 40 per cent interest in both phases of the U.S.$400 million plant. When completed, the combined-cycle power plant will double Rhode Island's electrical output and will consume 100 million cubic feet of Canadian gas daily.

TransCanada has authority to transport the gas for phase one from western Canada to its delivery point at Niagara Falls, Ontario. In December, TransCanada applied for NEB approval to construct the additional facilities required in Canada to transport the 50 million cubic feet of gas a day needed to supply phase two.



Dave Ellerton, senior manager, export sales, is a member of the Western Gas Marketing team which sold record volumes of natural gas to North American customers in 1988, while continuing to develop new markets.

Western Gas Marketing Limited continued its strong performance in 1988, as it pursued its key objectives of:

- *Maintaining domestic sales volumes, expanding sales to the United States, and laying the groundwork for further market diversification in the U.S.*
- *Negotiating new sales arrangements with Canadian distribution companies and netback arrangements with producers – to replace arrangements which expired during 1988.*

In 1988, Western Gas, which administers TransCanada's gas purchase contracts with more than 750 producers and sales contracts with customers in both Canada and the United States, improved its sales performance over the previous year – its first full year of operation under deregulation. Total gas sales reached 1,072.5 billion cubic feet, an increase of 82.3 billion cubic feet over last year's 990.2 billion cubic feet.

Western Gas posted this increase despite a modest decline in its sales within Canada. In 1988, domestic sales were 792.4 billion cubic feet compared with 839.7 billion cubic feet in 1987. The decline resulted from lower sales in Alberta to the Empress extraction plants, one of which was shut-down for an extended period for repairs, and fewer sales in the rest of Canada because of increased competition from other gas suppliers.

Increases in export sales in 1988 more than offset the domestic decline. During the year, intensive efforts to broaden the customer base and increase sales led to substantial new gas volume sales in the United States. Exports rose to 280.1 billion cubic feet from 150.5 billion cubic feet in 1987, an increase of 86.1 per cent. Western Gas also negotiated substantial future gas sales, concluding arrangements with 12 companies for a total of 200 billion cubic feet annually to be delivered over the next 10 to 20 years. The majority of the new sales will begin to flow to these midwest and northeast U.S. customers within the next few years, subject to regulatory approvals.

The development of such long-term export markets will have a major positive impact on both TransCanada and western Canadian producers.

Western Gas was also successful in negotiating new sales contracts with its eastern Canadian distributors to allow them to provide customers with *secure, long-term supplies of natural gas at market responsive prices. In accordance with the intent of the 1985 Agreement on Natural Gas Markets and Prices, which was negotiated between Ottawa and the producing provinces, the federal government relaxed its export restrictions. As a result, Canadian consumers no longer have government mandated supplies stockpiled for their future requirements.*

TransCanada's eastern Canadian distributors serve certain essential service customers within the residential, commercial and industrial sectors who have no practical fuel alternative to natural gas. These customers and others who elect to be treated as essential service customers need and want long-term supplies. The new arrangements, which have been approved by Western Gas' producers, cover terms of either 12 or 15 years with annual price review provisions, thus guaranteeing essential service customers long-term supply.

However, these arrangements are still subject to the approval of regulatory authorities in the consuming provinces. Their decisions are expected early in 1989.

During the first full contract year, projected total sales under these arrangements and to U.S. customers will be about 1,040 billion cubic feet, yielding projected revenues of almost $2 billion at the Alberta border. Once other sales are included, total sales for the 1988-89 contract year should exceed 1.1 trillion cubic feet.

To parallel these new arrangements and other long-term sales contracts, the company has proposed to all of its contracted producers a long-term, netback pricing amendment, to be effective January 1, 1989. To date, responses from producers indicate there will be sufficient support to implement the new netback program.

In the early 1980s, TransCanada, through the TOPGAS banking syndicates, advanced $2.7 billion to producers to refinance substantially all of its take-or-pay prepayments. These prepayments resulted from a provision in most TransCanada supply contracts requiring the company to take or pay for a certain annual volume of natural gas. To date $1.2 billion of the total *amount advanced has been recovered with full repayment to be completed on schedule no later than 1994.*

Western Gas plans to build on these accomplishments in 1989. The company plans to increase its overall sales level, encourage construction of necessary new pipeline capacity, and monitor supplies to be ready to contract for new supplies as required.

DOMESTIC AND EXPORT SALES

Year ended December 31	**1988**	1987	1986*	1985*	1984*
(billion cubic feet)					
Sales Volumes					
Domestic	**792.4**	839.7	838.5	861.3	863.4
Export	**280.1**	150.5	123.1	178.0	137.5
	1072.5	990.2	961.6	1039.3	1000.9

**Excludes sales not shipped by TransCanada*


ENCOR

The commitment of employees like drilling manager Dave Lepinsky helped TransCanada increase its oil and gas production and make significant discoveries while integrating the operations of TCPL Resources and Encor.

In January 1989, TransCanada announced plans to restructure its operations and form a separate oil and gas company. Under the proposal, all of TransCanada's oil and gas interests will be combined under Encor Energy Corporation Inc., which in turn will operate as a separate, publicly traded company. Under the transaction, TransCanada's shareholders will receive one common share of Encor for each common share of TransCanada they own. The proposal will be voted on at the annual and special meeting of shareholders on April 24, 1989. The new Encor will be Canada's twelfth largest upstream oil and gas company and will have the size, infrastructure, management and operating expertise to succeed in the oil and gas business. The restructuring will improve Encor's profile in the investment community and should ensure that the company's assets will be fairly valued by the market. Many of the key elements for its success are already in place. In the short term, Encor will be taking steps to improve its balance sheet, reduce debt and expenditures and sell non-essential assets as it positions itself to best capitalize on future opportunities.

SIGNIFICANT ACCOMPLISHMENTS

The past year was one of significant accomplishment for TransCanada's oil and gas operations. The integration in early 1988 of Encor's operations with those of TCPL Resources was part of a program of rationalization and consolidation that began in 1987. In mid-1988, TransCanada sold Wessely Energy Company as part of its strategy to focus on key properties, eliminate non-essential assets and reduce debt.

Total daily production volumes increased to 42,795 barrels of oil and natural gas liquids and 211 million cubic feet of natural gas in 1988 from 20,931 barrels of oil and natural gas liquids and 100.4 million cubic feet of natural gas in 1987.

Weaker oil and natural gas prices continued to have an impact on the industry during 1988. The company's average conventional oil price declined from $21.41 per barrel in 1987 to $15.98 per barrel in 1988, while the average natural gas price declined from $1.94 per thousand cubic feet in 1987 to $1.63 per thousand cubic feet in 1988.

Oil and gas operations in 1988 focused on western Canada, Indonesia, New Zealand, Australia, Italy and the North Sea. With the sale of Wessely Energy Company, the company no longer has oil or gas holdings in the United States.

CANADIAN OPERATIONS

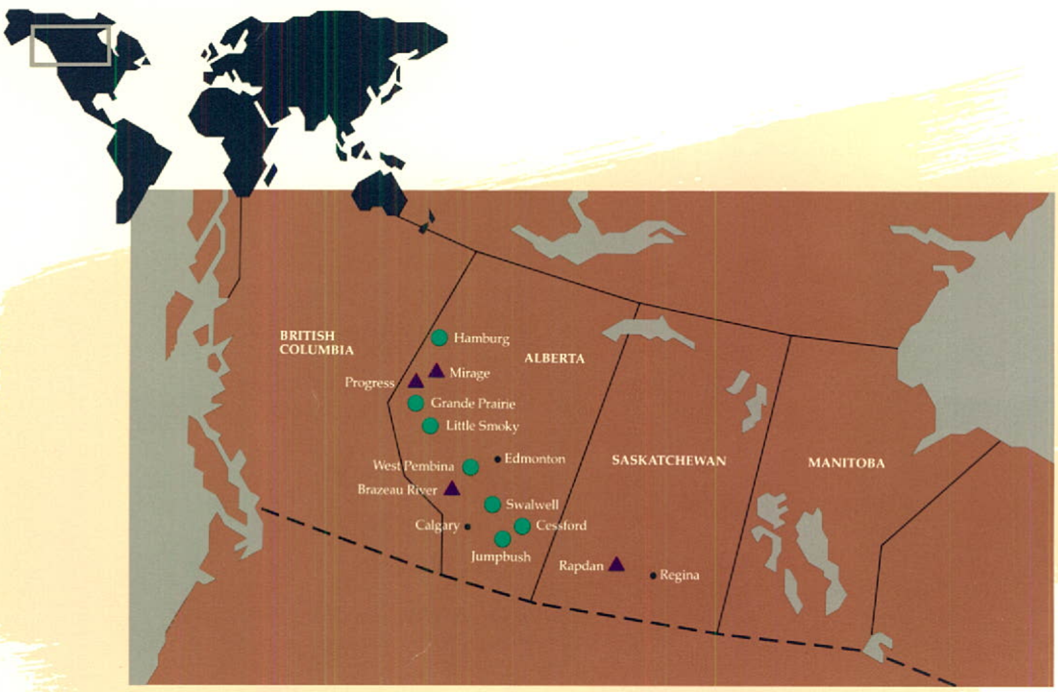
The majority of the company's exploration, development and land acquisition activities during the year were in western Canada.

Oil and natural gas liquids production during 1988 reached 38,272 barrels per day, up from 15,678 barrels per day in 1987. Natural gas production rose to 202.7 million cubic feet per day compared with 84.9 million cubic feet per day in 1987. Company-operated oil and natural gas liquids volumes are currently 15 per cent of conventional production.

A total of 8.8 million barrels of oil and natural gas liquids and 51 billion cubic feet of natural gas were added to the company's proved and probable reserves during 1988.

The company purchased 240,670 gross acres (125,370 net acres) at an average working interest of 52 per cent.

During 1988, the company participated in 123 (36.47 net) exploratory wells which resulted in 36 (10.15 net) oil discoveries and 25 (8.21 net) natural gas discoveries for a 50 per cent success rate. Significant oil discoveries were in the Grande Prairie, West Pembina, Little Smoky and Swalwell areas of Alberta



Areas of Significant Activity

Exploration   Development

PETROLEUM AND NATURAL GAS LANDHOLDINGS

as at December 31, 1988 (thousands of acres)	Gross *(2)*	Net *(3)*
Canada *(1)*	23,380	3,234
International	39,578	4,754
Grand Total	62,958	7,988

(1) In addition to the above working interests, the company holds a royalty interest in 1.7 million acres in western Canada and frontier lands.
(2) Gross refers to the total number of acres in which the company holds a working interest.
(3) Net is determined by multiplying the gross acres by the percentage of working interest held by the company in gross acres.

and Whiterose on the East Coast. The main gas discoveries were in the Hamburg, Grand Prairie, Jumpbush and Cessford areas of Alberta.

The company participated in drilling 479 (63.8 net) development wells which resulted in 338 (47.64 net) oil wells and 92 (8.49 net) natural gas wells for a 90 per cent success rate. Principal oil developments included Progress, Mirage, Brazeau River and the Rapdan enhanced recovery expansion.

Total capital expenditures in western Canada for 1988 increased to $105.7 million, from $48.2 million in 1987. Of this amount, $17.0 million was spent on land acquisitions and lease rentals, $23.8 million on exploration and $64.9 million on development drilling and facilities.

DAILY PRODUCTION VOLUME SUMMARY

	1988				1987			
	Canada	**U.S.A.**	**Indonesia & Other Foreign**	**Total**	Canada	U.S.A.	Indonesia & Other Foreign	Total
Oil and Natural Gas Liquids *(barrels)*								
Conventional	**29,476**	**572**	**3,897**	**33,945**	11,644	1,439	3,699	16,782
Synthetic	**1,880**	–	–	**1,880**	846	–	–	846
Natural Gas Liquids	**6,916**	**54**	–	**6,970**	3,188	115	–	3,303
Total Oil and Natural Gas Liquids	**38,272**	**626**	**3,897**	**42,795**	15,678	1,554	3,699	20,931
Natural Gas *(millions of cubic feet)*	**202.7**	**8.3**	–	**211.0**	84.9	15.5	–	100.4
Sulphur *(long tons)*	**413**	–	–	**413**	180	–	–	180

Note: Sales volumes for Canada are gross and include all volumes attributable to the company's working interests before the deduction of royalties.
Sales volumes for the United States are net of royalties. Sales volumes for Indonesia are attributable to the company's gross working interest before government takes.

DRILLING SUMMARY

for the year ended December 31, 1988

	Oil		Gas		D&A*		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory								
Canada	36	10.15	25	8.21	62	18.11	123	36.47
U.S.A.	1	0.25	4	1.30	20	7.44	25	8.99
Foreign	15	0.95	1	0.09	16	1.33	32	2.37
Total	52	11.35	30	9.60	98	26.88	180	47.83
Development								
Canada	338	47.64	92	8.49	49	7.67	479	63.80
U.S.A.	4	2.25	3	1.42	–	–	7	3.67
Foreign	8	0.28	–	–	–	–	8	0.28
Total	350	50.17	95	9.91	49	7.67	494	67.75
Exploratory & Development Total	402	61.52	125	19.51	147	34.55	674	115.58

**Dry and abandoned*

INTERNATIONAL OPERATIONS

Indonesia: *In Indonesia the company has continuing interests in two production sharing contracts (PSC), Malacca Strait and Southeast Sumatra, which are currently on production, and is engaged in exploration on three other contract areas. Production for 1988 totalled 3,720 barrels per day, up from 3,476 barrels per day in 1987.*

The company owns a 1.226 per cent interest in the Southeast Sumatra PSC where a major oil discovery was made at Widuri which tested at a cumulative flow rate of 17,894 barrels per day. Six delineation wells proved significant reserves and production is projected to begin by mid-1990. Development continued at the Kurau oil field in the Malacca Strait PSC (7.08 per cent interest) where full production is expected to begin in mid-1989.

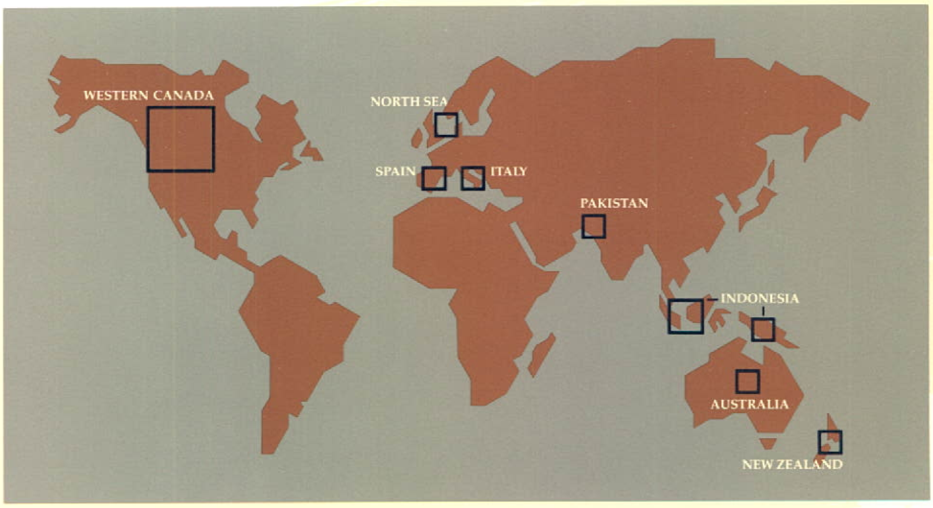
Italy: *Exploration on the Monte Alpi block in Italy's southern Apennines, where the company holds a 20 per cent interest, led to the Monte Alpi No. 1 oil discovery. The well tested at a cumulative rate of 1,700 barrels per day of 37° API oil. Long-term production tests on the discovery well and a possible step-out well are planned for 1989.*

__North Sea:__ The company has a nine per cent working interest in a natural gas discovery made in 1988 in the Dutch sector of the North Sea. The discovery well was successfully tested and natural gas flowed at a cumulative rate of 35.5 million cubic feet per day. A seismic program was completed in late 1988 and a delineation well is planned for 1989.

__Australia:__ Production for 1988 totalled 177 barrels per day, down from 223 barrels per day in 1987. The company holds a 25 per cent working interest in a concession block awarded in 1988 in the Timor Sea, about 380 miles west of Darwin. The acquiring group plans to shoot 13 175 kilometres of seismic and drill six exploratory wells during the next three years to evaluate the block.

__New Zealand:__ Kupe South No. 3, in which the company holds a 40 per cent interest, was drilled as a follow-up well to two previous discoveries. A lower zone test produced 4,580 barrels of oil and 9.6 million cubic feet of natural gas per day, while two upper zones cumulatively produced 6,305 barrels of condensate and 48.1 million cubic feet of natural gas per day. Kupe South No. 4 was spudded in January 1989 to further delineate the structure. Engineering studies are underway to determine commerciality of the field.

The company also acquired an onshore licence on the Taranaki Peninsula where exploratory work is planned for 1989.



Global Overview

□ Oil and gas holdings

PIPETRONIX

Pipetronix (previously IPEL KOPP), TransCanada's pipeline inspection and engineering consulting subsidiary, achieved a number of key objectives in 1988. The company completed initial development of its ultrasonic pipeline inspection tool and began work on a commercial marketing strategy for the device. In addition, the company continued to provide an extensive range of on-line pipeline inspection services to pipeline operators around the world. In 1989, Pipetronix will continue to build its technology base and market share for the future, concentrating on the development of an advanced, high-resolution magnetic flux tool, achieving full commercialization of its ultrasonic pipeline inspection tool and developing its markets in North America, Europe and the Middle East.

Bob Kawaza is a member of the plant production crew responsible for manufacturing Cancarb's premium quality thermal carbon black, a natural gas derivative used in the production of a variety of products.

CANCARB

Despite strong competition, Cancarb Limited achieved its 1988 sales objectives, increased its market share and expanded its sales network. A wholly-owned subsidiary of TransCanada, Cancarb is the world's largest producer of thermal carbon black and exports more than 95 per cent of its production to the United States and overseas. In 1987, the company acquired new technology for producing beta-phase silicon carbide and is now developing production and marketing strategies for the material. Beta-phase silicon carbide is used in the production of ceramic materials for a variety of high performance applications. The Province of Ontario has provided a $1.5 million grant to support research and development of this new technology, which could result in the most economic method of producing beta-phase silicon carbide.

In 1988, TransCanada continued its focus on strengthening its capital structure.

In March, the sale of 18.9 million new common shares in the Canadian public equity markets was completed. The $247 million raised through the issue was used to pay down debt incurred by the Encor acquisition and provided a solid base for the long-term financing of Encor's oil and gas assets.

In March 1988, TransCanada also redeemed its 16 per cent U.S. $97.8 million Eurodollar issue due March 1992. At the same time, the company sold $125 million of Series M debentures and entered into a currency swap with a Canadian bank to convert the bulk of the issue into U.S. dollars to take advantage of a strengthening Canadian dollar. In June, TransCanada terminated the swap at an advantageous exchange rate. The remainder of the Encor acquisition bank loan was repaid by August through the issuance of commercial paper.

Meanwhile, TransCanada continued to enter into currency swaps to eliminate its Swiss franc exposure. By the end of 1988, 262.5 million Swiss francs, (37.6 per cent of TransCanada's total) had been hedged into Canadian dollars. The average foreign exchange rate of the currency swaps was .8559 and the average Canadian equivalent interest rate on the hedged portion was 11.55 per cent. In addition, two Swiss franc issues were refinanced to take advantage of lower overall financing costs.

The average cost of short-term borrowing during 1988 was 9.39 per cent on average daily Canadian dollar notes outstanding of $356.7 million and 8.16 per cent on average United States notes outstanding of U.S. $8.3 million. TransCanada earned 8.84 per cent on average daily Canadian short-term investments of $33.9 million and 7.59 per cent on average daily United States short-term investments of U.S. $103.1 million.

More than 3,800 common and preferred shareholders participated in TransCanada's Dividend Reinvestment and Share Purchase Plan in 1988. The plan raised more than $32.6 million in common equity at an average price of $13.268 per share. Through the plan, $31.8 million was raised through reinvested dividends and $0.8 million was raised through optional share purchases.

REPORT OF MANAGEMENT

TransCanada PipeLines Limited

The accompanying consolidated financial statements included in the Annual Report are the responsibility of Management and have been approved by the Board of Directors of the Company. The consolidated financial statements of the Company have been prepared by Management in accordance with accounting principles generally accepted in Canada applied on a consistent basis, except for the prospective application in 1986 of the method adopted by the Canadian Institute of Chartered Accountants for computing the limitation of capitalized costs in accounting for oil and gas operations as explained in Note 3(i) and (ii). These principles also conform in all material respects with International Accounting Standards on an historical cost basis. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Board of Directors has appointed an Audit Committee consisting solely of directors who are not officers of the Company to review with Management and the independent auditors the annual consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit Committee also meets periodically during the year with Management and the internal and external auditors either individually or as a group. Internal and external auditors have free access to the Audit Committee without obtaining prior Management approval.

The independent auditors, Peat Marwick, have been appointed by the shareholders to express an opinion as to whether the consolidated financial statements present fairly the Company's financial position, operating results and changes in financial position in conformity with generally accepted accounting principles.

The report of the independent auditors on page 41 outlines the scope of their examination and their opinion on the consolidated financial statements.

FINANCIAL STATEMENT REVIEW

TransCanada PipeLines Limited

The following discussion has been prepared by Management and is a review of the financial results of the Company. Its focus is primarily a comparison of the Company's 1988 financial performance to that of 1987 and it should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, material changes between 1987 and 1986 are highlighted.

During 1988, Management of the Company reviewed in detail the near and longer-term growth potential of all of the elements of its businesses. Certain assets were identified as being non-essential and plans were initiated to dispose of them. Approximately $284 million was raised from the disposal of assets, the proceeds of which were used to retire debt. The Company's investments and other assets were reviewed to ascertain whether there was certainty as to the ultimate recovery of their carrying value and as a result the Company recorded a provision in its 1988 accounts.

Management also determined that the increase in demand for natural gas had accelerated the need for significant expansion of the Gas Transmission segment of the

Company. In light of this development, and with a view to enabling shareholders to realize more fully the values inherent in each segment of the Company's business and enhancing the Company's flexibility in financing such expansion, the Board of Directors and Management of TransCanada announced in early January 1989 that subject to shareholder approval and certain other conditions and approvals, the Company's Canadian and remaining international oil and gas operations will be separated from TransCanada's gas transmission operations and other businesses. This will be accomplished under a Plan of Arrangement which provides each shareholder of TransCanada with direct share ownership in the oil and gas business. The Company sold all of its United States oil and gas operations in 1988.

As a result, the accompanying financial statements have been prepared on the basis that the financial results of the entities in which the Company operates its oil and gas business are reported as discontinued operations.

RESULTS OF CONTINUING OPERATIONS

Income from continuing operations for 1988, before investment and asset provisions, was $144.5 million resulting in income per share of 73 cents, compared to 1987 results of $171.4 million or $1.05 per share and 1986 results of $211.4 million or $1.53 per share.

Investment and asset provisions of $72.2 million reduced 1988 earnings from continuing operations to $72.3 million or 24 cents per share. There were no such provisions in 1987. Provisions in 1986 totalling $13.9 million reduced earnings from continuing operations to $197.5 million or $1.40 per share.

Per share amounts for 1988 reflect a 16 per cent increase in the average number of shares outstanding, primarily as a result of refinancing a portion of debt incurred in the Encor acquisition with the issue of 18.9 million common shares in March 1988. Funds generated from continuing operations increased to $286.5 million in 1988 from $246.2 million in 1987. The lower 1988 income from continuing operations before provisions was more than offset by the net of increased deferred income taxes less reduced amortization of deferred amounts. Funds generated from continuing operations in 1987 were $130.5 million lower than in 1986 due principally to an increase in taxes payable as well as lower overall earnings.

TransCanada reports its continuing operations under two principal business segments, the Gas Transmission segment and the Gas Sales, Marketing and Other segment.

GAS TRANSMISSION SEGMENT

The Company's Gas Transmission segment, together with investments in associated pipelines, continues to provide the most significant contribution to consolidated net income. These operations are subject to the jurisdiction of various regulatory bodies with respect to matters such as tolls, construction, operation and accounting.

The Gas Transmission segment's tolls are set by the National Energy Board ("NEB") to permit the Company the opportunity to recover projected costs of transporting natural gas and to provide a fair and reasonable return on its investment. Tolls are based on a number of factors including estimates of the level of this segment's rate base, operating costs and financing costs. Rate base is essentially the net book value of the Gas Transmission segment's plant, property and equipment plus an allowance for working capital. The plant, property and equipment component of rate base increased marginally in 1988, whereas it had decreased over the previous two years as depreciation expense exceeded capital expenditures. If variations occur between the actual amount of certain operating costs and the estimated amount used when tolls are established, the Company may earn more or less than the approved return on its rate base. While changes in authorized rate base also impact the contribution to net income by this segment, variations in volumes of gas delivered do not, by themselves, have an impact on net income.

In December 1987 the Company filed an application with the NEB requesting interim tolls from January 1, 1988 and new tolls to be effective July 1, 1988. In January 1988 the NEB rejected the Company's proposed tolls and established interim tolls at a level 10 per cent lower than 1987 tolls. It also directed that the Company file a revised application covering the two-year period commencing January 1, 1988. Effective July 1, 1988, in response to the Company's recommendation, the NEB further reduced the interim tolls. A hearing with respect to the Company's revised tolls application is in progress and a decision is not expected before the summer of 1989.

The average interim toll set by the NEB during 1988 was approximately 23 per cent lower than the 1987 toll because of a number of factors including increased throughput, lower costs for transmission by other companies and the refund of excess amounts collected in tolls during 1987. In addition, the average 1988 toll was less than 1987 by an additional 10 per cent as compressor fuel required to operate the transmission system is now being provided by customers. In 1987 and prior years this fuel was purchased by the Company and recovered in tolls. In the meantime, the Company continues to charge shippers interim tolls established by the NEB. The interim tolls being collected in 1989 are marginally higher than the 1988 average toll. Any over-recovery or under-recovery of costs under interim tolls is expected to be adjusted when final tolls are established.

In preparing the accompanying financial statements, the Company has assumed a return of 13.25 per cent on a deemed common equity component of 30 per cent being the return utilized by the NEB in the Company's most recent rate decision. On this basis, the contribution to net income of the Gas Transmission segment for 1988 was slightly less than its 1987 contribution, reflecting the small decline in rate base. 1986 earnings approximated those of 1987.

As a result of the foregoing, comparisons on a line-by-line basis for this segment would not be meaningful.

The impact of inflation on the Company is minimized by the effect of the regulatory process on the Gas Transmission segment. The Company believes that to present financial statements on any basis other than historical cost would be misleading in that such statements would not depict the economics of its regulated operations.

Increased demand for natural gas both in Canada and the United States caused throughput on the transmission system in 1988 to increase by approximately 17 per cent over 1987 volumes. Domestic deliveries increased by over 5 per cent in 1988, compared to 1987 levels, to approximately 1,008 billion cubic feet while export deliveries increased by almost 71 per cent to 338 billion cubic feet. While increased throughput does not affect net income currently, the demand for additional capacity on the gas transmission system has led to the Company's expansion plans which will ultimately increase rate base and thereby should improve net income in the future. Total deliveries during 1987 declined by 1 per cent from 1986 levels.

GAS SALES, MARKETING AND OTHER SEGMENT

The Gas Sales, Marketing and Other segment includes the financial results of Western Gas Marketing Limited, the subsidiary which administers all of the Company's gas purchase and gas sales contracts. Western Gas Marketing's first complete year of operations was 1987. Also included in this segment are the comparatively minor revenues and expenses from the Company's interests in the production and sale of thermal carbon black, the extraction of natural gas liquids and ethane from natural gas and pipeline inspection services.

This segment's revenues represent primarily the difference between the price at which natural gas is sold to the Company's customers and the toll paid to the Gas Transmission segment for delivering that gas to those customers. Operating expenses include the cost of buying that gas from producers as well as the administrative costs of the Company, exclusive of those of the Gas Transmission segment.

During 1988 Western Gas Marketing negotiated new gas sales arrangements with its Canadian customers which, for example, had the effect of lowering prices for gas in Ontario's residential and commercial market by an average of 12 per cent effective November 1, 1988. These arrangements are subject to provincial regulatory approvals.

In conjunction with these new arrangements Western Gas Marketing is negotiating a new agreement with its producers with respect to the amount it will be paid for acting as their agent.

While Western Gas Marketing lost some of its domestic market share by volume during 1988 as a result of intense competition, it experienced an increase in exports of natural gas volumes to the United States. Domestic sales volumes during 1988 were 792 billion cubic feet, a decline of over 5 per cent from 1987 levels. Domestic revenues increased by almost 11 per cent due in part to the reductions in tolls charged by the Gas Transmission segment. Export sales volumes increased by 86 per cent to 280 billion cubic feet and resulting revenues increased by over 118 per cent. The demand for long-term secure supply in both the mid-western and north-eastern United States markets is seen as a positive change, from the perspective of both the producers and consumers, away from reliance on the volatile spot gas market and higher cost alternative fuels.

INCOME FROM ASSOCIATED PIPELINES

Income from associated pipelines decreased by $14.4 million in 1988 compared to 1987. The Company's investments in Northern Border Pipeline Company (''Northern Border'') and Trans Québec & Maritimes Pipeline Inc. are held through partnerships and include the Company's proportionate share of income on a pre-tax basis. The Company's investment in Great Lakes Gas Transmission Company (''Great Lakes'') and Foothills Pipe Lines (Sask.) Ltd. are accounted for on an after-tax basis. Almost half of the decline in income from associated pipelines is attributable to the decline in the value of the United States dollar and its impact on the translation of the equity earnings of the Company's two United States pipeline investments, Northern Border and Great Lakes. The other major contributing factor to the decline in 1988 was that 1987 earnings for Great Lakes included $5.7 million due principally to a settlement agreement reached with its customers. Overall, 1987 income from associated pipelines had decreased from 1986 earnings by $5.3 million. Even though Great Lakes' earnings had increased by $5.7 million this was more than offset by the effect of tax reform in the United States on Northern Border's pre-tax contribution. Northern Border's tolls include a component for recovery of income taxes and as a result of tax reform, pre-tax income for that company was reduced to reflect the reduction in the tax requirement in their tolls.

OTHER INCOME

This caption primarily represents interest earned on cash deposits and other miscellaneous income of the Company. The decline of $11.6 million between 1988 and 1987 arises from lower balances on deposit during 1988 resulting from the use of a portion of such deposits to partly finance the acquisition of Encor. Other income increased in 1987 from 1986 by $8.5 million. During 1986 certain deposits were pledged as security for a loan. In the accounts of the Company the interest income on these deposits was netted against the interest cost of the loan. At the end of 1986 this security arrangement was terminated and as a result interest income increased in 1987.

FINANCIAL CHARGES

Financial charges declined by $23.6 million in 1988 compared to 1987. This is principally a result of changes in the Gas Transmission segment's financial charges which, by themselves, do not impact net income. Non-regulated financial charges were only slightly higher in 1988 compared to 1987, as the effect of higher interest costs was reduced by the lower amortization charges related to unrealized foreign exchange losses. The Company has a significant amount of debt denominated in Swiss francs which was borrowed at an average exchange rate of approximately 59 cents per Swiss franc. The Swiss franc has been quite volatile over the past three years, in terms of the Canadian dollar, moving from approximately 68 cents at the beginning of 1986 to 86 cents at the end of 1986 and to $1.02 at the end of 1987. At the end of 1988 the Swiss franc had declined to 79 cents. In accordance with Canadian generally accepted accounting principles, the Company amortizes unrealized exchange losses over the remaining life of the individual debt issues. During 1987 the Company began a program of systematically hedging this debt over four years. The effect of this program will be to eliminate, by the end of the four year period, the Company's exposure to future Swiss franc foreign exchange fluctuations. Financial charges in 1987 were $20.6 million higher than those in 1986 principally as a result of increased amortization charges related to the unrealized foreign exchange losses noted above.

INCOME TAXES

Income taxes declined in 1988 to $100 million from $128.9 million in 1987 due to a combination of lower taxable income and a lower effective federal statutory tax rate resulting from federal income tax amendments. Income taxes had increased by $25.3 million in 1987 from 1986 due principally to additional income taxes in the Gas Transmission segment.

INVESTMENT AND ASSET PROVISIONS

The Company's investments and other assets were reviewed to ascertain whether there was certainty as to the ultimate recovery of their carrying value. As a result of this process, the Company recorded a provision in its 1988 accounts totalling $72.2 million, before and after income taxes. While there were no such provisions made in 1987, provisions totalling $13.9 million were made in 1986.

DISCONTINUED OIL AND GAS OPERATIONS

Losses from discontinued oil and gas operations in 1988 amounted to a total of $80.9 million or 55 cents per share compared to $11.4 million or 9 cents per share in 1987. Total losses from these operations in 1986 amounted to $145.3 million or $1.31 per share.

Discontinued oil and gas operations include both the financial results of the Company's United States oil and gas subsidiary, Wessely Energy Company, whose oil and gas assets were sold effective July 1, 1988, and those of the Company's Canadian and remaining international oil and gas subsidiaries which are to be reorganized and combined under Encor. The loss of $80.9 million in 1988 includes a loss of $52.7 million resulting from the sale of the United States oil and gas assets. Excluding this loss of $52.7 million, the discontinued oil and gas operation losses in 1988 would have been $28.2 million compared to a loss of $11.4 million in 1987. Encor was acquired at the end of 1987 and therefore 1987 results do not include its results of operations. The loss of $145.3 million in 1986 included a provision of $100.6 million with respect to the carrying value of oil and gas properties resulting from a full cost ceiling test computation in accordance with The Canadian Institute of Chartered Accountants' guideline.

During 1988, as a result of the Encor acquisition, production of oil and gas volumes more than doubled. Oil and natural gas liquids increased to 42,795 barrels per day in 1988 from 20,931 barrels per day in 1987 and 19,886 barrels per day in 1986. Natural gas volumes for 1988 were 211 million cubic feet per day compared to 100.4 million cubic feet per day in 1987 and 92.4 million cubic feet per day in 1986. While production volumes more than doubled in 1988, operating revenues increased by only two-thirds due to lower prices. In 1988 the price received for Canadian conventional oil averaged $15.74 per barrel, a drop of $5.34 per barrel from 1987 levels. Canadian natural gas prices averaged $1.57 per thousand cubic feet, a drop of 11 cents from 1987 prices.

Canadian conventional oil prices averaged $21.08 per barrel in 1987 which was an increase of $3.68 per barrel from 1986 prices. Canadian natural gas prices, however, averaged $1.68 per thousand cubic feet in 1987, a drop of 51 cents from 1986 levels. This significant decline in average prices is attributable to the effect of deregulation on natural gas prices.

As a result of higher production levels, operating expenses rose approximately 75 per cent in 1988 from 1987 levels to a total of $310.1 million. This increase is not proportionate to the increase in production due principally to the effect of lower unit rates of depletion resulting from the acquisition of Encor and the disposal of the Wessely assets and also due in part to a program which commenced in 1987 and continued throughout 1988 to reduce operating, administrative and general expenses.

LIQUIDITY AND CAPITAL RESOURCES

In 1988 cash generated internally from both continuing and discontinued operations amounted to $433.2 million and financing activities, including the proceeds from disposal of non-essential assets of $283.8 million, provided an additional $740.9 million. These funds were sufficient to meet all capital expenditure requirements, retire long-term debt and pay dividends on preferred and common shares.

Neither cash generated internally nor the Company's net investment activities has varied by more than 10 per cent in each of the last three years. During 1988, through the issue of common shares, the disposal of non-essential assets and the issue of new lower-cost financing, the Company has repaid $447.1 million of long-term debt and reduced its notes payable by $245.1 million without reducing its cash balances as it had in the previous year. As mentioned earlier, the Company did draw down on its cash balances at the end of 1987 for use in the Encor acquisition.

In April 1988 TransCanada reduced its common share dividend from 28 cents to 17 cents per quarter, partly to reflect the change in business mix resulting from the Encor acquisition. The new dividend level was established taking into account the distinct nature of the two principal businesses including the recognition that the oil and gas business would require substantial funding for exploration and development of discoveries. In addition, the Company's decision to reduce the common share dividend also reflected the Company's lower earnings over the previous two years caused in part by the volatility in oil and gas prices as well as the impact of foreign exchange rate fluctuations, particularly those related to the Company's Swiss franc debt.

While the cash demands the Company foresaw for the oil and gas business will not be required after the completion of the Plan of Arrangement, the rapid acceleration of capital requirements with respect to the Gas Transmission segment will place a significant demand on the Company for capital.

Capital expenditures in 1989 for all of TransCanada's continuing operations are expected to be $686.9 million. The Gas Transmission segment's portion of these capital expenditures are estimated to be $650.4 million, all of which have been approved by the NEB although construction of approximately $40 million of these facilities is dependent upon Great Lakes receiving certain approvals from its regulator. In addition, scheduled retirements of long-term debt will require an additional $88.2 million. Such cash requirements are expected to be met by way of internally generated funds and external financing. The Company anticipates that it will receive approximately $482 million of cash as a result of the Plan of Arrangement which will be used to repay as much outstanding non-utility debt as possible, with the balance being invested.

OUTLOOK

Competition in the natural gas industry remains intense. The Gas Transmission segment's 1989 approved expansion is an indication of the demand for Canadian natural gas both in Canada and in the United States. The Company has applied for approval of approximately $650 million of 1990 expansion facilities to service this demand. In addition, the Company has requested additional capacity on the Great Lakes system which effectively operates as a large loop of the mainline system in Canada. Great Lakes, which is 50 per cent owned by TransCanada, has applied to its regulator in the United States for approval to construct a total of U.S. $640 million of facilities over the next two years that will accommodate new volumes of Alberta natural gas.

Increased demand for natural gas will likely result in greater revenues for Canadian producers, additional opportunities for Western Gas Marketing to attract new customers and the continued opportunity of the Gas Transmission segment to earn a fair and reasonable return on an expanding rate base.

TransCanada
PipeLines
Limited

Year Ended December 31 (stated in millions of dollars except per share amounts)	**1988**	1987	1986
Revenues *(Note 2(b))*	**3,268.7**	3,161.1	3,964.6
Costs and Expenses			
Operating	**2,691.3**	2,535.7	3,344.5
Depreciation	**109.8**	104.4	101.8
	2,801.1	2,640.1	3,446.3
Income from Operations	**467.6**	521.0	518.3
Income from Associated Pipelines *(Note 4)*	**67.9**	82.3	87.6
Other Income	**40.8**	52.4	43.9
Income before the Undernoted Items	**576.3**	655.7	649.8
Financial Charges *(Note 16)*	**331.8**	355.4	334.8
Income from Continuing Operations before Income Taxes and Provisions	**244.5**	300.3	315.0
Income Taxes *(Note 7)*	**100.0**	128.9	103.6
Income from Continuing Operations before Provisions	**144.5**	171.4	211.4
Investment and Asset Provisions *(Note 18)*	**72.2**	–	13.9
Income from Continuing Operations	**72.3**	171.4	197.5
Loss from Discontinued Oil and Gas Operations *(Note 3)*			
Canadian and other	**(30.6)**	(6.2)	(46.5)
United States	**(50.3)**	(5.2)	(98.8)
	(80.9)	(11.4)	(145.3)
Net (Loss)/Income for the Year	**(8.6)**	160.0	52.2
Per Common Share Data *(Note 9)*			
Income from Continuing Operations			
before provisions	**$ 0.73**	$ 1.05	$ 1.53
after provisions	**$ 0.24**	$ 1.05	$ 1.40
Loss from Discontinued Operations	**(0.55)**	(0.09)	(1.31)
Net (Loss)/Income for the Year	**$ (0.31)**	$ 0.96	$ 0.09

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

TransCanada PipeLines Limited

Year Ended December 31 (stated in millions of dollars)	**1988**	1987	1986
Cash Generated Internally			
Income from continuing operations before provisions	**144.5**	171.4	211.4
Depreciation	**109.8**	104.4	101.8
Deferred income taxes	**16.8**	(116.9)	(32.8)
Dividends received in excess of equity income from investments	**6.4**	10.0	19.0
Amortization of deferred charges and other assets	**9.0**	77.3	77.3
Funds generated from continuing operations	**286.5**	246.2	376.7
(Increase)/decrease in operating working capital from continuing operations *(Note 17)*	**(8.8)**	85.3	43.2
Cash generated from continuing operations	**277.7**	331.5	419.9
Cash generated from discontinued oil and gas operations	**155.5**	69.6	22.1
	433.2	401.1	442.0
Investment Activities			
Capital expenditures	**146.4**	96.2	72.2
Deferred charges and other	**79.3**	19.5	46.4
Discontinued oil and gas operations	**355.9**	431.2	386.8
	581.6	546.9	505.4
Reduction of Long-Term Debt	**447.1**	152.6	359.3
Dividends Paid	**144.3**	180.0	160.7
Financing Activities			
Long-term debt–new financing	**422.6**	267.7	193.2
Common shares and common share warrants issued	**279.6**	100.8	400.3
Preferred shares issued	**–**	78.8	–
Preferred shares redeemed	**–**	(83.4)	–
Decrease in notes payable	**(245.1)**	(182.7)	(62.4)
Disposal of non-essential assets	**283.8**	–	–
	740.9	181.2	531.1
Increase/(Decrease) in Cash and Short-Term Investments	**1.1**	(297.2)	(52.3)
Cash and Short-Term Investments–at beginning of year	**316.2**	613.4	665.7
Cash and Short-Term Investments–at end of year	**317.3**	316.2	613.4

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

TransCanada
PipeLines
Limited

December 31 *(stated in millions of dollars)*	1988	1987
Assets		
Current Assets		
Cash and short-term investments	**317.3**	316.2
Accounts receivable	**381.6**	414.6
Inventories–Line pack gas and gas stored underground	**46.3**	48.8
–Materials and supplies	**37.3**	29.2
Total current assets	**782.5**	808.8
Payments on Future Gas Supply *(Note 10)*	**38.2**	40.7
Investments in Associated Pipelines *(Note 4)*	**310.2**	344.5
Discontinued Oil and Gas Operations *(Note 3)*		
Canadian and other	**1,153.7**	964.8
United States	**–**	216.9
	1,153.7	1,181.7
Plant, Property and Equipment *(Note 5)*		
Plant, property and equipment	**3,750.8**	3,658.4
Less: Accumulated depreciation and amortization	**1,175.8**	1,078.1
Net plant, property and equipment	**2,575.0**	2,580.3
Deferred Charges and Other Assets *(Note 11)*	**163.3**	400.6
	5,022.9	5,356.6
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable *(Note 6)*	**44.0**	289.1
Accounts payable	**301.2**	266.7
Income taxes payable	**31.3**	94.7
Interest accrued	**114.4**	121.7
Dividends payable	**40.9**	46.0
Long-term debt due within one year *(Note 5)*	**88.2**	91.3
Total current liabilities	**620.0**	909.5
Long-Term Debt *(Note 5)*	**2,137.2**	2,308.8
Deferred Income Taxes *(Note 7)*	**55.7**	16.0
Commitments and Contingencies *(Note 19)*		
Shareholders' Equity		
Preferred shares *(Note 8)*	**443.9**	444.0
Common shares *(Note 9)*	**1,043.3**	763.7
Contributed surplus	**277.8**	282.0
Retained earnings	**448.3**	596.0
Foreign exchange adjustment	**(3.3)**	36.6
	2,210.0	2,122.3
	5,022.9	5,356.6

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

On behalf of the Board:

S. A. Mann, Director   , Director

CONSOLIDATED CONTRIBUTED SURPLUS AND RETAINED EARNINGS

TransCanada PipeLines Limited

Year Ended December 31 (stated in millions of dollars)	1988	1987	1986
Contributed Surplus			
Balance at beginning of year	**282.0**	285.1	273.3
Redemption of preferred and cancellation of common shares (net)	**–**	(3.1)	0.2
Preferred share issue expense	**(4.2)**	–	–
Common share warrants issued *(Note 9)*	**–**	–	11.6
Balance at end of year	**277.8**	282.0	285.1
Retained Earnings			
Balance at beginning of year	**596.0**	616.1	731.7
Net (loss)/income for the year	**(8.6)**	160.0	52.2
	587.4	776.1	783.9
Dividends declared			
Preferred	**37.4**	38.2	42.8
Common	**101.7**	141.9	125.0
	139.1	180.1	167.8
Balance at end of year	**448.3**	596.0	616.1

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

AUDITORS' REPORT

KPMG Peat Marwick

To the Shareholders of TransCanada PipeLines Limited

We have examined the statements of consolidated financial position of TransCanada PipeLines Limited as at December 31, 1988 and December 31, 1987 and the statements of consolidated income, retained earnings, contributed surplus and changes in financial position for each of the years in the three-year period ended December 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements which appear on pages 38, 39, 40 and 41 present fairly the financial position of the Company as at December 31, 1988 and December 31, 1987 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1988 in accordance with generally accepted accounting principles which, except for the prospective application in 1986, with which we concur, of the method adopted by the Canadian Institute of Chartered Accountants for computing the limitation of capitalized costs in accounting for oil and gas operations as explained in Note 3(i) and (ii), were applied on a consistent basis.

Toronto, Canada
January 24, 1989

Peat Marwick
Chartered Accountants

Note 1.
Accounting
Policies

The consolidated financial statements of the Company have been prepared by Management in accordance with accounting principles generally accepted in Canada. These principles also conform in all material respects with International Accounting Standards on an historical cost basis. The significant accounting policies of the Company are summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, except for discontinued operations. See Note 3.

Regulation

The Company is subject to the authority of certain regulatory bodies with respect to the determination of tolls and related accounting for the natural gas transmission system (the ''Gas Transmission segment'') as further described in Notes 2 and 15. In order to achieve a proper matching of revenues and expenses the timing of recognition of certain revenues and expenses may differ from that otherwise expected under generally accepted accounting principles applicable to non-regulated companies.

Investments

The Company uses the equity method of accounting for its major investments in associated pipelines. Under this accounting method these investments are carried at cost plus the related equity in earnings, reduced by dividends and distributions received.

Plant, property and equipment

Gas Transmission
Plant, property and equipment of the Gas Transmission segment is carried at cost.

Depreciation is calculated on a straight-line basis using rates approved by the National Energy Board (''NEB'') — 2.5% for pipelines, 3.5% for compressor stations and other transmission plant and various rates for general plant and equipment.

Other
Other plant, property and equipment are carried at cost and depreciated on a straight-line basis over their estimated service lives.

Translation of foreign currency

Transactions and accounts in a currency other than a domestic currency are translated into the domestic currency using the temporal method. Certain debt payable in foreign currencies is exchanged through swap agreements into other currencies. Such debt is accounted for using exchange rates applicable to the currencies into which they have been swapped. Foreign exchange gains and losses on Gas Transmission segment related debt are included in income as they are dealt with in the tollmaking process. Other foreign exchange gains and losses are included in income in the current period except for unrealized gains and losses related to non-hedged monetary assets and liabilities with a fixed or ascertainable life extending beyond one year. These unrealized gains and losses are deferred and amortized to income over the remaining life of such assets or liabilities.

The accounts of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. The resulting translation adjustments are reflected in a separate component of shareholders' equity.

Income taxes

The Company follows the taxes payable method of accounting for income taxes related to the regulated operations of the Gas Transmission segment. This method is prescribed by the NEB for tollmaking purposes. Since there is reasonable expectation that all such taxes will be included in future costs of service and recovered in revenues at such time, this method is being followed for accounting purposes. For all other operations the Company follows the deferral method of tax allocation accounting.

Inventories

Inventories include line pack gas which is valued and charged to operations in accordance with the regulatory process. Materials and supplies and gas stored underground are recorded at cost and charged to operations at average cost.

Pension accounting

Effective January 1, 1987, the Company adopted the new pension accounting standard of the Canadian Institute of Chartered Accountants. Under this standard, the Company was required to change, among other things, its actuarial cost method for determining pension expense from the attained age normal method to the projected unit credit method pro rated on the service life of the employee group and to amortize certain pension related amounts on a straight-line basis over the expected average remaining service life. This change has been applied prospectively. Previously, the annual contributions to the pension fund and payments under the Supplemental Retirement Plan were charged to income as pension expense. The impact of this change was not material to results of operations.

Comparative figures

In addition to the reclassifications referred to in Note 3, certain other comparative figures have been reclassified to conform with the current financial statement presentation.

Note 2. Segmented and Other Information

The Company operates principally in two segments:

(i) Gas Transmission
The Company owns and operates a natural gas transmission system which extends from Alberta into Québec. The gas transmission system transports natural gas to regional gas distribution and transmission companies in Canada and the United States. In addition, the Company transports gas for other users who purchase natural gas directly from producers.

Matters such as tolls, construction, operations and accounting in connection with the gas transmission system are subject to the jurisdiction of certain regulatory bodies. Tolls are determined by the NEB on a net plant, rate base, rate of return and cost of service basis.

(ii) Gas Sales, Marketing and Other
Western Gas Marketing Limited, a wholly owned subsidiary, administers all of the Company's gas purchase contracts with producers and all gas sales contracts with domestic and export customers.

Other operations include the production and sale of thermal carbon black, the extraction of natural gas liquids and ethane from natural gas, pipeline inspection services as well as general corporate overheads.

The Company's financial data by business segment is as follows:

(a) Business segments

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Revenues			
Gas Transmission	**908.3**	1,268.1	3,912.5
Gas Sales, Marketing and Other	**2,360.4**	1,893.0	52.1
	3,268.7	3,161.1	3,964.6
Operating costs			
Gas Transmission	**344.3**	654.4	3,306.2
Gas Sales, Marketing and Other	**2,347.0**	1,881.3	38.3
	2,691.3	2,535.7	3,344.5
Depreciation			
Gas Transmission	**95.0**	94.0	94.7
Gas Sales, Marketing and Other	**14.8**	10.4	7.1
	109.8	104.4	101.8
Income/(loss) from operations			
Gas Transmission	**469.0**	519.7	511.6
Gas Sales, Marketing and Other	**(1.4)**	1.3	6.7
	467.6	521.0	518.3
Capital expenditures			
Gas Transmission	**126.1**	81.9	71.4
Gas Sales, Marketing and Other	**20.3**	14.3	0.8
	146.4	96.2	72.2

December 31 (millions of dollars)	**1988**	1987	1986
Business segment assets			
Gas Transmission	**2,810.0**	2,836.6	3,001.9
Gas Sales, Marketing and Other	**257.5**	258.8	234.9
	3,067.5	3,095.4	3,236.8
Investments in associated pipelines	**310.2**	344.5	376.3
Corporate assets	**491.5**	735.0	886.2
Discontinued operations	**1,153.7**	1,181.7	833.5
	5,022.9	5,356.6	5,332.8

Gas Transmission operating expenses are not comparable between 1987 and 1988 because of the regulatory process. In 1987, the Company purchased the compressor fuel required to operate the transmission system while in 1988 fuel is being provided by the Company's transportation customers.

(b) Revenues

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Gas Transmission			
Domestic	**716.4**	1,039.7	3,225.8
Export	**185.5**	222.9	501.1
Other	**6.4**	5.5	185.6
	908.3	1,268.1	3,912.5
Gas Sales, Marketing and Other			
Domestic	**1,707.6**	1,540.5	–
Export	**545.0**	249.7	–
Other	**107.8**	102.8	52.1
	2,360.4	1,893.0	52.1
Total revenues	**3,268.7**	3,161.1	3,964.6

As a result of deregulation in the natural gas industry the Company's gas transmission services and gas marketing activities were separated effective November 1986. Prior to deregulation there was no distinction between these activities and a breakdown of revenues for 1986 is not available.

As a result of the regulatory process applicable to the Gas Transmission segment, variations in gas transmission revenues and volumes by themselves do not have an impact on net income.

(c) Principal customers

The following table sets forth the Company's revenues generated from the sale and transmission of natural gas under long-term contracts with its five principal customers:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
The Consumers' Gas Company Ltd.	**847.9**	943.0	1,195.0
Union Gas Limited	**399.9**	598.9	885.7
ICG Utilities (Ontario) Ltd.	**309.8**	302.3	391.3
Gaz Métropolitain, inc.	**285.3**	373.8	482.1
Great Lakes Gas Transmission Company	**200.6**	168.0	214.1

Note 3.
Discontinued
Oil and Gas
Operations

History of TransCanada's Oil and Gas Operations

In 1979 the Company made its first significant investment in oil and gas properties through a wholly owned subsidiary TCPL Resources Ltd. by acquiring a 50% undivided interest in the oil and gas properties of Maligne Resources Limited which owned a 25% undivided interest in a portion of the onshore oil and gas properties of Dome Petroleum Limited.

In 1984 the Company purchased all of the assets of Wessely Energy Corporation, a United States oil and gas corporation.

Effective December 31, 1987, the Company acquired approximately 97% of Encor Energy Corporation Inc. (''Encor'') for $1,042.7 million. The remainder of Encor was acquired in 1988 for $27.9 million.

Accounting Policies of Discontinued Oil and Gas Operations

(i) Capitalized costs

The Company uses the full cost method of accounting for its oil and gas operations. During 1986 the Company adopted, on a prospective basis, the guideline entitled Full Cost Accounting in the Oil and Gas Industry (''CICA Guideline'') issued by the Canadian Institute of Chartered Accountants. All costs of exploring for and developing oil and gas and related reserves are capitalized in cost centres established on a country-by-country basis.

(ii) Ceiling test

Since 1986 the Company has followed the methodology prescribed in the CICA Guideline in computing the limitation of capitalized costs (''ceiling test''). Such costs are generally limited to the value of future net revenues from estimated production of proved reserves at current prices and costs and the costs of unproven properties. Future net revenues are not discounted, but are calculated after deducting general and administrative expenses, financing costs and income taxes, all on a global basis. The Company, in accordance with the CICA Guideline, has excluded the acquisition of Encor from its ceiling test computations.

The ceiling test is not intended to provide an estimate of the fair market value of oil and gas properties but is a cost recovery test at a point in time.

(iii) Depletion and depreciation

The Company uses the unit-of-production method to calculate depletion.

(iv) Carrying value of oil and gas properties

Based on the prices prevailing at December 31, 1988 and 1987 no ceiling test adjustment to the carrying value of the Company's oil and gas assets was required.

The adoption of the CICA Guideline along with the significant decline in oil and gas prices during 1986 required the Company to reduce the carrying value of its oil and gas properties at December 31, 1986 by $100.6 million.

Canadian and Other Non United States Oil and Gas Operations

The Board of Directors of TransCanada has approved a series of transactions which would result in TransCanada combining its oil and natural gas exploration, development and production business under one corporate entity, Encor Energy Corporation Inc., recapitalizing this company and then distributing the shares to TransCanada's common shareholders by way of a Plan of Arrangement. The proposed Plan of Arrangement is subject to various conditions being satisfied and approvals being obtained including a favourable vote cast by a majority of the common shares of the Company, other than those owned by BCE, at TransCanada's Annual and Special Meeting on April 24, 1989. BCE has advised TransCanada that it intends to vote in favour of the Arrangement. The proposed Plan of Arrangement is expected to become effective in early May.

In a transaction related to the Plan of Arrangement, TransCanada will acquire for $15.5 million, options to purchase from BCE Inc. (''BCE'') approximately 11% of Encor.

In addition outstanding Encor debt currently guaranteed by TransCanada, of approximately $131 million, will continue to be guaranteed by TransCanada for a fee of 0.75% per annum.

The following sets out the summarized financial information for Canadian and other, excluding United States, oil and gas operations:

December 31 (millions of dollars)	**1988**	1987
Current assets	**63.9**	216.0
Plant, property and equipment (net)	**2,064.2**	2,038.9
Deferred charges and other assets	**24.5**	12.1
Current liabilities	**(549.0)**	(197.9)
Deferred revenue	**(50.1)**	(64.4)
Long-term debt	**(55.8)**	(754.7)
Deferred income taxes	**(344.0)**	(285.2)
Net investment	**1,153.7**	964.8

An integral part of the Plan of Arrangement is a refinancing of Encor. Based on amounts at December 31, 1988 the Company anticipates that it will receive approximately $482 million as a return of its investment, thereby reducing the book value of the distribution to shareholders to approximately $672 million.

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Operating revenues	**302.0**	160.9	153.8
Operating expenses	**(291.6)**	(136.0)	(142.7)
Other income	**12.1**	3.2	2.5
Financial charges	**(40.5)**	(24.1)	(46.4)
Income tax (expense) benefits	**(12.6)**	(10.2)	4.5
Loss before provisions	**(30.6)**	(6.2)	(28.3)
Investment and asset provisions	**–**	–	(18.2)
Net loss	**(30.6)**	(6.2)	(46.5)

Disposition of United States Oil and Gas Operations

In December 1988, the Company sold all of its United States oil and gas properties held by its wholly owned subsidiary Wessely Energy Company, effective July 1, 1988, for a total consideration of approximately U.S. $125 million. This disposition resulted in a loss, before and after income taxes, of $52.7 million.

The following sets out summarized financial information for United States oil and gas operations:

December 31 (millions of dollars)	**1988**	1987
Current assets	–	20.6
Plant, property and equipment (net)	–	206.8
Deferred income tax asset	–	2.7
Current liabilities	–	(12.7)
Deferred revenue	–	(0.5)
Net investment	–	216.9

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Operating revenues	**22.1**	33.4	26.9
Operating expenses	**(18.5)**	(41.5)	(38.0)
Other income	**0.3**	0.2	0.1
Income tax (expense) benefits	**(1.5)**	2.7	(5.4)
Income/(loss) before provisions	**2.4**	(5.2)	(16.4)
Investment and asset provisions	**(52.7)**	–	(82.4)
Net loss	**(50.3)**	(5.2)	(98.8)

As a result of the above transactions, the Company's oil and gas interests have been reclassified as discontinued operations and prior years' financial statements have been reclassified to reflect results from continuing operations. There is no effect on current or prior years' reported net income.

Note 4.
Investments
in Associated
Pipelines

The Company's investments in associated pipelines at December 31, 1988, 1987 and 1986 and its share of the earnings from those investments for the years then ended are:

	1988		1987		1986	
(millions of dollars)	**Investment**	**Equity Earnings**	Investment	Equity Earnings	Investment	Equity Earnings
Great Lakes Gas Transmission Company	**51.6**	**18.4**	67.0	25.7	84.3	20.0
Northern Border Pipeline Company	**190.1**	**39.0**	205.8	45.4	216.0	56.2
Foothills Pipe Lines (Sask.) Ltd.	**23.8**	**4.3**	25.5	4.6	27.0	5.1
Trans Québec & Maritimes Pipeline	**44.7**	**6.2**	46.2	6.6	49.0	6.3
	310.2	**67.9**	344.5	82.3	376.3	87.6

Investments in Northern Border Pipeline Company and Trans Québec & Maritimes Pipeline Inc. are held through partnerships and include the Company's proportionate share of income on a pre-tax basis. Dividends and distributions received from the investments in associated pipelines amounted to $77.2 million, $94.2 million and $106.0 million for the years ended December 31, 1988, 1987 and 1986, respectively. Consolidated retained earnings at December 31, 1988, includes $75.4 million (December 31, 1987–$84.7 million), which represents undistributed earnings of investments accounted for by the equity method.

The cost of the Company's investment in Montreal Pipeline Limited is included in Deferred Charges and Other Assets.

Great Lakes Gas Transmission Company

The Company owns 50% of Great Lakes Gas Transmission Company ("Great Lakes") which operates a pipeline system extending from the Canada/United States border near Emerson, Manitoba through the United States to the vicinity of Sarnia, Ontario. Great Lakes purchases gas from the Company for resale to United States customers and transports gas for the Company to eastern Canada.

The following sets out summarized financial information for Great Lakes:

December 31 (millions of U.S. dollars)	**1988**	1987
Natural gas transmission plant	**270.8**	275.7
Current assets	**42.2**	63.7
Current liabilities	**(67.8)**	(70.8)
Deferred credits	**(92.1)**	(86.1)
Long-term debt	**(65.2)**	(76.9)
Shareholders' equity	**87.9**	105.6

Year Ended December 31 (millions of U.S. dollars)	**1988**	1987	1986
Operating revenues	**280.3**	261.1	282.0
Operating expenses	**(223.5)**	(180.3)	(214.6)
Interest	**(7.9)**	(6.6)	(8.8)
Income taxes	**(16.6)**	(31.4)	(28.3)
Net income	**32.3**	42.8	30.3

Northern Border Pipeline Company

The Company owns a 30% interest in the Northern Border Pipeline Company, a partnership which owns a natural gas pipeline extending from the Canada/United States border near Monchy, Saskatchewan to a point near Ventura, Iowa.

The following sets out summarized financial information for Northern Border Pipeline Company:

December 31 (millions of U.S. dollars)	**1988**	1987
Natural gas transmission plant	**991.2**	1,038.2
Current assets	**45.8**	42.3
Current liabilities	**(65.6)**	(51.5)
Deferred credits	**(254.1)**	(233.9)
Long-term debt	**(449.3)**	(503.5)
Partners' equity	**268.0**	291.6

Year Ended December 31 (millions of U.S. dollars)	**1988**	1987	1986
Operating revenues	**209.6**	231.5	247.7
Operating expenses	**(80.4)**	(78.1)	(68.1)
Interest	**(41.0)**	(43.5)	(52.5)
Income before income taxes	**88.2**	109.9	127.1

Foothills Pipe Lines (Sask.) Ltd.

The Company is the operator and owns 44% of Foothills Pipe Lines (Sask.) Ltd. (''Foothills (Sask.)'') which owns a pipeline extending from the Alberta/Saskatchewan border near Empress, Alberta to the Canada/United States border near Monchy, Saskatchewan where it connects with the Northern Border pipeline.

The following sets out summarized financial information for Foothills (Sask.):

December 31 (millions of dollars)	**1988**	1987
Natural gas transmission plant	**275.8**	288.5
Current assets	**10.2**	10.2
Current liabilities	**(3.5)**	(12.0)
Deferred credits	**(60.4)**	(60.5)
Long-term debt	**(156.0)**	(159.5)
Shareholders' equity	**66.1**	66.7

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Operating revenues	**56.4**	63.5	71.2
Operating expenses	**(22.3)**	(23.8)	(24.2)
Interest	**(15.7)**	(16.2)	(20.7)
Income taxes	**(9.4)**	(13.0)	(14.8)
Net income	**9.0**	10.5	11.5

Trans Québec & Maritimes Pipeline

The Company owns 50% of the shares of Trans Québec & Maritimes Pipeline Inc. (''TQM''). TQM is the agent of a partnership, in which the Company is an equal partner, formed to own and operate a natural gas transmission system extending from the vicinity of Montreal to Québec City, Québec.

The following sets out summarized financial information for TQM:

December 31 (millions of dollars)	**1988**	1987
Natural gas transmission plant	**398.2**	412.2
Current assets	**7.2**	9.6
Deferred charges	**1.8**	2.3
Current liabilities	**(11.6)**	(19.8)
Bank loans	**(13.0)**	(14.0)
First Mortgage Bonds	**(281.0)**	(285.0)
Partners' equity	**101.6**	105.3

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Operating revenues	**119.9**	132.3	148.1
Operating expenses	**(69.6)**	(80.8)	(95.1)
Interest	**(38.6)**	(39.1)	(41.2)
Income before income taxes	**11.7**	12.4	11.8

Note 5. Long-Term Debt

Classification (2)	Maturity Dates	1988 Outstanding December 31 (2)	1988 Average Interest Rate (3)	1987 Outstanding December 31 (2)	1987 Average Interest Rate (3)
Utility *(1)*					
First Mortgage Pipe Line Bonds					
Denominated in Canadian dollars	1992 and 1993	**48.9**	**9.1%**	62.1	9.1%
Denominated in United States dollars (1988 U.S. $399.7; 1987 U.S. $429.1)	1996 and 1997	**476.7**	**16.2%**	557.7	16.2%
Denominated in Pounds Sterling (1988 £25.0; 1987 £25.0)	2007	**54.0**	**16.5%**	61.3	16.5%
Debentures (Series A to H and J to M)					
Denominated in Canadian dollars	1990 to 2005	**622.0**	**11.2%**	547.8	11.3%
Notes					
Denominated in New Zealand dollars (1988 NZ $125.0; 1987 NZ $125.0) *(7)*	1993	**104.1**	**16.5%**	104.1	17.0%
Denominated in United States dollars (1988 – nil; 1987 U.S. $97.8)	1992	**–**		127.1	16.0%
		1,305.7		1,460.1	
Exchange differential recoverable through the tollmaking process		**(8.0)**		(65.1)	
Total Utility Long-Term Debt		**1,297.7**		1,395.0	
Non-Utility					
Debentures (Series I)					
Denominated in Canadian dollars	1993	**100.0**	**11.7%**	100.0	11.7%
Notes					
Denominated in Swiss francs (1988 SFr. 802.2; 1987 SFr. 802.2) *(4) (6)*	1991 to 1995	**630.3**	**8.0%**	764.6	6.3%
Denominated in Australian dollars (1988 A. $40.0; 1987 A. $40.0) *(5) (6)*	1990	**33.1**	**8.5%**	36.0	8.8%
Denominated in New Zealand dollars (1988 NZ $175.0; 1987 NZ $75.0) *(7)*	1993	**116.2**	**16.4%**	50.8	17.0%
Term Loans					
Denominated in Canadian dollars	1996 and 1999	**46.6**	**9.4%**	51.0	8.8%
Other Debt	–	**1.5**	**–**	2.7	–
Total Non-Utility Long-Term Debt		**927.7**		1,005.1	
Total Long-Term Debt		**2,225.4**		2,400.1	
Less: Due Within One Year		**88.2**		91.3	
		2,137.2		2,308.8	

(1) Utility long-term debt of the Company finances the Gas Transmission segment.

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

(3) Current weighted average interest rates are stated as at the respective outstanding dates and include, where applicable, effective interest rates arising from swaps.

(4) In 1988, an amount of 175.0 million Swiss francs was exchanged through a swap agreement into Cdn. $149.6 million. In 1987, an amount of 87.5 million Swiss francs was exchanged through a swap agreement into Cdn. $75.1 million. In 1986 an amount of 104 million Swiss francs was exchanged through a swap agreement into U.S. $50 million.

(5) The amount denominated in Australian dollars was exchanged through a swap agreement into U.S. $27.7 million. Interest is payable at floating rates approximating the six month London Interbank Offered Rate.

(6) Non-utility long-term debt swapped into U.S. dollars is regarded as a partial hedge of the Company's net investments in the United States.

(7) The amounts denominated in New Zealand dollars were exchanged for Canadian funds through a series of forward foreign exchange contracts.

First Mortgage Pipe Line Bonds

The Deed of Trust and Mortgage securing the Company's first mortgage pipe line bonds provides for a first charge on all real and immovable property and rights of the Company and on substantially all of the Company's gas transmission, gas purchase, gas sales and gas product sales contracts and also provides for a first floating charge on all remaining assets. All series of bonds, with the exception of the series denominated in pounds sterling, are subject to mandatory sinking fund provisions which require the Company to retire prescribed amounts of each series annually prior to maturity.

Debentures

In March 1988, the Company issued $125 million of Series M debentures. The proceeds of the issue were used to redeem the U.S. $97.8 million Euronote incurred to finance the Company's Gas Transmission segment. In 1987, the Company issued $100 million of Series L debentures. The proceeds of the issue were used to repay short-term debt incurred to finance the Company's Gas Transmission segment.

The Series A to H debentures are subject to mandatory sinking fund provisions. The terms of the Series A to G sinking fund debentures also provide for purchase funds which require the Company to purchase debentures in the market, if available at prices, including costs of purchase, that do not exceed the principal amount plus accrued interest to the date of purchase. The Series I to M debentures rank equally with the sinking fund debentures but are not subject to sinking or purchase funds.

Notes and Term Loans

The notes and the term loans rank equally with the debentures.

In January 1988 and December 1987 the Company issued notes denominated in New Zealand dollars. The principal and all future interest payments were hedged in Canadian funds with a Canadian bank. The net proceeds of the issues were used to finance the Gas Transmission segment and to retire short-term non-utility debt. The effective interest cost over the term of the agreement is fixed at a rate of 10.72% per annum on the portion financing the Gas Transmission segment and is at a floating rate approximating bankers' acceptances on the non-utility portion.

The interest on term loans is currently payable at rates approximating bankers' acceptances with options to convert to London Interbank Offered Rate or Canadian bank prime.

Mandatory Retirements

In addition to purchase fund requirements which are applicable in certain circumstances, mandatory retirements of all long-term debt of the Company, as a result of maturities and sinking fund obligations, approximate: 1989–$88.2 million; 1990–$125.3 million; 1991–$168.0 million; 1992–$154.5 million and 1993–$652.7 million.

Note 6.
Notes Payable

December 31 (millions of dollars)	**1988**	1987
Bank loans	**–**	289.1
Commercial paper	**44.0**	–
	44.0	289.1

The weighted average cost of bank loans and commercial paper was: 1988–8.8% and 9.2% per annum respectively and 1987–8.2% and 7.8% per annum respectively. The 8.8% and 8.2% rates for 1988 and 1987 respectively are an average of United States dollar and Canadian dollar bank borrowing rates.

Note 7.
Income Taxes on Continuing Operations

(a) The geographic components of income from continuing operations before income taxes and investment and asset provisions are summarized below:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Canada	**187.4**	242.6	216.9
Foreign	**57.1**	57.7	98.1
	244.5	300.3	315.0

(b) The provision for income taxes from continuing operations is summarized as follows:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Current			
Canada	**84.5**	245.2	129.1
Foreign	**(1.3)**	0.6	7.3
	83.2	245.8	136.4
Deferred			
Canada	**11.9**	(121.3)	(39.2)
Foreign	**4.9**	4.4	6.4
	16.8	(116.9)	(32.8)
	100.0	128.9	103.6

(c) Deferred income taxes from continuing operations result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and their effect on income taxes are as follows:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Capital cost allowance and other amounts deducted in excess of depreciation	**(5.2)**	4.7	13.7
Payment of tax liability previously deferred	**–**	(61.3)	–
Utilization of losses	**4.8**	4.2	0.3
Amortization of deferred amounts	**27.4**	(56.8)	(39.6)
Unrealized foreign exchange losses	**(10.1)**	(6.6)	(0.6)
Other	**(0.1)**	(1.1)	(6.6)
	16.8	(116.9)	(32.8)

(d) Income tax expense differs from the amount computed by applying the basic Canadian federal income tax rate to income from continuing operations before income taxes. The reasons for these differences are as follows:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Income from continuing operations before income taxes and provisions	**244.5**	300.3	315.0
Less:			
Canadian pipeline income not subject to tax currently	**(22.6)**	(30.2)	(35.7)
Equity in after tax net income of non-partnership investments	**(33.7)**	(43.3)	(37.1)
	188.2	226.8	242.2
Federal statutory tax rate	**42.4%**	46.6%	47.8%
Expected income tax expense	**79.8**	105.7	115.8
Effect of United States tax reform	**–**	–	13.4
Non-deductible capital losses	**6.4**	13.6	1.8
Net difference between the federal statutory tax rate and rates of provincial, state and foreign authorities	**11.7**	3.2	(25.9)
Other	**2.1**	6.4	(1.5)
Actual income tax expense	**100.0**	128.9	103.6

(e) In October 1986, the United States adopted certain tax reform measures, the most significant being the reduction of the basic Federal corporate tax rate from 46% to 34%. This rate reduction reduced then recorded deferred tax benefits arising from United States operations by $13.4 million.

(f) At December 31, 1988 United States tax subsidiaries of the Company had accumulated net operating loss carryforwards for income tax purposes of approximately U.S. $348.2 million (December 31, 1987–U.S. $318.0 million). In addition, accumulated investment tax credits of approximately U.S. $27.7 million were available. The tax benefits related to the above can be carried forward and offset against income tax liabilities arising in future periods up to the year 2003. The future tax benefits with respect to such loss carryforwards and investment tax credits have not been recorded.

(g) The Company follows the taxes payable method of accounting for those income taxes related to the regulated operations of the Gas Transmission segment. Had the deferral method of tax allocation accounting been prescribed by the NEB for this segment from the date of commencement of operations, additional deferred income taxes in the amount of $391 million at December 31, 1988 would have been recorded and recovered in tolls to date through the tollmaking process.

Note 8. Preferred Shares

The authorized number of preferred shares issuable in series is unlimited. Details of the Company's cumulative redeemable first preferred shares, all of which are without par value, are:

December 31 (millions of dollars)	**1988**	1987	1986
First Preferred Shares			
Cumulative redeemable shares			
$2.80 *(1)* (1988–578,468; 1987–580,681 and 1986–587,671)	**28.9**	29.0	29.4
Cumulative redeemable retractable shares			
Series E (1988, 1987 and 1986–1,500,000)	**75.0**	75.0	75.0
Series F (1988 and 1987–nil; 1986–1,600,000)	**–**	–	80.0
Series H (1988, 1987 and 1986–1,000,000)	**50.0**	50.0	50.0
Series I (1988, 1987 and 1986–2,200,000)	**110.0**	110.0	110.0
Series J (1988 and 1987–1,600,000; 1986–nil)	**80.0**	80.0	–
Cumulative redeemable convertible shares			
Series G (1988, 1987 and 1986–1,000,000)	**100.0**	100.0	100.0
	443.9	444.0	444.4

(1) During 1988, 1987 and 1986, 2,213; 6,990 and 12,706 shares respectively were purchased by the Company for cancellation.

Additional information pertaining to the Company's preferred shares outstanding as at December 31, 1988 is as follows:

Preferred Share Issue	Stated Value Per Share	Dividend Rate Per Share	Redemption Premium Per Share	Retraction Date *(1)*	Annual Purchase Fund Requirement *(2)*
$2.80 First Preferred Shares	$ 50.00	$2.80	$0.50	Not applicable	2% of aggregate stated value of shares outstanding on previous December 31
Series E	$ 50.00	$5.16	reducing from $1.03 to nil at November 1, 1989	November 1, 1989	3% of aggregate stated capital amount outstanding on December 31, 1989
Series G *(3)*	$100.00	$9.00	not redeemable prior to June 1, 1989; nil thereafter	Not applicable	None
Series H	$ 50.00	$4.35	not redeemable prior to August 1, 1990; nil thereafter	August 1, 1990	3% of aggregate stated capital amount outstanding on August 2, 1990
Series I	$ 50.00	$3.90	not redeemable prior to November 1, 1990; nil thereafter	November 1, 1990	3% of aggregate stated capital amount outstanding on November 2, 1990
Series J	$ 50.00	$3.80	not redeemable prior to August 1, 1992; nil thereafter	August 1, 1992 and August 1, 1997	3% of aggregate stated capital amount outstanding on August 2, 1997

(1) The retractable first preferred shares have a retraction feature which requires the Company, subject to certain conditions, to invite tenders for the purchase of all such shares on the specified dates at the stated value plus accrued and unpaid dividends. The Company may increase the dividend rate on such shares effective on each retraction date.

(2) The Company will be required to set aside on its books in purchase fund accounts up to a maximum of $0.6 million, $7.6 million, $7.4 million, $7.2 million and $7.0 million in each of the years 1989 to 1993 respectively.

(3) Dividends are payable at a fixed rate of $9.00 per share per annum until May 31, 1989 and thereafter the rate fluctuates based on a formula measured against the prime rate of a Canadian chartered bank. These preferred shares may at any time after May 31, 1989, subject to certain provisions, be redeemed in whole or in part by the Company on payment of $100 per share. Holders have the right at any time after May 31, 1990, subject to certain limitations, to convert any or all of the Series G shares into common shares on the basis of four common shares for each preferred share, which conversion basis will be adjusted in specified circumstances. As a result of the Plan of Arrangement (see Note 3), if it becomes effective, the holders of Series G preferred shares will be entitled to convert their shares into four common shares of TransCanada and four common shares of Encor. TransCanada will purchase Encor common shares in the market to deliver to persons converting Series G shares.

In May 1987, the Company redeemed all outstanding Cumulative Redeemable Retractable First Preferred Shares, Series F, at a price of $52 per share and in June 1987, issued $80 million of Cumulative Redeemable Retractable First Preferred Shares, Series J to repay short-term debt incurred to finance the redemption of such shares.

Note 9.
Common Shares

The Company is authorized to issue an unlimited number of common shares of no par value. Details of the Company's common shares are:

	Number of Shares	Amount *(millions of dollars)*
Outstanding–January 1, 1986	98,903,097	274.1
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	5,127,717	84.0
Under the stock dividend and share purchase plan	72,131	1.2
Under employee stock purchase plans	511,200	7.6
Under public offering and concurrent sale to BCE	18,604,650	296.6
Cancellation of common shares	(46,261)	(0.7)
Outstanding–December 31, 1986	123,172,534	662.8
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	5,651,737	95.5
Under the stock dividend and share purchase plan	32,179	0.6
Under employee stock purchase plans	385,900	4.9
Under warrant subscription	387	–
Cancellation of common shares	(8,798)	(0.1)
Outstanding–December 31, 1987	129,233,939	763.7
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	**2,457,660**	**32.6**
Under public offering and concurrent sale to BCE	**18,870,000**	**247.3**
Cancellation of common shares	**(21,753)**	**(0.3)**
Outstanding–December 31, 1988	**150,539,846**	**1,043.3**

Equity Issue

On March 2, 1988, the Company completed a Canadian public offering of 9,567,000 common shares at a price of $13.25 per common share. The Company concurrently sold 9,303,000 common shares to BCE at the same price, enabling BCE to retain its pro rata ownership in the Company. Gross proceeds from the public offering and sale to BCE were $250.0 million. After tax expenses related to the issue aggregated $2.7 million. Net proceeds were used to repay a portion of the debt incurred to finance the Company's acquisition of Encor.

On July 15, 1986, the Company completed a Canadian public offering of 9,632,372 units, each of which consisted of one common share and one-half of a common share purchase warrant, at a price of

$16.75 per unit. The Company concurrently sold 8,972,278 units to BCE at the same price, enabling BCE to retain its pro rata ownership in the Company. Gross proceeds from the public offering and sale to BCE were $311.6 million. After tax expenses related to the issue aggregated $3.4 million. Net proceeds were used to repay a portion of non-recourse loans. The proceeds from the sale of the warrants of $11.6 million were credited to Contributed Surplus.

At December 31, 1988, 9,301,938 whole common share purchase warrants were outstanding. Each whole warrant entitles the holder to buy one common share at $19.25 on or before July 13, 1989. As a result of the Plan of Arrangement, if it becomes effective, the holder of each whole warrant will be entitled to buy one TransCanada common share and one Encor common share with the exercise price of $19.25 allocated between TransCanada and Encor based on proportionate market prices during the twenty trading days following the effective date of the Plan of Arrangement. See Note 3.

Net Income per Common Share

Net income per common share is calculated using the weighted average number of common shares outstanding during the respective periods and after provision for dividends on preferred shares, which amounted to $37.4 million, $38.6 million and $42.8 million in the years ended December 31, 1988, 1987 and 1986 respectively. The calculation of net income per common share on a fully diluted basis assumes conversion of all securities and exercise of all common share purchase warrants if such action would result in dilution of earnings per share. In 1988, 1987 and 1986, the effect of potential dilution was immaterial.

Employee Stock Purchase Plan

The Company has a Key Employee Stock Incentive Plan (''KESIP'') under which the Company provides interest-free loans through a trustee to certain key employees, some of whom are also directors, to purchase common shares of the Company. These loans are repayable within ten years. The outstanding balance of these loans totalled $35.2 million and $41.4 million at December 31, 1988 and 1987 respectively. During 1988 and 1987, 21,300 and 8,570 shares respectively issued under the KESIP were purchased by the Company for cancellation. The excess of the purchase price over the original issue price has been charged to Contributed Surplus.

Common Shares Reserved

At December 31, 1988, 131,450 common shares were reserved for issuance under the KESIP, 4,000,000 common shares were reserved for issuance upon conversion of the Cumulative Redeemable Convertible First Preferred Shares Series G and 9,301,938 common shares were reserved for the exercise of common share purchase warrants.

Note 10.
Payments on Future Gas Supply

The majority of the Company's gas purchase contracts include provisions which require payments by the Company when it is unable to nominate for delivery specified minimum annual quantities of gas. The contracted supply exceeded the demand in past years, and the Company has outstanding direct payments ("take-or-pay payments") to producers totalling $38.2 million as at December 31, 1988 ($40.7 million as at December 31, 1987). Costs associated with financing such payments up to October 31, 1986 were included in the Company's Alberta Cost of Service. Costs subsequent to October 31, 1986 are being recovered by the Company through producers' agreements or pursuant to regulations made under the Alberta Take-or-Pay Costs Sharing Act. Reference should be made to Note 19 (b) for other take-or-pay financing arrangements.

Note 11.
Deferred Charges and Other Assets

December 31 (millions of dollars)	**1988**	1987
Deferred Amounts		
Subject to regulation	**33.6**	19.8
Not subject to regulation:		
Unamortized foreign exchange losses	**94.0**	252.7
Other deferred amounts	**(17.6)**	30.9
	110.0	303.4
Other Assets		
Development projects	**15.7**	13.8
Mining and other	**37.6**	83.4
	53.3	97.2
	163.3	400.6

The deferred amounts subject to regulation are amortized and recovered or refunded in future periods through the tollmaking process.

Note 12.
Pension
Plans

The Company has a non-contributory pension plan and a Supplemental Retirement Plan (''SRP''). The non-contributory pension plan covers all employees who have completed one year of service and to December 31, 1987 provided a defined benefit pension based on length of service and career average earnings. The SRP provides a supplemental pension benefit to executives upon retirement. In 1987, the Company amended the pension benefit formula for both plans. Effective January 1, 1988, the employee's final average earnings and years of service are used in determining the pension benefit.

The Company contributes annually to the non-contributory pension plan the amount that is determined by the Company's actuary using the attained age normal method. Contributions are intended to provide for benefits attributed to service to date. Obligations under the SRP are not pre-funded, but are paid directly to retired members of the plan.

The components of the Company's pension expense are detailed as follows:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Pension costs for benefits earned during the current year	**9.2**	4.7	–
Amortization of transition amount and other	**2.6**	0.4	–
Expense for 1986 based on funding method	**–**	–	6.6
Net pension expense	**11.8**	5.1	6.6

Based on an actuarial valuation dated December 31, 1987 and projected to December 31, 1988, the funded status of the Company's pension plans, after giving effect to the January 1, 1988 plan amendment, is:

December 31 (millions of dollars)	**1988**
Actuarial present value of current accumulated pension benefits	**171.4**
Pension plan assets at fair value	**129.6**
Deficit	**41.8**

Included in the above deficit is $1.8 million with respect to discontinued oil and gas operations.

Pension plan assets are at average market value using five-year moving average and include marketable equity securities, corporate and government debt securities, and mortgages.

The discount rate used in determining the actuarial present value of the projected pension benefit obligations was 8.5%. The rate of the return on pension plan assets was estimated to be 8.5% per annum.

Note 13.
Related
Party
Transactions

Sales revenue from and payments by the Company for gas transportation services to each of Great Lakes and TQM, affiliates of the Company, were as follows:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Gas Sales			
Great Lakes	**200.6**	168.0	214.1
TQM	**42.3**	59.7	69.0
Charges for Gas Transmission Services			
Great Lakes	**132.0**	155.3	195.5
TQM	**72.5**	80.3	81.8

The recovery in the Company's regulated cost of service of charges by Great Lakes and TQM for gas transmission services is subject to the NEB's tollmaking process.

The Company also has contracts for the purchase of natural gas to which the Company's oil and gas subsidiaries (see Note 3) are indirect parties. As the Company does not purchase the natural gas directly from the subsidiaries neither the liability nor the total payments in any calendar year in respect to such purchase can be quantified.

Reference should be made to Note 9 regarding loan transactions between the Company and certain of its employees for the purchase of common shares.

As at December 31, 1988, BCE held approximately 49% of the Company's outstanding common shares and is a participant in the Company's dividend reinvestment and share purchase plan. Reference should be made to Note 9 with respect to common shares and common share purchase warrants sold to BCE during 1988 and 1986.

Note 14.
Restriction on
Dividends

Declaration of dividends on both preferred and common shares is restricted under certain preferred share provisions and under several debt instruments. At December 31, 1988, under the most restrictive provisions, approximately $416 million was available for the payment of dividends on common shares. The Plan of Arrangement is contingent upon the Company successfully negotiating amendments to the Deed of Trust and Mortgage whereby the amount available for the payment of dividends would not be impacted by the Plan of Arrangement. See Note 3.

Note 15.
Gas Transmission Segment Tolls Decisions

In February 1988, the Company filed a tolls application with the NEB covering a two-year period commencing January 1, 1988. The NEB elected to hear the application in two phases. Phase I dealt with toll design and tariff issues and contract matters resulting from deregulation. Phase II, dealing with cost of service, rate base and return matters, commenced in January 1989. In the meantime, the Company is charging interim tolls established by the NEB. Any over recovery or under recovery of costs under interim tolls is expected to be adjusted when final tolls are established at the conclusion of the tolls case.

In preparing these financial statements the Company has assumed a return of 13.25% on a deemed common equity component of 30% being the return utilized by the NEB in the Company's most recent rate decision.

Note 16.
Financial Charges

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Interest on long-term debt	**266.7**	242.1	291.4
Regulatory deferrals and amortizations	**20.5**	31.9	15.0
Non-regulatory foreign exchange losses	**25.4**	45.3	29.1
Short-term interest and other financial charges (net)	**19.2**	36.1	(0.7)
	331.8	355.4	334.8

Note 17.
[Increase]/Decrease in Working Capital from Continuing Operations

An increase in working capital results in a reduction in cash generated internally. A decrease in working capital results in an increase in cash generated internally. The following table sets forth the changes in the components of working capital from continuing operations:

Year Ended December 31 (millions of dollars)	**1988**	1987	1986
Accounts receivable	**33.0**	(37.6)	197.7
Inventories	**(5.6)**	33.3	9.5
Accounts payable	**34.5**	0.1	(191.2)
Income taxes payable	**(63.4)**	85.8	30.6
Interest accrued	**(7.3)**	3.7	(3.4)
(Increase)/decrease	**(8.8)**	85.3	43.2

Note 18.
Investment and Asset Provisions from Continuing Operations

The Company has determined that the carrying value of certain assets should be reduced due to the uncertainty of their ultimate recovery.

In 1988, the Company recorded a provision totalling $72.2 million before and after income taxes to recognize such uncertainty. This provision includes $25.0 million related to the Company's investment in international pipeline inspection services, $43.2 million for deferred U.S. income tax benefits previously recorded and $4.0 million for certain other assets.

In 1986, the Company made a provision in its accounts for investments in certain energy related projects and other minor assets totalling $13.9 million net of related income taxes of $14.5 million.

Note 19.
Commitments and Contingencies

(a) Legal Proceedings

By a judgment dated July 12, 1985, the Saskatchewan Court of Queen's Bench dismissed a claim brought by Saskatchewan Power Corporation ("Sask. Power") against the Company. On August 7, 1985, Sask. Power filed a notice of appeal. The appeal was dismissed with costs on December 30, 1988 by the Saskatchewan Court of Appeal. Sask. Power has the right of further appeal, with leave, to the Supreme Court of Canada.

The claim arose from alleged overpayments made under protest for gas sold to Sask. Power by the Company, and is in the amount of $59.2 million plus accrued interest.

(b) Gas Supply

During 1982 and 1983, the Company concluded arrangements (referred to as the "Topgas Programs") with syndicates of banks and substantially all of its producers to finance its take-or-pay payments incurred up to and including the contract year ended October 31, 1983. Pursuant to the Topgas Programs, Alberta corporations controlled by the banking syndicates (the "Topgas Companies") advanced approximately $2.7 billion to these producers in respect of these take-or-pay payments. Pursuant to contractual arrangements, recovery of the advances commenced in 1984 and is being effected in instalments by the nomination for delivery of prepaid gas. Scheduled recovery of the prepaid gas for the Topgas programs will be completed not later than 1994. As at December 31, 1988, approximately $1.25 billion ($1.0 billion as at December 31, 1987) of these advances had been repaid. Interest costs associated with the advances up to October 31, 1986 were included in the Company's Alberta Cost of Service. Interest costs subsequent to October 31, 1986 are being recovered by the Company through producers' agreements or pursuant to regulations made under the Alberta Take-or-Pay Costs Sharing Act.

Under the terms of the October 1985 Agreement on Natural Gas Markets and Prices between the governments of Canada and the producing provinces, the price of natural gas ceased to be regulated effective November 1, 1986, and is now determined by negotiation between buyers and sellers. One of the underlying principles of the agreement is that direct sellers and buyers of natural gas should be allowed appropriate access to the Company's pipeline system. The Alberta Take-or-Pay Costs Sharing Act provides for the sharing of take-or-pay interest costs by other users of the Company's pipeline system where contracted transportation services were entered into after October 31, 1985 and further provides for a mechanism by which the interest costs related to both the advances associated with the

Topgas Programs and the Company's take-or-pay payments continue to be allocated to the producers from which the Company purchases gas.

Under the agreements with the Topgas Companies, the Company will indemnify the Topgas Companies up to a combined maximum of $360 million for any losses arising due to the inability or failure of a producer to deliver gas covered by this arrangement. The Company will also indemnify the Topgas Companies for any losses suffered as a result of a breach by the Company of its obligations or by reason of the failure to recover their interest costs from any other sources.

(c) Financing of Northern Border Pipeline Company

The debt financing of the Northern Border pipeline was provided by a syndicate of banks in a total amount of U.S. $874 million. As at December 31, 1988, U.S. $385 million has been repaid.

Under the terms of this debt financing the Company may be required to make available to the Northern Border partnership funds sufficient to enable the partnership to fully amortize the outstanding balance at the final maturity date in 1996. If the Company were required to make any payment pursuant to the foregoing it would have recourse against the partnership.

(d) Negotiations with Distributors and Producers

During 1986 Western Gas Marketing Limited negotiated market responsive pricing agreements with TransCanada's major domestic distributors ("the Gas Pricing Agreements") for a term which ended October 31, 1988. The Company has completed new long-term gas sales arrangements with its domestic distributors. The arrangements took effect on November 1, 1988, and replace the contracts which terminated October 31, 1988. These long-term gas sales arrangements are subject to obtaining appropriate regulatory approval.

Concurrent with the negotiation of the Gas Pricing Agreements in 1986 a netback pricing structure was negotiated and approved by virtually all of the Company's contracted producers under which transportation tolls and other approved charges are deducted from the price negotiated with the distributors to yield a netback price to producers. The netback price structure expired on October 31, 1988 but was extended by the Company to December 31, 1988.

To parallel the new arrangements with the distributors and its other long-term sales contracts the Company has proposed to all of its contracted gas producers a long-term netback pricing amendment which would be effective as of January 1, 1989. Responses to date have been in support of the netback amendment and while negotiations with producers are continuing, the Company is confident that there will be sufficient support from the contracted supply to implement the new netback program. Under the proposal the Company's take-or-pay obligations would be suspended to November 1, 1990.

(e) Gas Transmission Expansion

The NEB approved an application by the Company to expend $567 million on plant, property and equipment in 1989. The Company has filed an application for additional expenditures of $652 million in 1990.

Discontinued Oil and Natural Gas Producing Activities [Unaudited]

The following financial information presents additional disclosure related to the Company's discontinued oil and natural gas producing activities. Interests in synthetic oil projects and other assets are not reflected in this information. Effective July 1, 1988, the Company sold its United States oil and gas properties held by Wessely Energy Company.

i) Capitalized costs

December 31 *(millions of dollars)*	**1988**	1987
Oil and natural gas properties		
Proved	**2,259.6**	2,522.8
Unproven	**334.2**	328.3
	2,593.8	2,851.1
Less: Accumulated depletion and depreciation	**(579.0)**	(635.5)
Net capitalized costs	**2,014.8**	2,215.6

ii) Costs incurred

Year Ended December 31 (millions of dollars)	Acquisition Proved	Unproven	Exploration	Development	Total
1988					
Canada	–	**19.1**	**40.1**	**69.9**	**129.1**
United States	–	**1.1**	**11.7**	**4.7**	**17.5**
Indonesia	–	–	**5.2**	**1.5**	**6.7**
Other Foreign	–	–	**20.3**	–	**20.3**
Total	–	**20.2**	**77.3**	**76.1**	**173.6**
1987					
Canada	724.6	175.7	9.8	16.5	926.6
United States	0.6	6.2	7.9	12.9	27.6
Indonesia	–	–	7.0	1.3	8.3
Other Foreign	–	0.4	19.0	0.2	19.6
Total	725.2	182.3	43.7	30.9	982.1
1986					
Canada	–	2.3	18.4	20.9	41.6
United States	3.3	13.5	6.0	12.7	35.5
Indonesia	–	–	11.6	4.6	16.2
Other Foreign	–	0.9	16.5	0.8	18.2
Total	3.3	16.7	52.5	39.0	111.5

iii) Oil and natural gas reserves data

The Company's proved developed and undeveloped oil and natural gas reserves, other than the purchase of minerals in place in 1987, for the years 1988, 1987 and 1986 were determined by the Company, Dome Petroleum Limited and others. The purchases of minerals in place in Canada in 1987 reflect the reserves acquired in the acquisition of Encor Energy Corporation Inc., which were determined by independent petroleum consultants.

iii) Oil and natural gas reserves data (continued)

Oil (including natural gas liquids) is measured in thousands of barrels. Natural gas is measured in billions of cubic feet.

	Canada		United States		Indonesia and Other Foreign		Total	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
Company interest proved developed and undeveloped reserves:								
January 1, 1986	67,540	772.3	6,171	81.1	5,615	–	79,326	853.4
Revisions of previous estimates	79	26.7	(2,261)	(20.8)	275	–	(1,907)	5.9
Purchases of minerals in place	–	–	18	5.1	–	–	18	5.1
Extensions and discoveries	2,406	32.2	475	7.5	3,131	–	6,012	39.7
Production	(5,182)	(32.3)	(578)	(4.3)	(1,129)	–	(6,889)	(36.6)
Sales of minerals in place	–	–	(207)	(3.3)	(276)	–	(483)	(3.3)
December 31, 1986	64,843	798.9	3,618	65.3	7,616	–	76,077	864.2
Revisions of previous estimates	982	(0.9)	(47)	(4.6)	1,144	–	2,079	(5.5)
Purchases of minerals in place	76,317	681.2	–	–	–	–	76,317	681.2
Extensions and discoveries	2,589	10.2	1,116	6.7	1,491	–	5,196	16.9
Production	(5,413)	(36.8)	(567)	(5.7)	(1,411)	–	(7,391)	(42.5)
Sales of minerals in place	–	–	(655)	(4.5)	–	–	(655)	(4.5)
December 31, 1987	139,318	1,452.6	3,465	57.2	8,840	–	151,623	1,509.8
Revisions of previous estimates	3,927	(56.9)	–	–	308	–	4,235	(56.9)
Extensions and discoveries	8,037	33.9	–	–	2,390	–	10,427	33.9
Production	(13,319)	(74.2)	(229)	(3.0)	(1,384)	–	(14,932)	(77.2)
Sales of minerals in place	–	–	(3,236)	(54.2)	–	–	(3,236)	(54.2)
December 31, 1988	**137,963**	**1,355.4**	**–**	**–**	**10,154**	**–**	**148,117**	**1,355.4**
Net Company interest total proved reserves at December 31, 1988	107,267	978.5	–	–	4,945	–	112,212	978.5
Company interest proved developed reserves:								
January 1, 1986	56,692	579.4	3,897	40.2	3,151	–	63,740	619.6
December 31, 1986	53,616	528.3	3,152	50.4	4,877	–	61,645	578.7
December 31, 1987	113,343	880.5	2,761	43.4	5,388	–	121,492	923.9
December 31, 1988	**105,130**	**890.2**	**–**	**–**	**6,548**	**–**	**111,678**	**890.2**

There have been no major discoveries since December 31, 1988 that would cause a significant change from the proved reserves reported. Reserve quantities do not reflect any adjustments for changes in the price of oil and natural gas since December 31, 1988.

Company interest reserves in Canada, Indonesia and other foreign areas are before the deduction of all burdens, royalties and foreign government takes. Net Company interest reserves in Canada, Indonesia and other foreign areas are after the deduction of all burdens, royalties and foreign government takes. Reserves in the United States are net of all royalties. The 1986 and 1987 reserve information has been reclassified to conform with the 1988 presentation. Previously reserves were disclosed by the Company net of freehold and overriding royalties.

In addition to the above proved reserves at December 31, 1988, the Company has 16,258,000 barrels of synthetic oil reserves from the Company's interest in the Syncrude project.

Quarterly
Consolidated
Financial Data
[Unaudited]

(a) Selected quarterly financial data

The following sets forth selected quarterly financial data for the four quarters of 1988 and 1987 in millions of dollars except for per share amounts. Revenues and income from operations include only those of continuing operations.

Three Months Ended	Mar. 31	June 30	Sept. 30	Dec. 31
1988				
Revenues	**929.6**	**773.7**	**682.9**	**882.5**
Income from operations	**117.7**	**124.7**	**118.0**	**107.2**
Net income/(loss)	**27.5**	**27.7**	**(22.2)**	**(41.6)**
Net income/(loss) applicable to common shares	**18.2**	**18.4**	**(31.6)**	**(51.0)**
Per common share data:				
Net income/(loss) applicable to common shares	**$ 0.13**	**$ 0.13**	**$ (0.23)**	**$ (0.34)**
1987				
Revenues	875.1	729.1	686.1	870.8
Income from operations	127.9	126.0	129.1	138.0
Net income	39.9	38.1	39.2	42.8
Net income applicable to common shares	29.2	28.8	29.9	33.5
Per common share data:				
Net income applicable to common shares	$ 0.23	$ 0.23	$ 0.24	$ 0.26

(b) Price range of common shares

The Company's common shares are listed on the Vancouver, Alberta, Winnipeg, Toronto, Montreal and New York stock exchanges. The Toronto Stock Exchange is the principal market on which the Company's common shares are traded.

The following table sets forth the quarterly high and low sales prices of the Company's common shares as reported by The Toronto Stock Exchange and New York Stock Exchange respectively:

	Toronto Stock Exchange		New York Stock Exchange	
	High (*Cdn.$*)	Low	High (*U.S.$*)	Low
1988				
First Quarter	**$16.25**	**$13.00**	**$12.38**	**$10.25**
Second Quarter	**15.38**	**13.00**	**12.38**	**10.50**
Third Quarter	**14.13**	**12.50**	**11.75**	**10.13**
Fourth Quarter	**15.75**	**12.75**	**13.25**	**10.25**
1987				
First Quarter	$21.50	$16.63	$16.38	$12.13
Second Quarter	21.50	17.25	16.50	13.00
Third Quarter	19.50	17.38	14.75	13.13
Fourth Quarter	18.38	13.88	14.13	10.50

Investment Information for Foreign Investors

In Canada there are no restrictions on the export or import of capital which affect the Company's remittance of dividends, interest or other payments to its non-resident security holders.

Dividends paid by the Company to shareholders outside of Canada are subject to Canadian non-resident withholding tax. This tax is generally at the rate of 15% for the United States and other countries where Canadian tax treaties apply and 25% for non-treaty countries.

Interest payable on the Company's debt securities held by non-residents may be subject to Canadian withholding tax depending upon the terms and provisions of such securities.

Dividend Reinvestment and Share Purchase Plan

This Plan allows common and preferred shareholders of the Company to conveniently purchase additional common shares of the Company by reinvesting their cash dividends and by making optional cash payments.

Shares acquired through the Plan with reinvested dividends are purchased at 95% of the average market price and shares acquired with optional cash payments are purchased at 100% of the average market price. There are no brokerage commissions payable under the Plan since participants purchase the new common shares directly from the Company and all administrative costs of the Plan are paid by the Company.

Shareholders who wish more information regarding the Plan should contact the Shareholder Services department at the Company's Toronto office.

TransCanada PipeLines Limited

Financial	1988	1987	1986	1985	1984
(millions of dollars except where indicated)					
Revenues					
Gas Transmission	**908.3**	1,268.1	3,912.5	4,367.0	4,214.3
Gas Sales, Marketing and Other	**2,360.4**	1,893.0	52.1	52.6	30.1
	3,268.7	3,161.1	3,964.6	4,419.6	4,244.4
Income from Operations	**467.6**	521.0	518.3	550.6	520.6
Income from Associated Pipelines	**67.9**	82.3	87.6	80.2	98.7
Income from Continuing Operations	**72.3**	171.4	197.5	272.8	265.6
Loss from Discontinued Operations	**(80.9)**	(11.4)	(145.3)	(110.3)	(17.7)
Net (Loss)/Income for the Year	**(8.6)**	160.0	52.2	162.5	247.9
Net (Loss)/Income Applicable to Common Shares	**(46.0)**	121.4	9.4	117.7	206.4
Net Income/(Loss) per Average Common Share					
Income from Continuing Operations					
Before provisions	**$ 0.73**	$ 1.05	$ 1.53	$ 2.45	$ 2.55
After provisions	**$ 0.24**	$ 1.05	$ 1.40	$ 2.35	$ 2.41
Loss from Discontinued Operations	**$ (0.55)**	$ (0.09)	$ (1.31)	$ (1.14)	$ (0.19)
Net (Loss)/Income	**$ (0.31)**	$ 0.96	$ 0.09	$ 1.21	$ 2.22
Funds Generated from Continuing Operations	**286.5**	246.2	376.7	383.3	359.3
Per average common share	**$ 1.96**	$ 1.95	$ 3.42	$ 3.95	$ 3.86
Assets					
Plant, property and equipment					
Gas Transmission	**2,485.5**	2,459.4	2,474.9	2,511.1	2,567.7
Gas Sales, Marketing and Other	**89.5**	120.9	103.5	95.3	87.6
Investments in Associated Pipelines	**310.2**	344.5	376.3	401.7	450.6
Total assets	**5,022.9**	5,356.6	5,332.8	5,372.6	5,194.6
Capitalization					
Long-term debt	**2,137.2**	2,308.8	2,077.0	2,138.8	2,189.4
Shareholders' equity					
Total	**2,210.0**	2,122.3	2,093.9	1,818.5	1,711.0
Common	**1,766.1**	1,678.3	1,649.5	1,373.5	1,268.1
Per common share at year end	**$ 11.73**	$ 12.99	$ 13.39	$ 13.89	$ 13.32
Capital Expenditures	**146.4**	96.2	72.2	80.2	56.5
Dividends Declared per Common Share	**$ 0.68**	$ 1.12	$ 1.12	$ 1.12	$ 1.00
Common Shares Outstanding *(millions)*					
Year end	**150.5**	129.2	123.2	98.9	95.2
Weighted average	**146.3**	126.3	110.2	97.0	93.0
Number of Shareholders, December 31	**22,636**	24,062	24,259	21,143	21,652
Number of Regular Employees, December 31	**1,939**	2,016	2,026	1,945	1,938

Investment and Asset Provisions, as described in Note 18 to the Consolidated Financial Statements on page 64 are included in Net (Loss)/Income for the Year for the years 1988, 1986, 1985 and 1984 respectively. In addition, amounts for the years 1984 through 1987 have been restated to reflect the discontinuation of the Company's oil and gas operations as described in Note 3 to the Consolidated Financial Statements.

Operating	1988	1987	1986	1985	1984
Continuing Operations					
Gas transmission volumes					
delivered *(billions of cubic feet)*					
annual	**1,345.6**	1,152.0	1,167.9	1,205.1	1,162.2
maximum day	**5.0**	4.3	4.6	4.4	4.6
Kilometres of pipeline–					
including loop line	**10 675**	10 600	10 593	10 593	10 632
Compressor power *(kilowatts)*	**1 027 400**	1 023 200	1 020 500	1 020 500	1 020 500
Discontinued Operations					
Liquid sales volumes					
(barrels per day)					
Crude oil					
Canada– conventional	**29,476**	11,644	11,365	11,138	11,043
– synthetic	**1,880**	846	803	801	541
United States	**572**	1,439	1,484	1,687	817
Indonesia and other foreign	**3,897**	3,699	3,148	3,500	1,991
Natural gas liquids					
Canada	**6,916**	3,188	2,987	3,117	2,364
United States	**54**	115	99	43	50
	42,795	20,931	19,886	20,286	16,806
Natural gas sales volumes					
(millions of cubic feet per day)					
Canada	**202.7**	84.9	80.8	87.3	80.0
United States	**8.3**	15.5	11.6	12.0	5.3
	211.0	100.4	92.4	99.3	85.3
Sulphur *(long tons per day)*					
Canada	**413**	180	189	187	172

Note: Oil and gas sales volumes for Canada are gross and include all volumes attributable to the Company's working interests before the deduction of royalties. Sales volumes for the United States are net of royalties. Sales volumes for Indonesia are attributable to the Company's gross working interest before government takes. Daily sales volume is calculated by dividing total sales for the respective year by the number of days in that year.

Directors

James M. Cameron
President and Chief Executive Officer,
Pipeline Division,
TransCanada PipeLines Limited,
Toronto

John H. C. Clarry, Q.C.
Counsel, McCarthy & McCarthy,
Toronto

J. V. Raymond Cyr, O.C.
President and Chief Executive Officer,
BCE Inc., Montreal

A. Jean de Grandpré, C.C., Q.C.*
Chairman, BCE Inc., Montreal

Russell E. Harrison*
Director,
Canadian Imperial Bank of Commerce,
Toronto

Robert H. Jones*
Chairman,
Investors Group Inc., Winnipeg

Robert H. Knight*
Partner, Shearman & Sterling,
New York

Gerald J. Maier
President and Chief Executive Officer,
TransCanada PipeLines Limited,
Toronto

Gordon P. Osler
Chairman, TransCanada PipeLines
Limited, Toronto; Chairman,
North American Life Assurance
Company, Toronto

Herbert C. Pinder
President, Saskatoon Trading
Company, Limited, Saskatoon

Harry G. Schaefer
Vice Chairman of the Board and
Chief Financial Officer,
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Calgary

J. Stuart Spalding*
Executive Vice-President, Finance,
BCE Inc., Montreal

Neil J. Stewart
Corporate Director, Calgary

Allan R. Taylor
Chairman and Chief Executive Officer,
The Royal Bank of Canada, Toronto

**Member of the Audit Committee*

Principal Officers

Corporate

Gordon P. Osler
Chairman

Gerald J. Maier
President and Chief Executive Officer

James M. Cameron
President and Chief Executive Officer,
Pipeline Division

Charles W. Fischer
President, Encor Energy Corporation Inc.

Mitchell T. G. Graye
Senior Vice-President, Finance
and Treasurer

George M. Hugh
Senior Vice-President, Pipeline Division

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President and Chief Executive Officer,
Western Gas Marketing Limited

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Senior Vice-President

Kenneth G. Whiteside
Senior Vice-President, Administration
and Control

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Vice-President and Executive
Assistant to the President and Chief
Executive Officer

Raymond F. Sim
Vice-President and Corporate Secretary

John W. Stinson
Vice-President, Human Resources

John W. Wouters
Vice-President, Public Affairs

Robert B. Hodgins
Corporate Controller

Wholly-Owned Operating Divisions and Subsidiaries

Pipeline Division

James M. Cameron
President and Chief Executive Officer

George M. Hugh
Senior Vice-President

Gavin J. Couper
Vice-President, Engineering and
Operations

Artel A. Douloff
Vice-President, Transportation

Craig R. Frew
Vice-President

Derek E. Henwood
Vice-President, Pipeline Investments

Steven Jakymiw
Vice-President, Rates

James W. S. McOuat, Q.C.
Vice-President, Legal & Regulatory
Affairs

Ray T. Smith
Vice-President and Controller

Arthur A. Wilkins
Vice-President

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Chairman

C. Kennedy Orr
President and Chief Executive Officer

John Anthony
Vice-President, Marketing

H. Fred Button
Vice-President, Market Planning
and Development

R. Glen Caughey
Vice-President, Canadian Sales

Robert D. Hale
Vice-President, U.S. Sales

David G. Hanson
Vice-President, U.S. Gas Supply

Barry G. Luft
Vice-President, Gas Supply

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and Administration

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Controller

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President and Chief
Operating Officer

Klaus Grodd
Vice-President
and General Manager

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Chief Executive Officer

Donald C. Ingram
President

Pipetronix GmbH

Richard D. Walker
Chief Executive Officer

Pipetronix Inc.

Richard D. Walker
Chief Executive Officer

Donald C. Ingram
President

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Vice-President

TCPL Nederland B.V.

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Managing Director

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Encor Energy Corporation Inc.

International PipeLine Engineering Limited

Pipetronix GmbH

Pipetronix Inc.

TCPL Investments AG

TCPL Nederland B.V.

TCPL Power Ltd.

TCPL Resources Ltd.

TransCan Holdings Ltd.

TransCanada Border PipeLine Ltd.

TransCanada Iroquois Ltd.

TransCanada PipeLine Alaska Ltd.

TransCanada PipeLine USA Ltd.

TransCanada PipeLines Finance USA Ltd.

Western Gas Marketing Limited

Western Gas Marketing USA Ltd.

Affiliates

Great Lakes Gas Transmission Company

Trans Québec & Maritimes Pipeline Inc.

Investor Information

Common Shares

Transfer Agents and Registrars:
Montreal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver,
Bank of Montreal Trust
Company, New York

Preferred Shares

Transfer Agents and Registrars:
$2.80 cumulative redeemable
first preferred shares
National Trust Company,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Cumulative redeemable
retractable first preferred shares
series E, series H, series I and
series J
The Royal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Cumulative redeemable
convertible first preferred shares
series G are transferable at the
office of the company in Toronto.

Bonds

Trustee:
National Trust Company, Toronto

Registrar Canadian Series:
9-1/4% and 8-7/8% first mortgage
pipe line bonds,
National Trust Company, Montreal,
Toronto, Winnipeg, Calgary and
Vancouver

Co-Registrars U.S. Series:
16% and 16-3/4% first mortgage
pipe line bonds,
National Trust Company and
Morgan Guaranty Trust Company
of New York

Co-Registrars U.K. Series:
16-1/2% first mortgage pipe line
bonds,
National Trust Company and
The Royal Bank of Scotland plc,
London, England

Debentures

Trustee and Registrar:
Central Guaranty Trust Company,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

10% series A sinking fund,
9-3/4% series B sinking fund,
9% series C sinking fund,
8-7/8% series D sinking fund,
9% series E sinking fund,
11-1/2% series F sinking fund,
9.60% series G sinking fund,
18% series H sinking fund,
11.70% series I,
11.40% series J,
10.45 series K,
10.80% series L,
and 10.55% series M debentures.

Stock Exchanges

Common and preferred shares are
listed on the Toronto, Montreal,
Vancouver, Alberta and Winnipeg
stock exchanges. The common
shares are also listed on the
New York Stock Exchange.
The common share warrants are
listed on the Toronto and
Montreal exchanges.

Stock Symbols

Common shares: TRP
Common share warrants: TRP.WT
$2.80 cumulative redeemable first
preferred shares: TRP.PR.A
Cumulative redeemable retractable
first preferred shares:
Series E: TRP.PR.E
Series H: TRP.PR.H
Series I: TRP.PR.I
Series J: TRP.PR.J

Form 10-K

The company's report to the
Securities and Exchange
Commission on Form 10-K is
available to common
shareholders at no charge by
writing to:

Shareholder Services
TransCanada PipeLines
P.O. Box 54
Commerce Court West
Toronto, Ontario
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Si vous désirez vous procurer un exemplaire de ce rapport en français, veuillez vous adresser au Secrétaire, TransCanada PipeLines, C.P. 54, Commerce Court West, Toronto, Ontario, M5L 1C2.

Produced by the Public Affairs Department,
TransCanada PipeLines

Design: Taylor & Browning Design Associates
Photography: Renzo Cattoni
Typography: Cooper & Beatty, Limited
Printing: Matthews, Ingham and Lake Inc.

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PRINTED IN CANADA