TransCanada

TransCanada PipeLines Limited 1996 Annual Report

Profitable today
Prepared for tomorrow

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We will achieve profitable growth by building on our strengths as a pre-eminent natural gas transmission company to become a recognized global enterprise excelling in energy transmission, electric power generation, other infrastructure projects and energy marketing.

CORPORATE PROFILE TransCanada PipeLines Limited, a Canadian company with assets in excess of $12 billion, transmits, markets and processes energy for customers in Canada, throughout North America, and around the world. Its pipeline system transports natural gas and crude oil from the Western Canadian Sedimentary Basin to the continent's major energy markets. Additional activities in energy marketing and energy processing extend the Company's reach. Internationally, TransCanada pursues, evaluates and invests in energy-related opportunities that expand the scope of its current activities.

ANNUAL MEETING The 1997 Annual Meeting of Shareholders is scheduled for April 24 at 10:30 a.m., in the Palliser Hotel, Calgary, Alberta.

By the year 2000 we plan to achieve a 50 per cent increase in earnings per share from the 1994 level. To do this we will transport energy safely and efficiently; we will market a full range of energy commodities and services to our customers; we will maximize our energy-processing assets to add value; and we will tap our skills as energy managers to develop lucrative international projects.

TransCanada-at-a-glance

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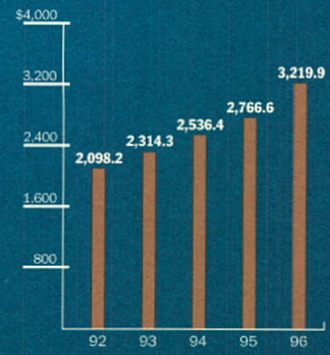
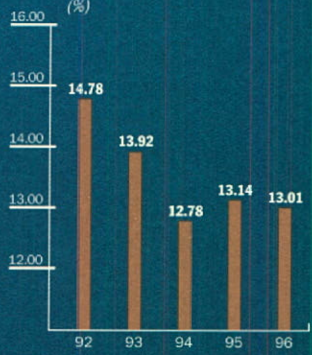
Highlights

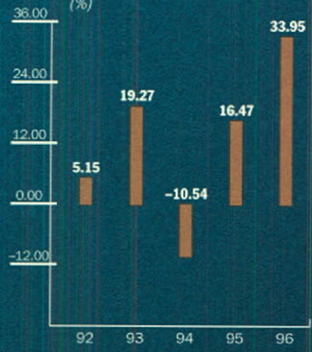
Common Shareholders' Equity
(millions of dollars)



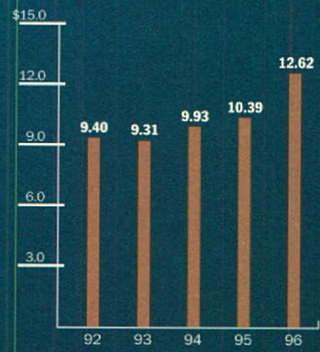
Return on Average Common Equity
(%)



Annual Return on Shareholders' Investment*
(%)



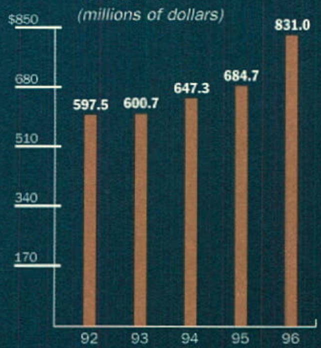
Total Assets
(billions of dollars)



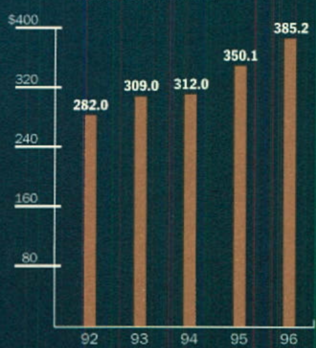
Our net income to common shares for 1996 was $1.85 per share, 10 cents per share greater than 1995. Remarkable, considering we started the year with a cut in earnings of $32 million or 16 cents per share to make up, due to a one per cent reduction in the Canadian Mainline's allowed rate of return and the full utilization of prior years' income tax losses. With each passing day we are becoming more certain of reaching our target of $2.40 in the year 2000.

Our total shareholder return for 1996 was 34 per cent, more than double our target.

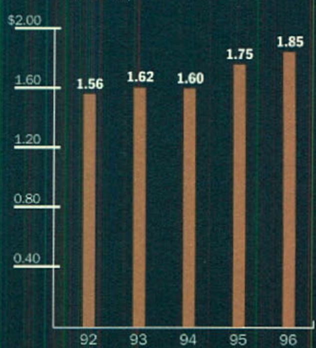
Funds Generated from Operations
(millions of dollars)



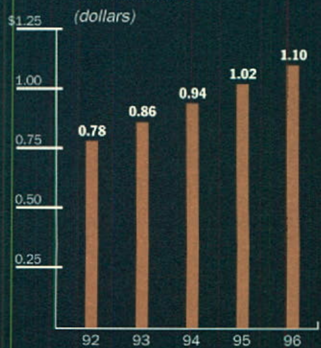
Net Income to Common
(millions of dollars)



Net Income Per Share
(dollars)



Dividends Declared Per Common Share
(dollars)



*The return on an investment in shares consists of the total of dividends received and reinvested and the capital gain or loss on the shares during the year.

Letter to Shareholders

George Watson
President and chief executive officer

Notable Achievements

We delivered a record 2,437.8 Bcf of gas, up 3.7 per cent from 1995, through the Canadian Mainline, TransCanada's largest asset, and set the stage for a major, multi-year expansion of the Canadian Mainline beginning in 1998.

The Canadian Mainline earned a rate of return on equity of 11.85 per cent, 60 basis points greater than our NEB allowed rate of return of 11.25 per cent, in the first year of operation under an incentive agreement that allows TransCanada to share in incremental revenues generated from existing assets, and cost savings that we are able to develop through employee initiatives.

Profitable today Prepared for tomorrow

In 1996, TransCanada moved steadily forward in its planned transformation into an integrated energy company that profits not only from transporting energy, but, increasingly, from marketing and processing it.

Our energy transmission business is a resource as well as an asset. We've become far more than a cost-for-service transporter of natural gas. We are continuing to expand our transmission business, strengthen our energy marketing business, develop and expand our energy processing business, focus on selected, profitable international activities, and enhance our risk management systems. To us, that's leverage.

As an integrated unit, our four business segments — Energy Transmission, Energy Marketing, Energy Processing and International — add measurable, growing value for shareholders — not only today, but tomorrow. That's in line with our long-term, primary goal — to build and sustain shareholder value, while continuing to conduct our business as good corporate citizens, respectful of the environment and the communities in which we live and work.

To help reach that goal, in 1995 we set three long-term, financial targets:

- Attain a 50 per cent increase in total earnings per share by the year 2000 to $2.40 per share from the 1994 level of $1.60 per share.

  To date, we are on target. Earnings per share in 1996 were $1.85, up 5.7 per cent from $1.75 in 1995.

- Provide total shareholder return of between 12 and 15 per cent per year.

  At 16 per cent in 1995 and 34 per cent in 1996, TransCanada's total shareholder return is well above our target. Total shareholder return, as commonly measured by many companies, is a combination of the capital appreciation of the stock and the realized dividend. In 1996, we benefitted from a 27 per cent appreciation in the price of our common shares, and an increased dividend (increases have averaged eight per cent per year throughout the 1990s). On the former point, TransCanada outperformed the TSE 300 by more than five per cent in 1996.

- Diversify our earnings to provide 50 per cent of net earnings from market-based businesses by the year 2000.

Gerald Maier
Chairman of the board of directors

Notable Achievements

We joined the Portland Natural Gas Transmission System as a 20 per cent partner in the project to construct a natural gas pipeline between Québec and Haverhill, Massachusetts.

The Express oil pipeline, 50 per cent owned by TransCanada, is expected to begin carrying about 172,000 barrels per day of oil from western Canada to markets throughout the U.S. midwest. Express is the first new oil link between Canada and the United States in 20 years.

The largest marketer of Canadian natural gas, TransCanada currently sells almost 5 Bcf per day, an increase of 25 per cent over volumes marketed in 1995.

We've made solid progress in moving toward a balanced earnings contribution, with 16 per cent from market-based operations in 1996, up from 13 per cent in 1995 and 12 per cent in 1994. We are pleased that the regulated businesses are now showing signs of expanding more quickly due to a much stronger demand for service, a trend that is expected to continue at least until the end of the century. The continued development of these businesses is of critical importance to TransCanada. We will continue to aggressively pursue our diversification target, but it will be a difficult stretch to reach it by the year 2000.

We know where we're going

TransCanada's strong financial performance in 1996 continued the upward trend of the past several years. During the period 1990-1996, total assets, funds generated from operations, and net income to common shares all more than doubled. In the same period, earnings per share increased by approximately 50 per cent.

In 1996, in an effort to improve understanding and better portray our business operations, we reported our financial results in four major segments. We also provided a breakdown of net income to common shares (net earnings) for each of the business segments. Energy Transmission comprises our traditional, regulated pipeline activities — the solid base upon which we are building for the future — as well as our newer transmission operations, such as the Express oil pipeline. Energy Marketing currently includes the marketing of several forms of energy, including natural gas, crude oil, refined products and power. Energy Processing includes those assets that process hydrocarbons into other forms of energy or products, such as electric power and specialty chemicals. International is the focused, prudent application of all our business skills to new opportunities in other parts of the world.

These four business segments are completely integrated — and that's one of the major strengths that sets TransCanada apart from the competition.

All segments posted improvements in net earnings for 1996. Energy Transmission provided 84 per cent of net earnings. The Canadian Mainline's performance is particularly noteworthy because its earnings were achieved despite a one per cent decline in the rate of return on common equity allowed by the National Energy Board for this business in 1996. That one per cent represented a reduction in 1995 earnings of about $21 million that had to be made up. A substantial part of it came from discretionary revenue earned under an incentive agreement reached late in 1995 between TransCanada and its customers. Incentive regulation allows TransCanada to share in discretionary revenues and cost savings.

Notable Achievements

We completed the acquisition of all the remaining shares of Alberta Natural Gas Company Ltd in March 1996, thereby expanding our energy transmission, gas processing and specialty chemicals operations in North America.

We purchased Enron Louisiana Energy Company in January 1997 and acquired assets that position TransCanada as one of the largest natural gas liquids processors in North America.

We completed construction and began operating two new independent power generation plants in Ontario, one at Kapuskasing and the other at North Bay.

We were awarded a seven-year contract to manage and administer the Ocean State power generation facility, 40 per cent owned by TransCanada, located in Rhode Island.

Protecting public safety is always a top priority for TransCanada and recent linebreaks related to stress corrosion cracking and general corrosion have increased our focus in this area. The Canadian Mainline has accelerated its pipeline maintenance program and we will continue to enhance the program through the use of advancing technology. We are committed to safe, reliable pipeline operations.

Energy Marketing net earnings more than doubled in 1996 over 1995 and Energy Processing net earnings were up 30 per cent over 1995. The increases were due to integrated efforts to capture new gas marketing opportunities; higher volumes, prices and margins for natural gas and refined products; and increased ownership of processing assets acquired through purchase of the remaining shares of Alberta Natural Gas Company Ltd in March 1996. Due to its focus on prospective activities, International had a net loss in 1996. The loss was lower than in earlier years because of equity income contributions from the Cusiana oil pipeline in Colombia and lower project development costs. We expect that International will show a profit in 1997.

We know how to get there

On all fronts, TransCanada is poised for growth in 1997 and beyond.

The Canadian Mainline is investing about $1 billion to expand its natural gas pipeline in 1997, adding about 300 million cubic feet per day of new gas transmission capacity from the Western Canadian Sedimentary Basin. And this year's growth is only the first phase of what is expected to be a major, multi-year expansion. We expect to invest similar amounts in both 1998 and 1999, to meet service requests from our customers. These programs in the 1998 and 1999 contract years could increase pipeline capacity by about 1.4 billion cubic feet per day.

Nevertheless, we are resolved to step aggressively beyond our traditional roots in natural gas transmission. We are extending our energy marketing reach and expanding the menu of energy products and services we sell. We are acquiring and expanding strategic assets that allow us to profit from processing energy. And we are tapping into emerging international energy development by leveraging these same skills and our growing experience.

We offer our customers not just energy, but energy solutions — and not necessarily the solution we prefer, but the one they prefer. Some need our transportation services. Some want to sell or buy natural gas, oil or electricity. Others are seeking specialty chemicals. This is why we have moved into new areas, developed oil pipelines and power generation projects, enhanced our marketing, financial and risk management expertise, and prudently expanded our market presence in some international regions.

Notable Achievements			
We completed construction and began operating a fourth unit at Medicine Hat, Alberta, to manufacture carbon black. The expansion increased production capacity by about 20 million pounds per year.	A consortium led by TransCanada was awarded consulting contracts that allow us to play a more significant role in the gasification program currently under way in Colombia.	We continued construction on the Cusiana oil pipeline in Colombia and expect to complete it late in 1997, expanding capacity and increasing earnings to about $17 million this year.	We continued to work toward completion in 1998 of the Songo Songo gas-to-electricity project that will provide domestic fuel for power production and industrial use in Tanzania.

We develop relationships and partnerships. Our approach is to build businesses in carefully focused areas. And we live where we work — that's why we have offices strategically located in North America and in Colombia, Venezuela, Tanzania, Indonesia and Singapore.

It will be difficult in 1997 to duplicate our 1996 earnings performance but we are dedicated to doing it. Much of our success will depend on our ability to develop the right business opportunities. It is by capturing these opportunities that we are able to provide the best, market-based solutions to our customers and add value for our shareholders.

TransCanada is building shareholder value by applying its expertise and experience to the energy business. We've adopted the Value-Added philosophy to measure our achievements, ensuring that only decisions that add shareholder value will be executed. During the last 12 months, we've moved steadily toward becoming an integrated energy company, and in no small part, the credit for our success goes to our dynamic management team and to all TransCanada employees. We thank them for their hard work and progress in 1996 and look forward to even greater success in the years ahead.

George W. Watson
President and chief executive officer

Gerald J. Maier, P.Eng., F.C.A.E.
Chairman of the board of directors

February 21, 1997

Exploring Corporate Strategy

Q: Can investors assume a continuation of TransCanada's historical dividend growth?

A: Our dividend has increased at just under eight per cent per year (7.4 per cent this year) for the last seven years, resulting in a 70 per cent increase in annual dividends paid to shareholders since 1990. However, as more and more of our earnings are generated by non-regulated operations, which are not as predictable as regulated operations, the growth rate of dividend payments could well be moderated. The result of this moderation would be a larger percentage of our earnings reinvested in existing and new operations which should generate greater profits, and should lead to additional capital appreciation of our stock.

Q: Why haven't more International earnings been recognized, given your efforts?

A: It must be remembered that our international thrust began from zero in the early 1990s. We realized initial earnings from this area late in 1995. The contribution improved in 1996 and is expected to increase in the future. By their very nature, projects in the developing areas of the world take longer. Different business cultures, regulatory requirements, investment markets and legal systems all must be carefully addressed. We look on these International operations as an integral part of our future, and we are determined to ensure they are built on a professional and enduring foundation.

Q: Can you realistically reach a 50/50 split of earnings between market-based and cost-of-service businesses by 2000?

A: It will be a difficult target to reach, and the odds are not in our favour. A balanced contribution is still our target. However, it will take longer to reach than we had originally anticipated. The reason for this is not slower than anticipated non-regulatory growth, but significant renewed growth in our regulated gas pipeline system. The Canadian Mainline, in particular, is poised for extensive expansion over the next few years.

Q: Why do you invest so much in the Canadian Mainline if there are more opportunities for higher returns in your other businesses?

A: The Canadian Mainline is the traditional underpinning of TransCanada and is, by far, our largest earnings and cash flow generator. Our expertise — and our worldwide reputation — was developed through the operation of this asset. The allowed regulatory return is only part of the Canadian Mainline story. We have gone beyond simply running the Canadian Mainline as a cost-of-service operation. In addition to developing profit-increasing incentive regulation arrangements, we enhance the Canadian Mainline by building non-regulated operations that complement it. These operations include energy marketing, power generation plants, gas gathering and liquids extraction facilities, and the exporting of our expertise to other parts of the world.

Q: Why are you diversifying into oil, electricity and other types of energy when you've always been a gas pipeline company?

A: To create wealth for all of us who invest in TransCanada. In today's world, this cannot be done by depending on just one form of energy. It is no longer a gas world, an oil world or an electricity world. It is truly an energy world. The energy world is creating multiple opportunities for a well-financed, preeminent energy company and we are working to capture as many of these opportunities as we can.

Q: Can we expect to see you get into traditional energy exploration and production in a big way?

A: It is unlikely. Our expertise today does not extend to these areas. We are now operating additional businesses that link to our energy transmission system. We profit from the opportunities created by our own assets, rather than letting others reap these rewards. However, these new operations do not extend to energy exploration or production. We will not go beyond what we know we do well.

Q: Is there a minimum size necessary to compete in the gas marketing business?

A: The real entry point in energy marketing is the underlying financial strength enjoyed by the marketer. This is where our operations enjoy a significant advantage over others. Marketing opportunities, we have found, come from expertise in the geographical areas of operations rather than from sheer size. However, as far as size is concerned, with daily deliveries of almost 5 Bcf at the end of 1996, we are the largest marketer of Canadian natural gas.

Q: Some people think operating pressure should be reduced on older pipelines as a safety precaution. Do you think pressure reductions are necessary on the TransCanada system?

A: Safety is a top priority at TransCanada. Under certain circumstances, temporary pressure reductions may be appropriate. But overall, our strategy is to enhance our maintenance programs through the use of advancing technology, in the form of in-line inspections. We plan to implement the most cost effective program to address all operational safety issues without long-term pressure reductions.

Earnings-at-a-glance

TransCanada's 1996 results demonstrate our overall development as an integrated energy company. **Non-regulated net income to common shares was 16 per cent of total net earnings, compared to 13 per cent and 12 per cent in 1995 and 1994, respectively. Net income to common shares (net earnings) increased 10 per cent in 1996, totalling $385.2 million, or $1.85 per share. This strong earnings performance is attributable to continued growth in all four business segments – Energy Transmission, Energy Marketing, Energy Processing and International.**

Net Income/(Loss) Applicable to Common Shares

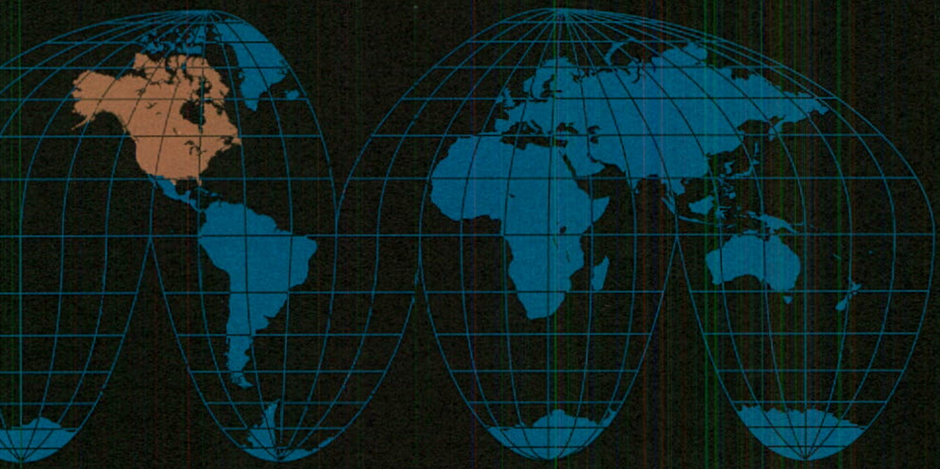
(millions of dollars except per share amounts)	**1996**	1995	1994
Energy Transmission	**323.6**	306.3	274.3
Energy Marketing *(1)*	**27.9**	10.3	11.8
Energy Processing	**41.6**	32.1	20.0
International	**(5.2)**	(13.1)	(9.6)
	387.9	335.6	296.5
Unallocated amounts	**(2.7)**	14.5	15.5
	385.2	350.1	312.0
Net income per share	**$1.85**	$1.75	$1.60

(1) 1996 includes provisions totalling $11.1 million (after tax) related to the writedown of storage assets and the costs of relocating Calgary employees to a single facility.

Energy Transmission

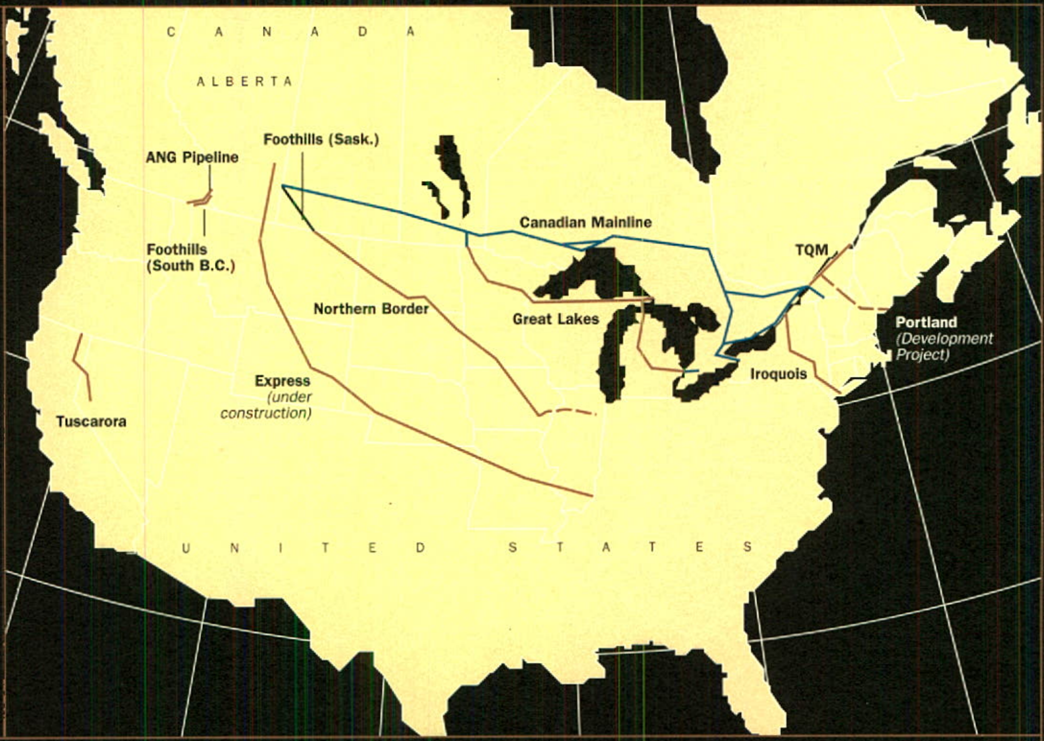
Our energy transmission assets are positioned to match current demand and anticipate future growth. **We are investigating innovative ways to structure more of our pipeline activities outside the regulatory environment for the benefit of our shareholders and our customers.**

Energy Transmission-at-a-glance



Net earnings from the Energy Transmission segment were $323.6 million during 1996, up $17.3 million and $49.3 million from 1995 and 1994, respectively.

Our pipeline network supplies natural gas from the Western Canadian Sedimentary Basin to Canada, and the northeastern, midwestern and northwestern U.S.



	Ownership (per cent)	Length (kilometres)	Maximum Daily Delivery (Bcf)	1996 Deliveries (Bcf)	Volume Increase/ (Decrease) over 1995
Canadian Mainline	100	14 274	7.800	2,437.8	3.7%
Great Lakes	50	3 226	2.285	933.8	(2.0%)
Northern Border	30	1 560	1.675	645.6	2.9%
Iroquois	29	604	0.980	314.3	–
Tuscarora	50	369	0.111	18.8	–
Foothills (Sask.)	44	259	1.500	558.9	1.3%
TQM	50	355	0.515	117.0	4.5%
ANG Pipeline	100	177	2.565	835.0	0.6%
Foothills (South B.C.)	40	166	1.094	367.9	(0.7%)

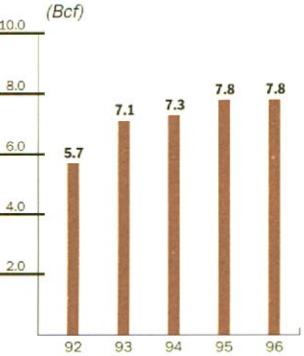
Energy Transmission

Canadian Mainline 100% Owned	Great Lakes – 50% Owned	Northern Border – 30% Owned
Stretching from the Alberta-Saskatchewan border to the Québec-Vermont border, the Canadian Mainline connects with other natural gas pipelines in Canada and the United States and is a major transporter to Canadian markets.	Great Lakes connects with the Canadian Mainline at Emerson, Manitoba and carries gas to markets in Canada and the eastern and midwestern U.S.	Northern Border connects with Foothills (Sask.) near Monchy, Saskatchewan and carries gas to markets in the U.S. midwest.

Canadian Mainline

The Canadian Mainline contributed net earnings of $250.7 million in 1996 compared to $253.6 million in 1995 – a significant accomplishment given the decrease in the approved rate of return on common equity to 11.25 per cent in 1996 compared to 12.25 per cent in 1995. The one per cent reduction in the rate of return, offset partially by the increase in average rate base, reduced earnings in 1996 by approximately $11 million. The positive effects of incentive regulation largely eliminated the impact of this decrease as record levels of discretionary transportation service revenues (discretionary revenues) combined with cost savings were achieved in 1996.

Canadian Mainline Gas Transmission Volumes Delivered – Maximum Per Day
(Bcf)

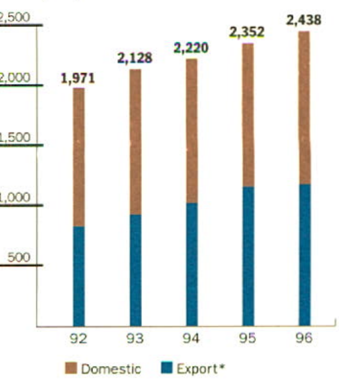


TransCanada set a new record for annual deliveries of natural gas on the Canadian Mainline in 1996 – a total of 2,437.8 Bcf were transported, representing a 3.7 per cent increase over 1995 – resulting from the construction of new facilities built to provide additional services to customers. In 1996, export deliveries comprised 48 per cent of total deliveries, compared to 49.3 per cent and 45.8 per cent in 1995 and 1994, respectively.

The Canadian Mainline is regulated by the National Energy Board (NEB). The NEB sets tolls for the Canadian Mainline which allow TransCanada to recover projected costs of transporting natural gas and provide a return on our investment in the Canadian Mainline rate base. Approved tolls set by the NEB are based on TransCanada's Incentive Cost Recovery and Revenue Sharing Settlement described on page 14. New facilities are approved by the NEB before construction begins. Changes in rate base or the return on common equity affect the contribution to net earnings. Most of the operating and financing costs of the Canadian Mainline are fixed and are recovered monthly from customers.

The NEB also allows the Canadian Mainline to record an Allowance for Funds Used During Construction (AFUDC) which includes a return on common equity. AFUDC varies from year to year depending on the size of the construction program and the rate of return. AFUDC increased to $14.1 million in 1996 compared to the $9.2 million and $8.7 million recorded in 1995 and 1994, respectively.

Canadian Mainline Gas Transmission Volumes Delivered – Annual
(Bcf)



*Deliveries within Canada to customers serving U.S. markets.

Iroquois – 29% Owned	Tuscarora – 50% Owned	Foothills (Sask.) – 44% Owned	TQM – 50% Owned
Iroquois connects with the Canadian Mainline at Iroquois, Ontario, and carries gas across the St. Lawrence River through New York and Connecticut to customers in the U.S. northeast.	Tuscarora Gas Transmission Company (Tuscarora) connects with the Pacific Gas Transmission System and transports gas from Malin, Oregon to markets in northeastern California and Nevada.	Foothills (Sask.) carries gas from Alberta's eastern border to Northern Border.	TQM connects with the Canadian Mainline and transports natural gas from Montréal eastward to Québec City.

Incentive regulation

In February 1996, the NEB approved TransCanada's Incentive Cost Recovery and Revenue Sharing Settlement (the Incentive Agreement), developed via a multi-party negotiation process with our major domestic and export customers and suppliers. The Incentive Agreement, which has a term of four years and began January 1, 1996, provides an incentive to minimize costs, maximize discretionary revenues and manage foreign exchange and interest costs.

In the Canadian Mainline's first year operating under the Incentive Agreement, we generated discretionary revenues and reduced costs to earn a rate of return on common equity of 11.85 per cent – 60 basis points greater than our allowed return of 11.25 per cent. Under the terms of the agreement, our customers' share of discretionary revenue earned in 1996 – about $31 million – will be credited to the cost of service for the Canadian Mainline in 1997. This, combined with other factors, is expected to result in a toll reduction for 1997.

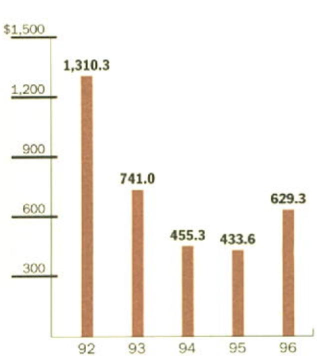
Canadian Mainline Outlook

In 1997 and beyond, we expect to benefit from the Incentive Agreement by challenging regulatory restraints and seeking opportunities to earn above the regulated return. The management of throughput on the system, which allows for increased discretionary revenues shared between the customers and ourselves two thirds/one third, is expected to have the largest impact on net earnings. However, higher costs to address pipeline integrity may adversely impact net earnings.

Rate of return

The allowed rate of return on deemed common equity for 1997 will be in the range of 10.5 to 10.75 per cent on a deemed common equity ratio of 30 per cent, based on the predetermined adjustment mechanism as approved in the NEB's Multi-Pipeline Cost of Capital Decision in 1995. A decrease in the return of 75 basis points, when compared to 1996, will reduce forecast net earnings by approximately $17 million. However, this decrease should be offset by the expected return on an increase of approximately $600 million in average rate base.

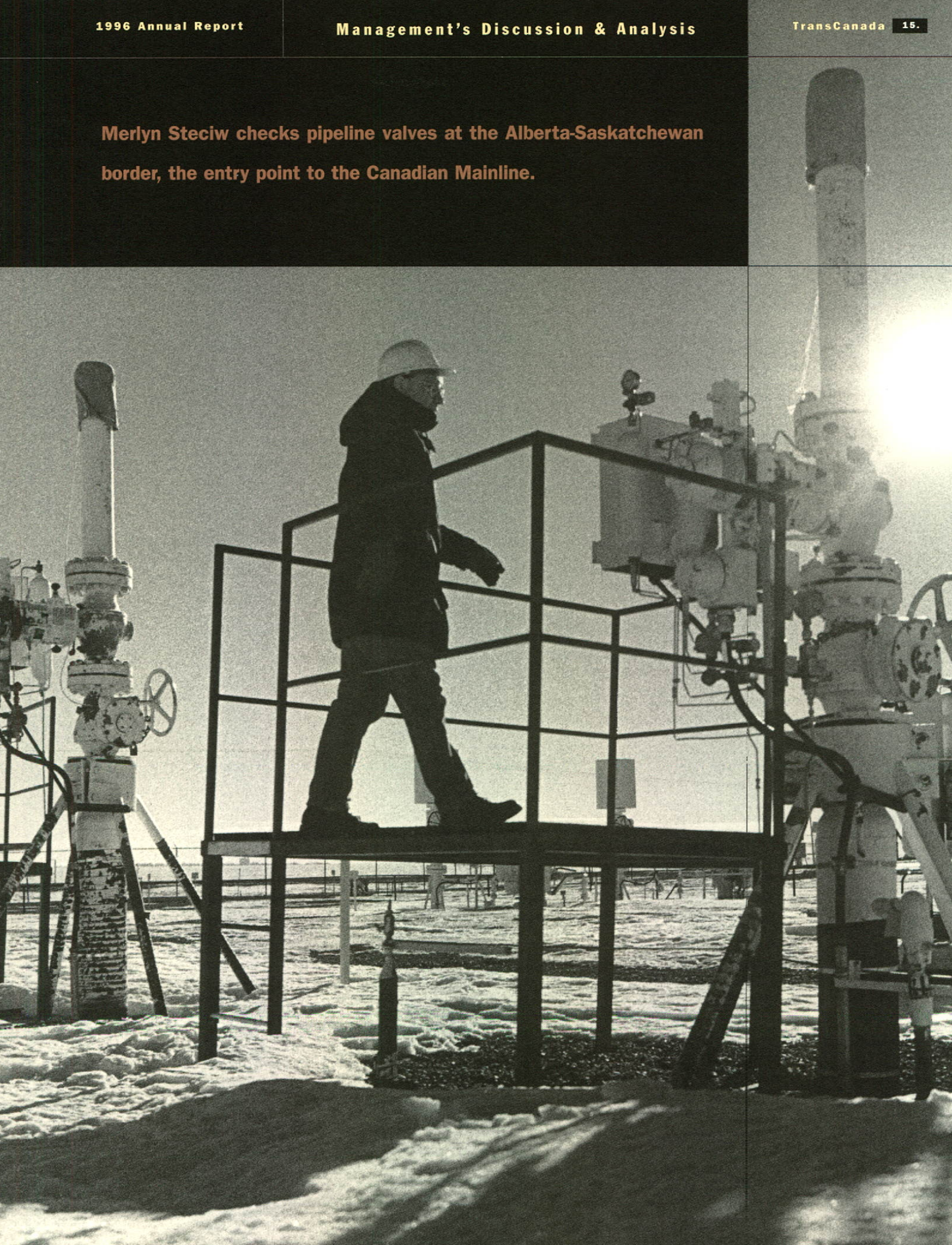
Canadian Mainline Capital Expenditures
(millions of dollars)



Capital expenditures

The Canadian Mainline expects to spend approximately $1 billion on capital in 1997, about two thirds for capacity expansion of 300 MMcf per day, and the balance for system integrity. NEB approval for the facilities has been received.

Merlyn Steciw checks pipeline valves at the Alberta-Saskatchewan border, the entry point to the Canadian Mainline.



ANG Pipeline – 100% Owned	Foothills Pipe Lines (South B.C.) – 49% Owned	Express Pipeline – 50% Owned
Alberta Natural Gas Pipeline (ANG Pipeline) carries gas from Alberta's western border through British Columbia to the U.S. border where it connects with the Pacific Gas Transmission System.	Foothills Pipe Lines (South B.C.) (Foothills (South B.C.)) connects with the NOVA system and transports gas to markets in California and the Pacific northwest.	Express, due to begin operation in April 1997, provides the first new oil link between Canada and the U.S. in two decades. It will move oil from Hardisty, Alberta to Wood River, Illinois.

TransCanada held an open season in the fall of 1996 to canvas interest in long-term firm services commencing November 1, 1998 and November 1, 1999, with the intention of developing the most economic long-term system expansion strategy. TransCanada received service requests for in excess of 2 Bcf per day. After assessing the requests, in February 1997 TransCanada issued precedent agreements to shippers. TransCanada believes that shippers will commit to approximately 1.4 Bcf per day of new capacity on the Canadian Mainline related to this expansion, called NEXUS. The construction of facilities to support such additional capacity is subject to regulatory approval.

This level of response provides us with the opportunity to pursue expansion of the Canadian Mainline using a high pressure option which should provide for lower cost expansion in the future.

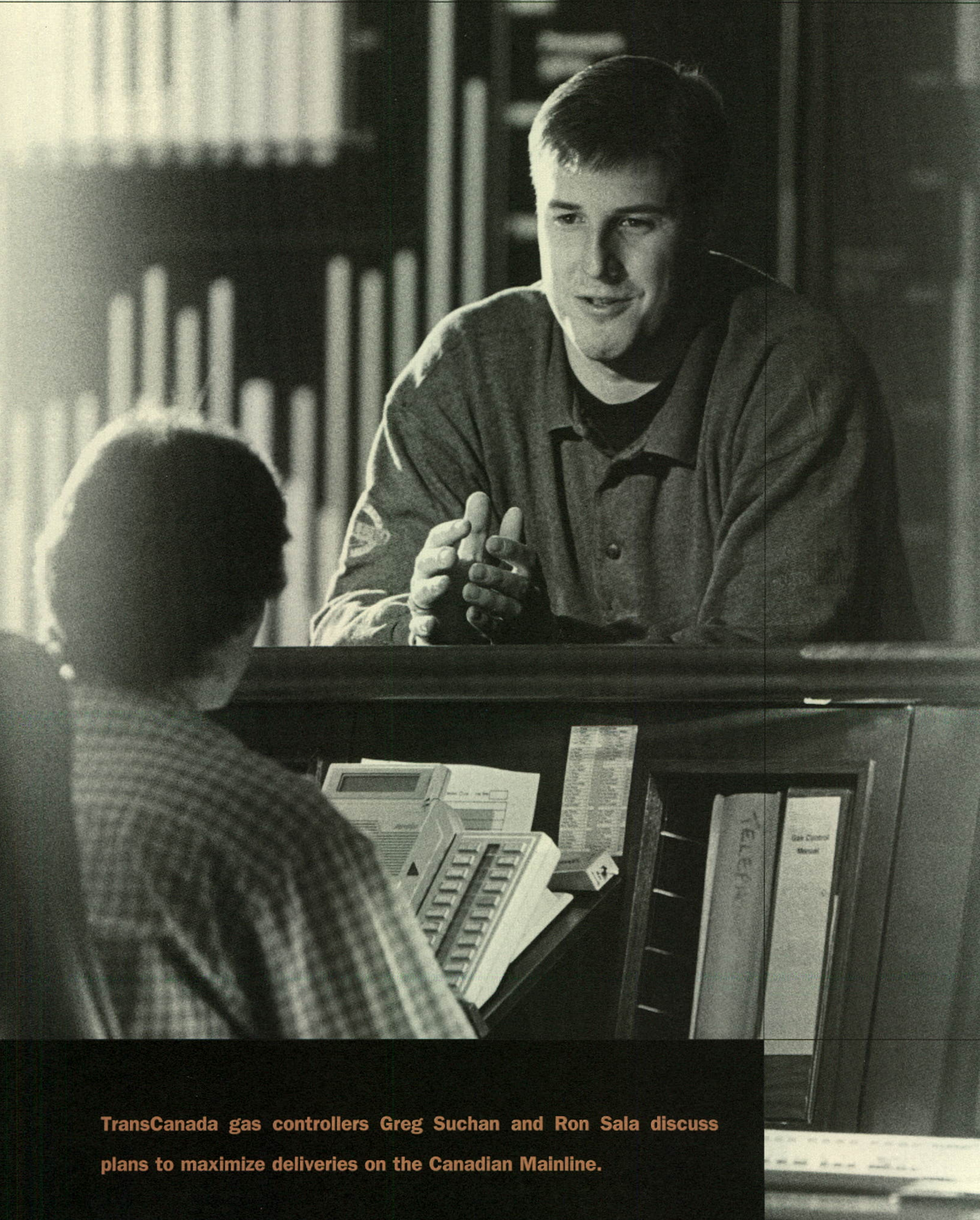
In 1997, the objectives of the Canadian Mainline are to exceed the return on common equity set by the NEB, improve system integrity and add incremental capacity of 300 MMcf per day. We are working to develop a competitive edge through cultural change, to maximize earnings under incentive regulation, to capitalize on market opportunities and to work with other business operations within TransCanada to maximize our skills and resources for greater profit.

Canadian Mainline Business Risks

Safety

Protecting public safety is always a top priority for TransCanada and recent linebreaks related to stress corrosion cracking (SCC) and general corrosion have increased our focus in this area. The NEB has completed its inquiry into SCC and issued its report. The report made 27 recommendations on the management of SCC by Canadian pipelines and references the quality of TransCanada's SCC program, which complies with all of the report's recommendations. The NEB did not suggest that a general reduction in operating pressure should be ordered for natural gas transmission pipelines to reduce the incidence of SCC.

In December 1996, a linebreak attributed to general corrosion occurred near Vermilion Bay, Ontario. On February 5, 1997, the NEB directed TransCanada to reduce the maximum operating pressure by 10 per cent on a 275-kilometre (170-mile) section of Line 100-1, one of three lines in Northern Ontario between Falcon Lake, Manitoba and Ignace, Ontario. The area includes the section near Vermilion Bay. The pressure reduction will be in effect until testing of the section and pipe replacements, if any, are completed. TransCanada expects that the pressure reduction will be in effect until May 31, 1997. No impact on firm service deliveries is anticipated as a result of this pressure reduction.



TransCanada gas controllers Greg Suchan and Ron Sala discuss plans to maximize deliveries on the Canadian Mainline.

Portland Project – 20% Interest

In March 1996, TransCanada acquired its interest in the partnership that plans to construct a pipeline which will extend from an interconnection with TQM at Pittsburg, New Hampshire to an interconnection with Tennessee Gas Pipeline at Haverhill, Massachusetts.

Competition

A consortium of natural gas producers, marketers and other pipeline companies (Alliance) has proposed a 3,000-kilometre pipeline from northeast British Columbia to the Chicago area to increase export capacity for Canadian natural gas. The pipeline is proposed to be in service by 1999. Alliance has stated that it will be able to offer lower tolls to Chicago than existing pipelines. Alliance also has reported that it expects to have an initial delivery capacity of 1.3 Bcf per day and could be expanded by way of additional compression to 2 Bcf per day. If built, Alliance will compete with the Canadian Mainline and Northern Border's expansion. We cannot predict the outcome of Alliance's application or whether or not the pipeline will ultimately be constructed.

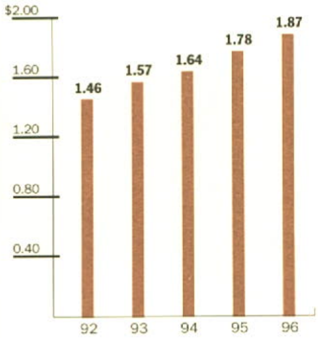
Contract term

The trend to shorter-term contracts for the transportation of natural gas continued in 1996, creating risk about the requirements both for existing and future additional capacity. TransCanada is considering new and different tolling mechanisms that would provide incentives to customers to sign longer-term contracts.

Gas supply

Despite increases in annual production, principally to supply a five per cent increase in the Canadian share of United States' gas markets over the last 10 years, the estimates of the ultimate potential of the Western Canadian Sedimentary Basin (WCSB) have increased by 50 per cent in the past decade. The Canadian gas producing sector has cut costs and increased production despite persistently low prices at the wellhead. TransCanada believes that supply can be expected to meet domestic and export demands for the foreseeable future.

Canadian Mainline Transportation Revenue
(billions of dollars)



North American Pipeline Investments

Our North American pipeline investments, which are regulated by the NEB in Canada and the Federal Energy Regulatory Commission (FERC) in the United States, contributed net earnings of $72.9 million in 1996, compared to $52.7 million and $54.5 million in 1995 and 1994, respectively. Increased contributions in 1996, compared to 1995, reflect the strong results from Great Lakes Gas Transmission Company (Great Lakes) due to increased throughput as well as recoveries based on the FERC decision to allow rolled-in tolls related to a previous expansion. Under rolled-in tolls, the cost of new facilities is included with the cost of existing facilities.

North American Pipeline Investments Outlook

Great Lakes

During the summer of 1996, Great Lakes filed an application with the FERC to approve the construction of facilities costing about US$149 million, including 71.5 miles (115 kilometres) of loop and two additional compressor stations, which will provide an additional 126 MMcf per day of longhaul capacity from Emerson, Manitoba to St. Clair, Michigan. Great Lakes expects to have the facilities in service by November 1998, and is requesting rolled-in tolls treatment.

Northern Border and Foothills (Sask.)

The US$837 million Northern Border Pipeline Company (Northern Border) pipeline expansion and extension project to the Chicago area received a Preliminary Determination from FERC in July 1996. The project involves expansion of Northern Border's facilities by 700 MMcf per day from Monchy, Saskatchewan to Ventura, Iowa; 961 MMcf per day from Ventura to Harper, Iowa; and a 243-mile (392-kilometre) extension from Harper with a receipt capacity of 648 MMcf per day, to near Chicago. In addition, Northern Border was authorized to roll-in the cost into its existing tolls. Construction is expected to begin in 1997 and the in-service date for the expansion and extension is targeted for November 1998.

The NEB has approved an application by Foothills Pipe Lines (Sask.) Ltd. (Foothills (Sask.)) to construct facilities to support the Northern Border expansion and extension project. The new facilities will expand capacity by 700 MMcf per day at a cost of approximately $150 million. The anticipated in-service date is November 1998.

Iroquois

Iroquois Gas Transmission System (Iroquois) has applied to the FERC to construct a new compressor station at Athens, New York which will increase system capacity by 30 MMcf per day. The station is planned to be in service in November 1997 with a total capital cost of approximately US$16 million.

TQM

Trans Québec & Maritimes Pipeline Inc. (TQM) completed a crossing of the St. Lawrence River in May 1996. TQM has filed for NEB approval of an incentive agreement which is designed to allow shareholders and customers to share the benefits of certain cost savings and revenue enhancements. TQM is also evaluating new gas transmission market opportunities in the Atlantic provinces.

Express

Construction is nearly complete on the Express oil pipeline (Express). Linefill commenced in February 1997 and the pipeline is expected to be in service in April 1997. Refurbishment of the portion of the pipeline that runs from Casper, Wyoming to Wood River, Illinois will continue through to August 1997. Initial capacity on Express is 172,000 barrels per day; more than 85 per cent of capacity has been contracted for under market-based tolls for terms that range from five to 15 years.

Project development

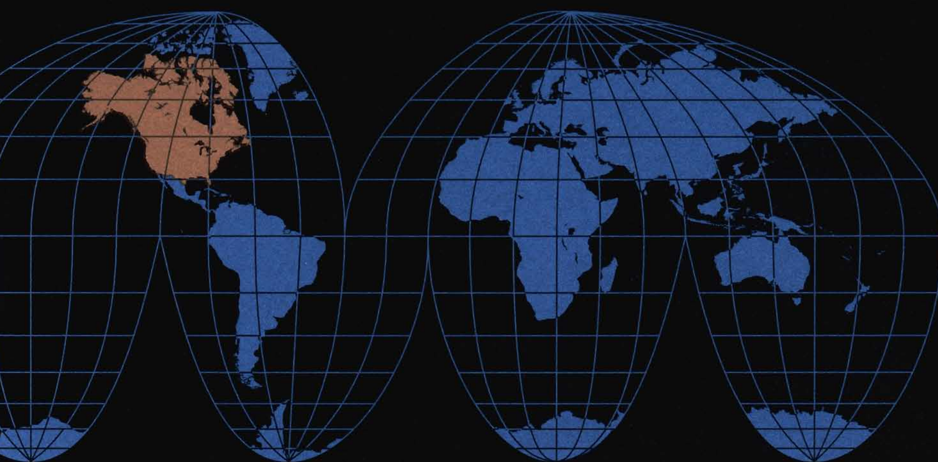
We continue to pursue niche opportunities to build new pipelines in areas not currently served by natural gas, and acquisitions of natural gas transmission systems in the midwestern United States where demand is growing. These activities are not expected to generate significant revenues or expenses in 1997.

In July 1996, Portland Natural Gas Transmission System (Portland Project) received a Preliminary Determination regarding non-environmental aspects from the FERC. Final FERC approval is contingent on completion of an Environmental Impact Statement. The FERC has approved Portland's request for a rate of return on equity of 14 per cent and a 25 per cent common equity ratio. If built, the planned in-service date of Portland is November 1998.

Energy Marketing

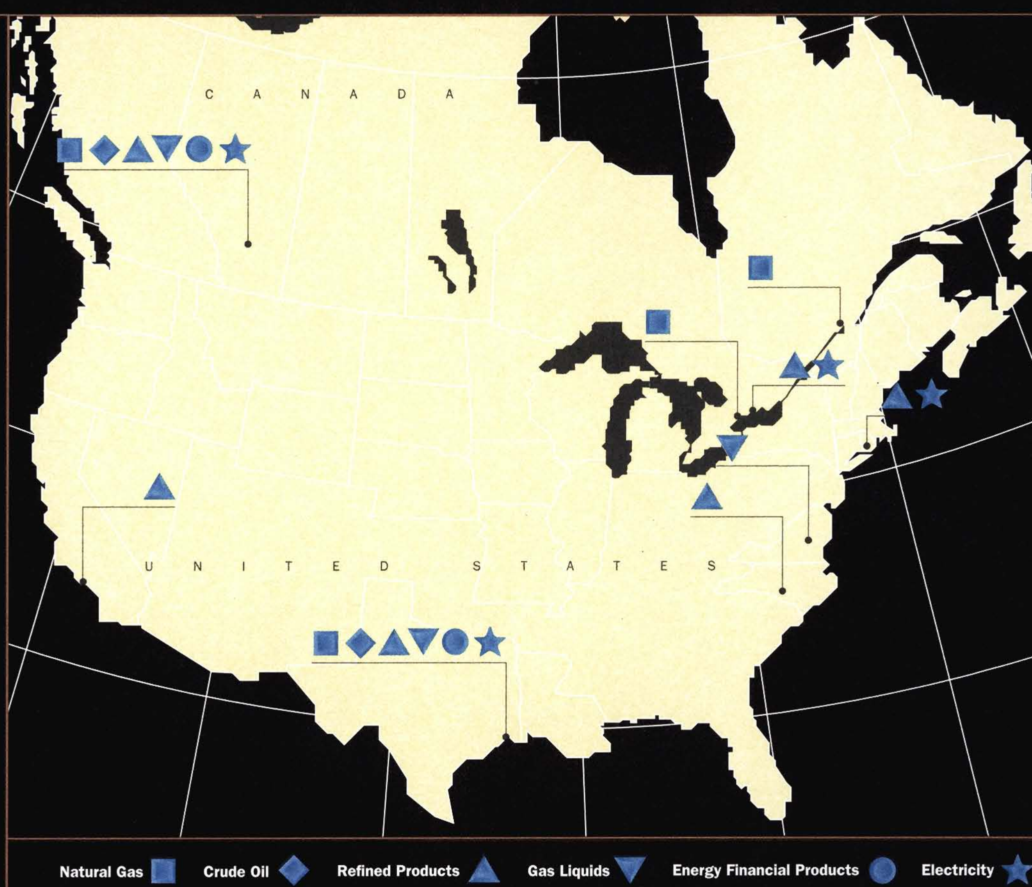
TransCanada markets numerous energy commodities: natural gas and natural gas liquids, crude oil and petroleum products, and electricity. **Energy Marketing ended the year with a 171 per cent increase in net earnings over 1995.** By providing diverse energy products and services to our customers, we believe we offer a competitive advantage over single commodity marketers. We want our customers to rely on us to deliver the energy they need, when and where they need it.

Energy Marketing-at-a-glance



Net earnings from this segment were $27.9 million in 1996 compared to $10.3 million and $11.8 million in 1995 and 1994, respectively. The 1996 net earnings includes provisions totalling $11.1 million related to the writedown of storage assets and the costs of relocating Calgary employees to a single facility.

TransCanada's gas and power marketing activities are headquartered in Calgary; petroleum products in Los Angeles; and crude and liquids in Calgary and Houston. Our satellite marketing offices work in tandem with the central locations.



	1996 Volumes Sold	Per Cent Increase over 1995
Natural Gas (Bcf)	1,613.5	25
Crude Oil (MMbbls)	71.1	17
Refined Products (MMbbls)	63.5	115
Natural Gas Liquids (MMbbls)	13.1	157
Power (GWh)	2,178.0	–

Energy Marketing

Natural Gas	Petroleum and Products	Power
TransCanada markets natural gas in Canada, the U.S. midwest, northeast, and Pacific northwest. We currently sell almost 5 Bcf per day of natural gas and in 1996, we sold 1.6 Tcf of natural gas.	In 1996, TransCanada sold 71.1 million barrels of crude oil, 63.5 million barrels of refined product, and 13.1 million barrels of natural gas liquids throughout North America.	In 1996, TransCanada sold 2,178 gigawatt hours of electricity in North America.

Significant factors contributing to the $17.6 million increase in net earnings from the Energy Marketing segment in 1996 compared to 1995, include higher volumes and prices for natural gas, capturing marketing opportunities arising from the high volatility in gas prices and strong refined products margins.

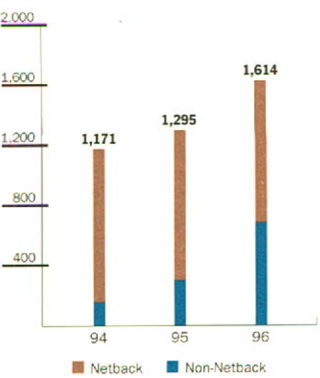
Natural Gas

TransCanada is the largest marketer of Canadian natural gas. Integrated and geographically diverse, the natural gas marketing business extends from Alberta throughout Canada and across the northern tier of the United States. TransCanada offers customers a wide selection of supply, marketing, storage and transportation.

In 1996, volumes and revenues increased, reflecting our expansion into new geographical areas through the acquisition and integration of Cibola Energy Services Corporation (Cibola), a company located in the U.S. midwest, and CanStates Gas Marketing (CanStates), which was acquired as part of the Alberta Natural Gas Company Ltd (ANG) acquisition and which serves markets in the U.S. northeast. The high volatility in energy prices during the year, resulting from the cold weather experienced during the first and fourth quarters of 1996, also contributed to the increase.

TransCanada generates more than 55 per cent of its natural gas marketing revenues from sales of natural gas under a netback agreement with Alberta producers and marketers. The netback agreement provides for the purchase of natural gas in Alberta and its subsequent sale in Canada and the United States. TransCanada earns a marketing fee on the sale of natural gas under the netback agreement. The marketing fee is based on both volumes sold and prices obtained. TransCanada also enters into contracts for the direct purchase and sale of natural gas where the principal risks are the price and performance risks associated with those contracts. TransCanada manages these risks by matching physical positions to the extent possible and through the use of financial instruments. These are described in the section on Risk Management on page 43 and in Note 12 to the consolidated financial statements.

Natural Gas Marketing Volumes Sold
(Bcf)



Natural Gas Outlook

Our strategy is to expand our market presence in the northeastern and southern United States, while maintaining our position in Canada and the northern tier of the United States. The first steps in achieving this strategy were accomplished in 1996 with the acquisition of CanStates and Cibola. In 1997, our objective is to continue to build upon relationships with our customers to provide more of the diverse energy products and services they want. Unwilling to pay a significant market premium for larger energy marketing companies, we will continue to seek out smaller niche marketing companies for acquisition to accomplish our strategy.

Energy marketing revenues are dependent upon a number of factors including weather, pipeline operations, pipeline tariff structures and supply and demand. The natural gas industry is changing rapidly and becoming highly competitive. We are resolved to strengthen our competitive advantage as a low-cost service provider and position TransCanada to profit from opportunities that may arise as natural gas converges with other energy commodities.

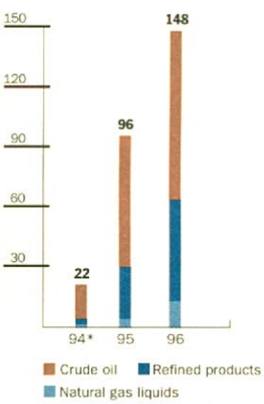
Petroleum and Products

The petroleum and products business experienced higher sales volumes, revenues and margins in 1996, primarily in the refined products business. Volumes of crude oil, refined products and natural gas liquids are purchased and sold primarily under short-term contracts with producers, customers and marketers in Canada and the United States.

TransCanada gathers, aggregates and markets crude oil on behalf of independent, small to medium size producers in western Canada, Texas and Louisiana. We provide transportation services to producers and a full range of crude oil services to refiners in North America. By contracting for transportation capacity on Express, our crude oil marketing business will have greater transportation capacity to move product from the WCSB to markets in the U.S. midwest. TransCanada marketed 71.1 million barrels of crude oil in 1996, an increase of 10.1 million barrels compared to 1995.

TransCanada processes crude oil with refiners, buys products on a spot or term basis and sells to independent wholesalers, retailers and industrial customers in Canada and the United States. Our product line includes all grades of gasolines and distillates. With the ability to provide innovative pricing alternatives, last year TransCanada sold 63.5 million barrels of refined products, compared to 29.5 million barrels in 1995.

Petroleum and Products Marketing Volumes Sold
(millions of barrels)



*Two month period from date of acquisition of the Northridge group of companies.

Energy marketers Lisa McMahon and Kevin O'Hearn sell electricity

We also market natural gas liquids and liquefied petroleum gases in the United States and Canada. During 1996, we increased revenues in natural gas liquids by continuing to provide producers with services not readily available from other marketers, including marketing, transportation and storage and gas processing. Our five gathering and processing facilities in Alberta enhance our flexibility and netbacks to producers. In 1996, TransCanada sold 13.1 million barrels of natural gas liquids, an increase of 157 per cent compared to 1995.

Power

TransCanada plays a significant role as a fuel supplier and transporter in power generation and marketing. Working in cooperation with the Canadian Mainline, Express and other TransCanada businesses, and developing marketing opportunities, we are preparing for electricity deregulation and the convergence of electricity with other energy commodities such as natural gas. During 1996, a total of 2,178 gigawatt hours of electricity were marketed.

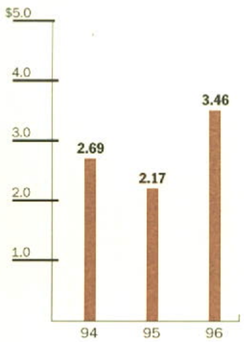
Power Outlook

Power marketing is still in its infancy at TransCanada and, although we have made progress in becoming a market presence, this business is not expected to generate a significant contribution to net earnings in 1997.

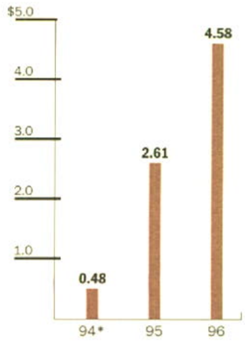
Energy Marketing Outlook

The ability of the non-netback marketing businesses to repeat their financial performance of 1996 will depend in part on the volatility in energy prices and on our ability to capture opportunities created by the volatility.

Natural Gas Marketing Revenues
(billions of dollars)



Petroleum and Products Marketing Revenues
(billions of dollars)



*Two month period from date of acquisition of the Northridge group of companies.

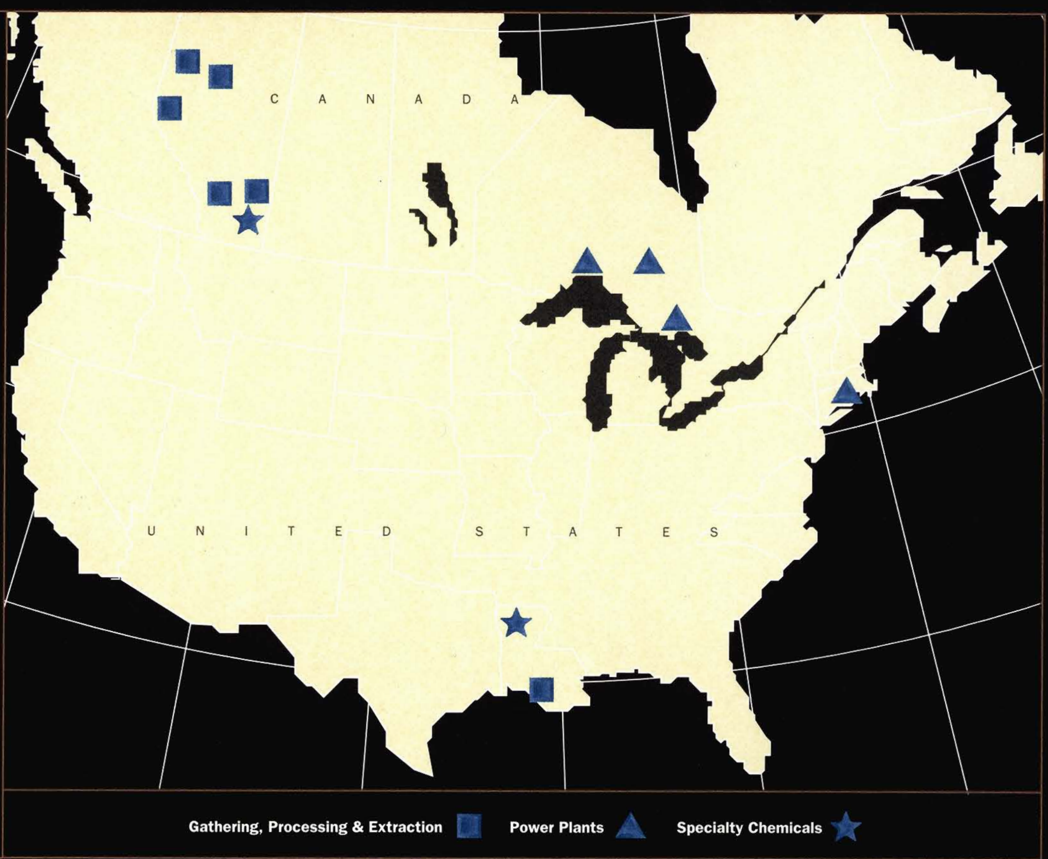
Energy Processing

We are one of the largest natural gas liquids producers in North America; we own two specialty chemical operations; and we own and operate independent power plants and gas processing plants. With these energy processing assets, TransCanada has moved beyond its traditional roots. We are doing this because **we are unwilling to watch others profit from the opportunities we create with our energy marketing businesses; we are capturing those opportunities for our shareholders.**

Energy Processing-at-a-glance

The Energy Processing segment provided net earnings of $41.6 million in 1996, compared to $32.1 million in 1995 and $20.0 million in 1994.

Using natural gas and other fuels as a feedstock, our energy processing assets produce natural gas liquids, electricity and specialty chemicals that are marketed by TransCanada.



Energy Processing

Gas Gathering & Processing	Power Generation		Specialty Chemicals
TransCanada owns five gathering and processing plants in Alberta, a natural gas liquids extraction plant located at Cochrane, Alberta, and holds a 50 per cent interest in the Empress II natural gas liquids extraction plant on the Alberta-Saskatchewan border.	TransCanada owns and operates three power generating plants in Ontario – a 38-megawatt power plant at Nipigon, and 40-megawatt power plants in North Bay and Kapuskasing.	TransCanada also owns a 40 per cent interest in and operates the Ocean State power generation plant, a 500-megawatt facility located in Rhode Island.	Cancarb is the world's leading manufacturer of thermal carbon black. ANGUS is one of the world's leading manufacturers and marketers of specialty chemical products derived from nitroparaffins.

Higher net earnings and revenues in 1996 from our Energy Processing segment reflect the acquisition of the remaining shares of ANG in March 1996. Higher margins in the extraction business and the acquisition of gas gathering and processing facilities also contributed to the increase.

Gas Gathering & Processing

Through the ownership of the Cochrane extraction plant and our interest in the Empress II extraction plant, TransCanada is a significant natural gas liquids processor, producing in excess of 100,000 barrels per day. TransCanada acquired $51.7 million of field gathering and processing facilities in western Canada during 1996, which contributed to the net increase in earnings from this segment.

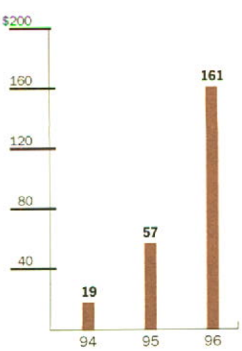
With the February 1997 acquisition of Enron Louisiana Energy Company (ELEC), formerly a wholly-owned subsidiary of Enron Corp., TransCanada is one of the leading natural gas liquids processors in North America. The US$150 million purchase of ELEC encompasses ELEC's interests in the Louisiana-based Eunice, Sabine Pass, Cow Island and Blue Water gas processing plants with capacity of 2.1 Bcf of gas per day; the Riverside fractionation plants with capacity of 53,000 barrels per day; the Cajun and Sibon connecting pipelines; and more than two million barrels of gas liquids storage. It also includes Enron Gas Liquids, Inc.'s wholesale propane marketing business with assets in Virginia and propane marketing contracts in the United States and Canada.

Gas Gathering & Processing Outlook

The ELEC acquisition will contribute to TransCanada's expertise in liquids asset management, gas processing, marketing and trading, and should position us well for the future in these businesses.

With the significant expansion proposed for the Canadian Mainline, we are considering the construction of another extraction plant, as well as other gas gathering and processing facilities in Alberta. In addition, the existing contract arrangements at the Cochrane extraction plant will begin to expire in 1998 which could present an opportunity to expand the facility.

Energy Processing Capital Expenditures
(millions of dollars)



Specialty Chemicals

Cancarb Limited (Cancarb), a manufacturer of carbon black, and ANGUS Chemical Company (ANGUS), our specialty chemicals business acquired as part of the ANG acquisition, use hydrocarbons as feedstock in their production operations. The expertise that has been developed in our energy marketing business will be used to manage the cost of the feedstock prices in 1997 and the contribution from these businesses is expected to increase in 1997.

ANGUS is one of the world's leading manufacturers and marketers of specialty chemical products derived from nitroparaffins. ANGUS has introduced new products such as Serinol, an x-ray contrast media raw material, from which it expects significant growth.

Specialty Chemicals Outlook

ANGUS is planning significant growth through international market expansion, development of new products and the acquisition of strategic product lines and small specialty businesses. ANGUS' strong customer focus and global network of direct sales and technical service professionals and distributors should assist this effort.

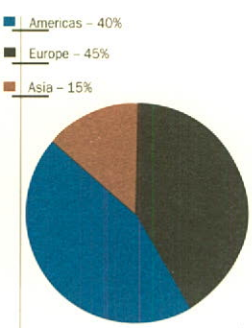
Power Generation

In the 1980s, when North American power utilities were faced with a shortage of power generation capacity, TransCanada moved into the power business. TransCanada co-developed and holds a 40 per cent interest in the 500-megawatt Ocean State power generation plant in Rhode Island, the first independent power generation plant in North America. Effective October 1, 1996 TransCanada assumed responsibility for managing Ocean State.

Power Generation Outlook

With the recent developments in the power industry in North America, including deregulation, TransCanada sees the best potential for investment in electricity supply in the development and operation of micro-generation facilities for niche markets. Rated at 38 megawatts, our power plant at Nipigon, Ontario is a natural gas fueled, combined cycle plant which captures waste heat from the adjacent compressor station on the Canadian Mainline. During 1996, TransCanada completed construction on two plants at North Bay and Kapuskasing, Ontario. Rated at 40 megawatts each, these plants commenced service in November 1996 and will contribute a full year's earnings in 1997.

1996 Worldwide Sales of Thermax™*



*Thermax™, a medium thermal carbon black product, is sold by Cancarb.

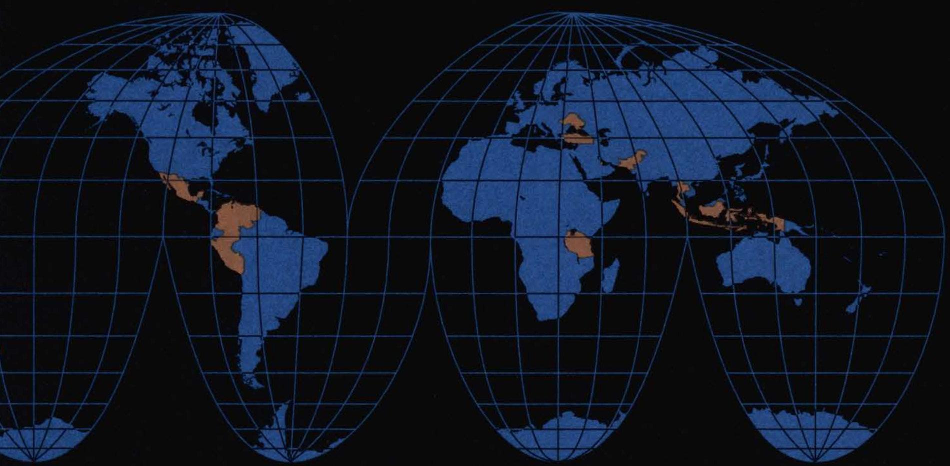
Shawn Brennan checks fluid levels at TransCanada's natural gas liquids extraction plant in Cochrane, Alberta.

Kim Ewasechko, Linda Lee, Liliana Nyggard, Jim Wong and Wilf Lambo discuss a power project opportunity in Southeast Asia.

International

Three realities push us into the international arena: in many parts of the developing world, economic and energy growth consistently tops North American rates; there is potential for greater rates of return in an unregulated environment; and energy supply and infrastructure is often underdeveloped. **International's goal is to contribute $100 million to TransCanada's net earnings by the end of the century.**

International-at-a-glance



The results for 1996 improved by $7.9 million compared to 1995, resulting in a net loss of $5.2 million. The improvement was due to lower project development costs and higher equity income of $9.0 million from the Cusiana oil pipeline in Colombia. Equity income from this investment was first recognized in the fourth quarter of 1995.

In 1996, our International activities continued to focus on three core regions – Latin America, the Middle East, and Southeast Asia. Significant progress was made on projects in Colombia, Tanzania and Indonesia.

International

OCENSA – Colombia – 17.5% Interest	TransGas – Colombia – 34% Interest	CentrOriente – Colombia – 40% Interest
The US$2 billion Cusiana oil pipeline transports crude oil from fields in the interior of Colombia to the Port of Coveñas on the Caribbean coast.	The US$320 million natural gas pipeline from Mariquita to Cali is part of Colombia's national gasification plan.	In 1996, TransCanada and its partners were awarded a project to operate and maintain the CentrOriente natural gas pipeline system, operate a national gas dispatch centre and provide technical and consulting services to ECOGAS.

In much of the world, industrialization and population growth have boosted the demand for reliable sources of affordable energy. With our experience in energy transmission, marketing and processing, TransCanada is positioned to meet the needs of international customers.

We are marketing 40 years of history in the energy business. In-house, we can tap the services of product specialists in natural gas, crude oil and refined products, and natural gas liquids and experts in pipeline design and operation, and we can incorporate advanced, efficient and environmentally sound technologies into our project proposals.

Our approach to the development of our international business has changed for 1997. We are starting an energy marketing business outside of North America and believe that this will increase our profile in the international arena and could lead to opportunities for major projects. We have opened offices in Singapore and Indonesia to add to our growing presence in Southeast Asia, and to help us develop an international marketing business in the region. For the same reasons, we will expand our presence in Latin America, adding offices in Barbados and Caracas, Venezuela.

We also will provide marketing and consulting and contract services to assist with the development of energy transmission in industrializing countries. Provision of these services has led to our participation in the CentrOriente project in Colombia.

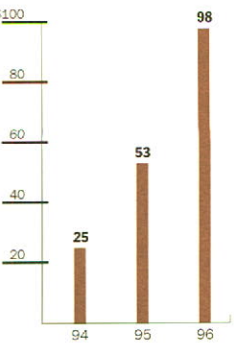
Colombia

OCENSA

Construction of the new 800-kilometre (500-mile) crude oil pipeline from the Cusiana and Cupiagua oil fields to the Port of Coveñas continued during 1996 and is scheduled to be complete in late 1997. During 1996, Oleoducto Central S.A. (OCENSA) became the managing operator of the existing Oleoducto de Colombia which is currently delivering crude oil to Coveñas. In 1997, we expect to earn about $17 million from our investment in OCENSA, and to spend a further $29 million in capital.

In January 1997, OCENSA's tanker loading facility began operating, and on-shore tanks in Coveñas are expected to be fully operational in early May.

International Capital Expenditures
(millions of dollars)



TransGas

TransCanada has a 34 per cent interest in TransGas de Occidente S.A. (TransGas), which is constructing a natural gas pipeline from Mariquita to Cali. The pipeline, expected to be in service in April 1997, consists of a 344-kilometre (213-mile), 20-inch pipeline system and 400 kilometres (248 miles) of laterals. No further capital investment is anticipated and earnings for 1997 are expected to be approximately $1.2 million.

Paiton Power Generation Plants – Indonesia – 10% Interest

In 1996, TransCanada purchased an indirect interest in the US$2.5 billion Paiton project to build and operate two 615-megawatt coal-fired power plants in Indonesia.

CentrOriente

In August, a consortium in which TransCanada has a 40 per cent interest, was awarded two new contracts that set the stage for a more significant role in Colombia's national gasification program. The consortium will operate the CentrOriente pipeline system in central Colombia and will develop and operate a national gas dispatch centre for the administration, gas management, volume planning and coordination of the gas infrastructure throughout Colombia. TransCanada's contribution to the project will be to operate the dispatch centre and to provide consulting services to ECOGAS, Colombia's national natural gas company, assisting with the development of the natural gas industry in the country.

The experience gained from the participation in CentrOriente is expected to facilitate the identification and development of other opportunities in the country. Through the operation of CentrOriente and building on our North American experience, we are working to develop an international reputation as a highly capable pipeline facility operator and leader in the development of energy infrastructure and management activities.

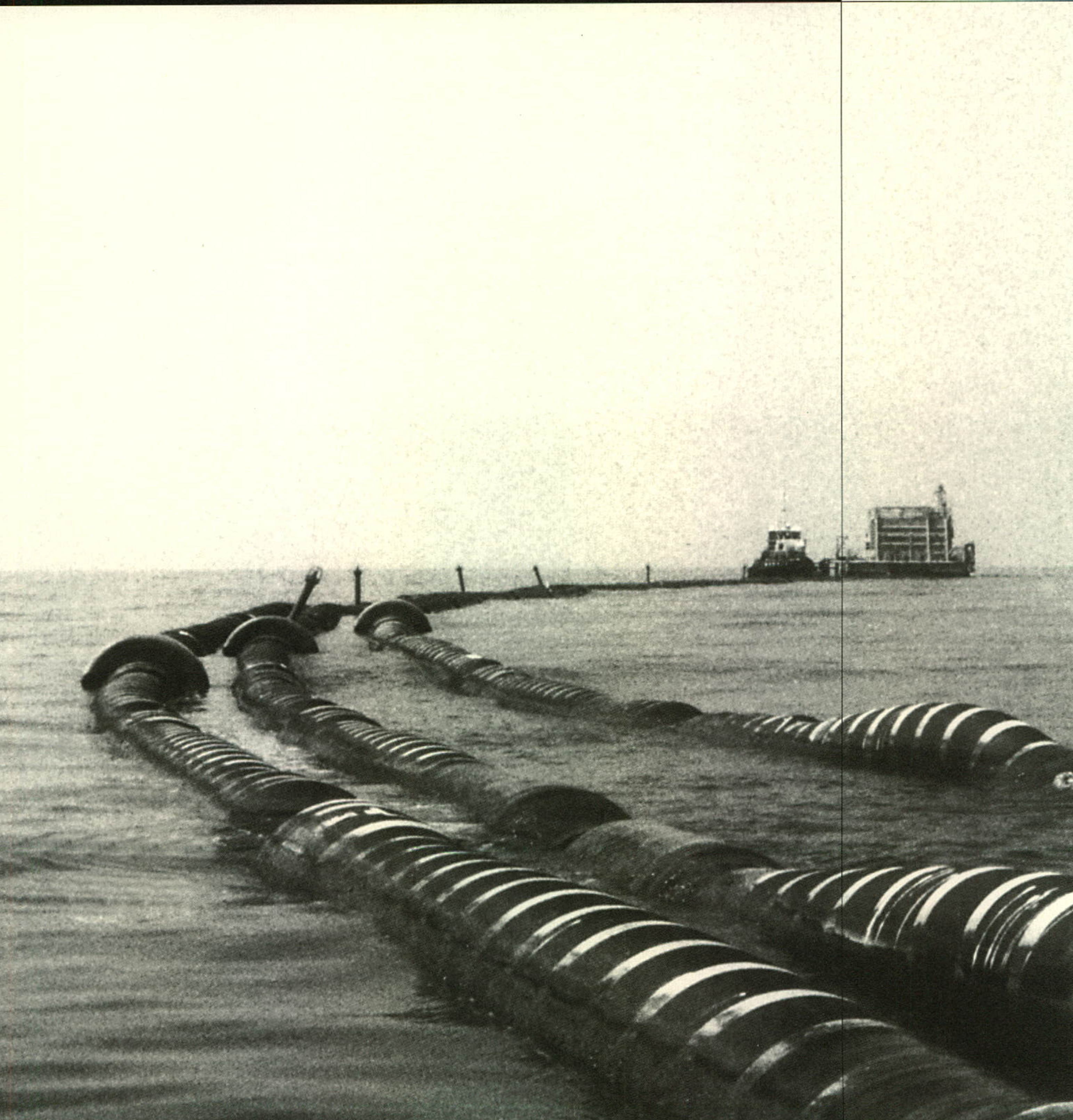
Indonesia

In December 1996, we purchased a 10 per cent indirect interest in the Paiton power project to build and operate two 615-megawatt coal-fired power plants. The scheduled completion date for the project is May 1999. This project will not provide a contribution to earnings in 1997 as it will be under construction. Capital expenditures for 1997 and 1998 are anticipated to be $35.8 million and $98.4 million, respectively.

Tanzania

In 1996, TransCanada continued preparation of documentation relating to participation in the US$320 million Songo Songo gas-to-electricity project. In June 1996, the government of Tanzania established an escrow account that will serve as security for investment in the project. Work is continuing on servicing and rehabilitating the three marine gas wells near Songo Songo Island. The financing arrangements for the project are expected to be complete in mid-1997, with all phases of the project expected to be in commercial operation in 1999. In the meantime, the emergency power plant, the construction of which was managed by TransCanada, continues to operate using jet fuel.

Tanker loading at Port of Coveñas, Colombia (OCENSA).



Other International Opportunities

Mexico

We believe that fundamental changes are creating investment opportunities in Mexico, a country with substantial hydrocarbon reserves and which is becoming more integrated with energy markets in the United States and Canada. To facilitate the development of natural gas reserves, PEMEX (Mexico's national energy company) has been directed to widen private sector access to its natural gas pipeline system and distribution facilities. As well, energy marketing is an emerging, unregulated business that is open to private industry. During 1996, Mexico's regulatory commission finalized the operating structure for future private natural gas transportation and distribution projects and issued the first gas distribution permit based on these new regulations.

Thailand

In January 1997, TransCanada signed a memorandum of understanding to study the feasibility of constructing the Thailand Northern and Northeastern Products Pipeline — an estimated US$700 million pipeline for the transportation of petroleum products. To determine the commercial viability of building this 1,000-kilometre (620-mile) pipeline, the joint study by TransCanada and the Petroleum Authority of Thailand will involve an assessment of the markets, costs and economics of the project. Once the study has been completed, both parties may pursue the commercial agreements necessary to allow the project to proceed to the next stage.

Venezuela

With the largest conventional hydrocarbon resource basin in Latin America, Venezuela should provide numerous energy marketing and investment opportunities.

In order to achieve the national energy corporation's aggressive plans for growth, Venezuela is opening its oil and gas sector to foreign investment and development which makes TransCanada's newly opened Caracas office a focal point for our International team.

Corporate

We are resolved to protect and add shareholder value while conducting our affairs as good corporate citizens, with integrity, **respectful of the environment and the communities in which we operate, and conscientious about the safety of our employees and the public.** We will employ and develop creative and innovative men and women who are encouraged to realize their full potential.

Corporate

Action Plan Update

TransCanada's 1996 Action Plan Update for the Voluntary Climate Change Challenge was ranked one of the top three reports filed in Canada by the Pembina Institute for Appropriate Development. Filed with the federal Minister of Natural Resources in October, the report details our corporate commitment to the voluntary initiative, quantifies the measures we have taken to reduce emissions since 1990, and outlines the steps TransCanada will take to continue to reduce emissions in the future.

CEPA Award

In 1996, TransCanada received a first place award in the Canadian Energy Pipeline Association's annual environmental awards program, given to a member company achieving exceptional success in reducing emissions in the operation of a pipeline system. The award recognizes the success of our comprehensive air management program, specifically for utilization of transfer compression to conserve gas during routine maintenance and scheduled outages.

Environment

A company's environmental awareness and responsiveness is an important factor affecting investment, operational performance and public acceptance. TransCanada's standards meet current government standards and, where there is a demonstrated benefit, considering the economic and technical viability, we strive to exceed those standards. TransCanada has developed performance measures that demonstrate compliance with our corporate environmental policy. We believe that TransCanada's documented corporate commitment to the environment enhances our operational efficiency and cost effectiveness, improves customer relations and helps to preserve and build shareholder value.

A recent example of our commitment to the environment is our establishment of operating procedures to capture natural gas that would otherwise be released into the atmosphere during maintenance and construction activities. In 1996, TransCanada's development and use of portable transfer compressors conserved approximately 50 per cent of the gas that would have been vented to the atmosphere at these locations.

Liquidity and Capital Resources

Cash Generated From Operations

Year ended December 31 (millions of dollars)	**1996**	1995	1994
As reported (proportionate consolidation method)	**768.6**	703.0	585.1
Equity method	**644.3**	618.3	459.2

Cash generated from operations using the proportionate consolidation method for our investments in joint venture operations has been presented together with amounts reported using the equity method of accounting. Management believes that the equity method amounts are more meaningful because they represent the cash flow from operations over which TransCanada has direct control.

Development Award

In May 1996, TransCanada and Ocelot Energy Inc. received an award from the International Development Canadian Exporters' Association and the Canadian International Development Agency for jointly spearheading the Songo Songo gas-to-electricity project. The award recognizes the achievements of Canadian private sector companies which have made significant contributions to the economic and social progress of developing countries.

Cash generated from operations, which increased nine per cent in 1996 compared to 1995, continued to be TransCanada's primary source of liquidity. The improvement in 1996 over 1995 is attributable to stronger contributions from all segments, partially offset by a significant cash outflow from operating working capital.

An increase of $117.9 million in cash generated from operations in 1995 compared to 1994 is attributable to a stronger contribution from the Canadian Mainline and increased cash flow from operating working capital.

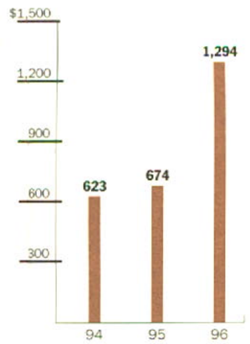
Investing Activities

Capital expenditures increased $620.5 million to $1,294.2 million in 1996 compared to 1995. TransCanada's most significant investment activity historically has been expansion of the Canadian Mainline. The 1996 increase comprises the construction of Express and the North Bay and Kapuskasing power plants in Ontario, as well as increased capital spending in the Canadian Mainline and International activities.

Capital expenditures in 1995 were $50.7 million more than 1994, a function of increased investment activities in the Energy Processing and International segments. Major contributing factors to the 1995 increase include the North Bay and Kapuskasing power plants which were under construction and the two pipeline projects in Colombia.

During 1996, TransCanada completed the acquisition of the remaining shares of ANG and the purchase of Cibola, at a cost of $358.1 million.

Capital Expenditures
(millions of dollars)



Financing Activities

TransCanada has declared an increase of two cents per share in the quarterly dividend on common shares in the fourth quarter of each of the last five years. In 1996, this increase raised the quarterly dividend to 29 cents per share. The 1995 and 1994 fourth-quarter increases brought quarterly dividends per common share to 27 and 25 cents, respectively.

In 1996, TransCanada generated cash of $1,463.7 million through the issuance of medium-term notes, junior subordinated debentures, preferred securities, preferred shares and common equity compared to $626.9 million in 1995. This cash, combined with cash generated from operations, was used to finance capital expenditures and investments, retire debt and pay dividends on preferred and common shares.

TransCanada's proportionate share of non-recourse debt of joint ventures decreased $51.2 million in 1996, reflecting repayments of non-recourse debt of joint ventures offset partially by non-recourse debt issued during the year. Non-recourse joint venture debt increased $31.5 million and decreased $40.6 million in 1995 and 1994, respectively.

Credit Activities

Lines of credit of $600.0 million were available to support TransCanada's commercial paper program at December 31, 1996. On January 22, 1997, TransCanada replaced this with $1.5 billion revolving credit facilities, syndicated among a number of Canadian and international banks.

At December 31, 1996, $689.5 million and US$280.0 million of medium-term notes could be issued under our medium-term note programs in Canada and the United States, respectively.

Risk Management

TransCanada uses various financial instruments to manage its exposures to changes in U.S. dollar exchange rates, interest rates on short-term and long-term debt and prices of energy commodities. Financial instruments are used to hedge these exposures by creating offsetting positions and therefore reducing price or cash flow risk. TransCanada also uses instruments to create floating rate liabilities. TransCanada does not use leveraged derivatives to manage risk. Financial and energy price risk management activities are subject to controls which are designed to limit or reduce the risk of a significant loss.

Financial Risk Management

TransCanada's financial exposures are managed by entering into various financial instruments such as forward contracts and interest and currency swaps. Its main balance sheet foreign exchange exposure is related to the U.S. dollar net assets. TransCanada and its tollpayers are also exposed to currency changes in some of its regulated debt and transportation payments. Certain of the energy marketing U.S. dollar transaction exposures are also managed. TransCanada also uses financial instruments to manage interest rate exposures associated with its various funding programs, the U.S. dollar net assets and its regulated and non-regulated long-term debt portfolios. TransCanada has a well defined set of policies and controls to manage this activity. Senior management meet regularly to review the current positions and report quarterly to the Audit committee of TransCanada's board of directors.

Energy Price Risk Management

In the energy marketing operations, net positions are used to determine TransCanada's strategy in managing exposures. TransCanada manages the physical flows of energy commodities and prices by entering into contracts which offset commodity purchases and commodity sales and establish the prices of both. To the extent that prices of the physical flows cannot be matched, futures contracts, swaps and put options are used to reduce price risk. Price risk results from the different indices used for determining purchase and sale prices, different delivery points used, or from a mix of fixed and variable prices.

In 1996, we expanded our formal risk management program covering all energy commodities. Value at risk is measured and senior management reviews exposures on a regular basis. Credit and exposure limits are pre-determined and reviewed. We will continue to monitor our risk management programs and adjust them as business or market circumstances change.

Report of Management

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

Management has prepared Management's Discussion & Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with Canadian generally accepted accounting principles. It compares the Company's financial performance in 1996 to 1995 and should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1995 and 1994 are highlighted. Note 19 to the consolidated financial statements describes significant differences between Canadian and United States generally accepted accounting principles.

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

The Board of Directors has appointed an Audit Committee consisting of unrelated, non-management directors to meet periodically during the year with Management and the internal and external auditors, independently and as a group. The Audit Committee reviews the consolidated financial statements with Management and the independent external auditors before they are submitted to the Board of Directors for final approval. The internal and external auditors have free access to the Audit Committee without obtaining prior Management approval.

The independent external auditors, KPMG, have been appointed by the shareholders to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Company's financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles. The report of KPMG on page 48 outlines the scope of their examination and their opinion on the consolidated financial statements.

George W. Watson
President and
Chief Executive Officer

Ray T. Smith
Vice-President
and Controller

January 23, 1997

Consolidated Income

Year ended December 31 (millions of dollars except per share amounts)	1996	1995	1994
Revenues	**10,790.6**	7,005.6	5,218.5
Cost of Sales	**8,054.2**	4,775.3	3,180.3
Other Costs and Expenses	**1,068.4**	798.3	709.0
Depreciation	**380.8**	320.3	306.4
	9,503.4	5,893.9	4,195.7
Operating Income	**1,287.2**	1,111.7	1,022.8
Other Expense/(Income)			
Financial charges *(Note 6)*	**553.1**	508.8	474.3
Financial charges of joint ventures *(Note 7)*	**91.2**	89.3	92.9
Allowance for funds used during construction	**(18.6)**	(12.1)	(12.5)
Interest and other income	**(18.0)**	(14.7)	(6.0)
	607.7	571.3	548.7
Income before Income Taxes	**679.5**	540.4	474.1
Income Taxes *(Note 13)*	**254.5**	142.9	115.5
Net Income	**425.0**	397.5	358.6
Preferred Securities Charges *(Note 9)*	**1.9**	–	–
Preferred Share Dividends	**37.9**	47.4	46.6
Net Income Applicable to Common Shares	**385.2**	350.1	312.0
Net Income Per Share *(Note 11)*	**$1.85**	$1.75	$1.60

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

Consolidated Changes in Financial Position

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Cash Generated From Operations			
Net income	**425.0**	397.5	358.6
Depreciation	**380.8**	320.3	306.4
Deferred income taxes	**24.1**	(22.9)	(13.7)
Allowance for equity funds used during construction	**(8.9)**	(5.4)	(5.4)
Other	**10.0**	(4.8)	1.4
Funds generated from operations	**831.0**	684.7	647.3
(Increase)/decrease in operating working capital *(Note 17)*	**(62.4)**	18.3	(62.2)
	768.6	703.0	585.1
Investing Activities			
Capital expenditures	**(1,294.2)**	(673.7)	(623.0)
Acquisition of subsidiaries, net of cash acquired	**(358.1)**	–	–
Deferred amounts and other	**69.3**	18.8	(11.7)
	(1,583.0)	(654.9)	(634.7)
Financing Activities			
Dividends and preferred securities charges	**(267.2)**	(248.4)	(229.1)
Notes payable issued/(repaid), net	**59.2**	(114.5)	92.3
Long-term debt issued	**887.5**	441.1	248.3
Reduction of long-term debt	**(358.0)**	(187.9)	(108.6)
Non-recourse debt of joint ventures issued	**5.1**	151.4	75.0
Reduction of non-recourse debt of joint ventures	**(56.3)**	(119.9)	(115.6)
Settlement of convertible debentures	**(150.0)**	–	–
Junior subordinated debentures issued	**217.5**	–	–
Preferred securities issued	**257.3**	–	–
Preferred shares issued	**–**	98.5	103.0
Preferred shares redeemed	**(150.0)**	(50.0)	(75.2)
Common shares issued	**313.5**	87.3	82.8
	758.6	57.6	72.9
(Decrease)/Increase in Cash and Short-Term Investments	**(55.8)**	105.7	23.3
Cash and Short-Term Investments			
– at beginning of year	**219.0**	113.3	90.0
Cash and Short-Term Investments			
– at end of year	**163.2**	219.0	113.3

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

Consolidated Financial Position

December 31 (millions of dollars)	1996	1995
ASSETS		
Current Assets		
Cash and short-term investments	**163.2**	219.0
Accounts receivable	**1,302.3**	677.0
Inventories	**222.0**	84.2
Other	**12.6**	13.0
	1,700.1	993.2
Long-Term Investments *(Note 5)*	**171.2**	240.9
Plant, Property and Equipment *(Notes 3, 6 and 7)*	**10,690.1**	9,041.1
Deferred Amounts *(Note 14)*	**54.0**	118.5
	12,615.4	10,393.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable *(Note 15)*	**226.5**	59.9
Accounts payable	**1,363.9**	736.9
Interest accrued	**167.7**	156.3
Long-term debt due within one year *(Note 6)*	**273.1**	358.7
Non-recourse debt of joint ventures due within one year *(Note 7)*	**51.1**	42.8
	2,082.3	1,354.6
Long-Term Debt *(Note 6)*	**5,148.2**	4,352.1
Non-Recourse Debt of Joint Ventures *(Note 7)*	**964.6**	973.1
Deferred Income Taxes	**203.5**	134.7
Convertible Debentures *(Note 8)*	**–**	150.0
Junior Subordinated Debentures *(Note 9)*	**223.2**	–
Shareholders' Equity		
Preferred securities *(Note 9)*	**261.1**	–
Preferred shares *(Note 10)*	**512.6**	662.6
Common shares *(Note 11)*	**1,544.5**	1,231.0
Contributed surplus	**263.1**	264.6
Retained earnings	**1,383.1**	1,234.4
Foreign exchange adjustment	**29.2**	36.6
	3,993.6	3,429.2
Contingencies *(Note 18)*		
	12,615.4	10,393.7

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

On behalf of the Board:

George W. Watson
Director

Harry G. Schaefer
Director

Consolidated Contributed Surplus and Retained Earnings

Year ended December 31 (millions of dollars except per share amounts)	**1996**	1995	1994
Contributed Surplus			
Balance at beginning of year	**264.6**	266.8	266.8
Preferred share issue expenses	**(1.5)**	(2.2)	–
Balance at end of year	**263.1**	264.6	266.8
Retained Earnings			
Balance at beginning of year	**1,234.4**	1,089.7	965.2
Net income	**425.0**	397.5	358.6
Preferred securities charges and issue expenses	**(6.9)**	–	–
Preferred share dividends	**(37.9)**	(47.4)	(46.6)
Equity preferred and common share dividends *(Note 11)*	**(231.5)**	(205.4)	(187.5)
Balance at end of year	**1,383.1**	1,234.4	1,089.7
Dividends declared per common share	**$1.10**	$1.02	$0.94

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

Auditors' Report

KPMG

To the Shareholders of TransCanada PipeLines Limited

We have audited the consolidated statements of financial position of TransCanada PipeLines Limited as at December 31, 1996 and December 31, 1995 and the consolidated statements of income, contributed surplus and retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and December 31, 1995 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, 1996 in accordance with Canadian generally accepted accounting principles.

KPMG

Chartered Accountants
Calgary, Canada
January 23, 1997

Notes to Consolidated Financial Statements

TransCanada PipeLines Limited (the Company or TransCanada) is one of North America's leading energy companies. It operates in four business segments.

Energy Transmission

This segment represents the majority of net income and includes the operations of the Canadian natural gas transmission system (the Canadian Mainline), the Company's investments in interconnected natural gas pipelines and the investment in the Express oil pipeline, which is currently under construction. The investigation, evaluation and development of new energy transmission facilities in North America is also included in this segment.

Energy Marketing

The Energy Marketing segment markets energy commodities, including natural gas, natural gas liquids, crude oil and its related products, and electricity and manages the Company's natural gas storage operations.

Energy Processing

This segment operates assets which process hydrocarbons into other forms of energy and products. The processing assets include: independent power generation plants; gas gathering, processing and extraction plants; and specialty chemicals and carbon black manufacturing facilities. This segment also investigates, evaluates and develops energy processing projects in North America.

International

The International segment is comprised of the Company's investments in international transmission operations and the investigation, evaluation and development of international energy-related business opportunities.

NOTE 1 Accounting Policies

The consolidated financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These accounting principles are different in some respects from United States generally accepted accounting principles (U.S. GAAP) and the significant differences are described in Note 19. Amounts are stated in Canadian dollars unless otherwise indicated.

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

Basis of Presentation

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

Regulation

The Company's Canadian natural gas transmission operations are subject to the authority of the National Energy Board (NEB) with respect to the determination of tolls, construction, operations and accounting for natural gas transmission. The United States interconnected pipelines and the Ocean State Power Plant are also subject to the authority of regulatory bodies. In order to achieve a proper matching of revenues and expenses, the timing of recognition of certain revenues and expenses in these businesses may differ from that otherwise expected under generally accepted accounting principles applicable to non-regulated businesses.

Cash and Short-Term Investments

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

Inventories

Inventories are carried at the lower of average cost or net realizable value other than certain specialty chemical inventories for which cost is determined using the last-in, first-out method.

Plant, Property and Equipment

Energy Transmission

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

Express Pipeline plant and equipment is recorded at cost and interest during construction is capitalized and included in the cost of the plant.

Energy Marketing and Processing

Plant and equipment are recorded at cost and are depreciated on the straight-line basis over estimated service lives at an average annual rate of approximately five per cent. Interest is capitalized on new plant under construction and included in the cost of the plant.

Foreign Currency Translation

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

Exchange gains and losses on the principal amounts of foreign currency debt related to the Canadian Mainline are included in income when they are recovered in tolls.

Income Taxes

The NEB has prescribed that the taxes payable method be used for income taxes related to the Canadian natural gas transmission operations for tollmaking purposes. Since there is reasonable expectation that future taxes payable will be included in future costs of service and recovered in revenues at such time, this method is used for accounting purposes. The deferral method of accounting for income taxes is used for other operations. Canadian taxes are not provided on the unremitted earnings of foreign investments which are considered to be indefinitely reinvested in foreign operations.

Financial Instruments

The Company utilizes financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates, interest rates and energy prices. Gains and losses relating to financial instruments that are hedges are deferred and recognized in the same period and in the same financial statement category as the corresponding hedged positions. Premiums paid or received with respect to financial instruments are deferred and amortized to income over the term of the hedge. The recognition of gains and losses on financial instruments used as hedges in the Canadian Mainline is determined through the regulatory process.

Project Development Costs

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

Post-Employment Benefits Other Than Pensions

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

Comparative Figures

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

NOTE 2 Segmented and Other Information

Year ended December 31 (millions of dollars)	**1996**	1995	1994
OPERATIONS			
Energy Transmission			
Revenues	**2,217.9**	2,017.1	1,866.0
Costs and expenses	**(761.3)**	(681.3)	(623.7)
Depreciation	**(324.8)**	(297.3)	(282.2)
Operating income	**1,131.8**	1,038.5	960.1
Financial charges and other	**(571.6)**	(540.8)	(521.9)
Income taxes	**(198.7)**	(144.0)	(117.3)
Preferred share dividends	**(37.9)**	(47.4)	(46.6)
Net income applicable to common shares	**323.6**	306.3	274.3
Energy Marketing			
Revenues	**8,070.1**	4,786.8	3,165.3
Cost of sales	**(7,899.4)**	(4,698.2)	(3,100.3)
Other costs and expenses *(1)*	**(110.1)**	(59.2)	(43.0)
Operating income	**60.6**	29.4	22.0
Financial charges and other	**(6.3)**	(6.3)	(2.8)
Income taxes	**(26.4)**	(12.8)	(7.4)
Net income applicable to common shares	**27.9**	10.3	11.8
Energy Processing			
Revenues	**493.6**	197.0	187.2
Cost of sales	**(154.8)**	(77.1)	(80.0)
Other costs and expenses	**(177.8)**	(37.4)	(34.0)
Depreciation	**(52.2)**	(19.8)	(20.6)
Operating income	**108.8**	62.7	52.6
Financial charges and other	**(33.5)**	(24.4)	(29.9)
Income taxes	**(33.7)**	(6.2)	(2.7)
Net income applicable to common shares	**41.6**	32.1	20.0
International			
Income from equity investments	**9.0**	4.7	–
Costs and expenses	**(23.0)**	(23.6)	(11.9)
Operating loss	**(14.0)**	(18.9)	(11.9)
Other income and expenses	**0.9**	–	–
Income taxes	**7.9**	5.8	2.3
Net loss applicable to common shares	**(5.2)**	(13.1)	(9.6)
Unallocated Amounts			
Financial charges and other	**0.9**	0.2	5.9
Income taxes	**(3.6)**	14.3	9.6
Net Income Applicable to Common Shares	**385.2**	350.1	312.0

(1) 1996 includes provisions totalling $20.2 million related to the writedown of storage assets and the costs of relocating Calgary employees to a single facility.

Year ended December 31 (millions of dollars)	**1996**	1995	1994
OPERATIONS, continued			
Revenues by Geographic Area			
Canada – domestic	**3,588.6**	2,916.2	2,508.3
Canada – export	**2,125.9**	1,986.1	1,857.2
United States & International	**5,076.1**	2,103.3	853.0
	10,790.6	7,005.6	5,218.5
Operating Income by Geographic Area			
Canada	**1,034.7**	922.6	838.0
United States & International	**252.5**	189.1	184.8
	1,287.2	1,111.7	1,022.8

The Company has consolidated Alberta Natural Gas Company Ltd (ANG) since March 1996 and the Northridge group of companies since October 1994. Had the Company consolidated Northridge and ANG at the beginning of 1994, revenues would have increased by $138.8 million, $647.7 million and $3,308.3 million for 1996, 1995 and 1994, respectively. The effect of these acquisitions on net income and net income per share is not material.

Year ended December 31 (millions of dollars)	**1996**	1995	1994
CAPITAL EXPENDITURES			
Energy Transmission	**1,041.0**	540.3	555.4
Allowance for equity funds used during construction	**(8.9)**	(5.4)	(5.4)
	1,032.1	534.9	550.0
Energy Marketing	**2.1**	7.5	27.6
Energy Processing	**161.0**	57.2	19.3
International	**97.9**	53.0	24.9
Corporate	**1.1**	21.1	1.2
	1,294.2	673.7	623.0

December 31 (millions of dollars)	1996	1995
ASSETS		
Energy Transmission		
Canada	**8,070.3**	7,372.2
United States	**1,802.4**	1,586.0
	9,872.7	8,958.2
Energy Marketing (primarily current assets)		
Canada	**610.5**	418.8
United States	**500.1**	178.7
	1,110.6	597.5
Energy Processing		
Canada	**775.8**	337.4
United States	**504.1**	206.0
	1,279.9	543.4
International	**181.1**	78.2
Corporate (primarily cash)	**171.1**	216.4
	12,615.4	10,393.7

Principal Customers

Approximately 10 per cent of the Company's revenues generated from the sale and transmission of natural gas are from three principal customers. None of the Company's other customers generate revenues in excess of two per cent of total revenues.

NOTE 3 Plant, Property and Equipment

December 31 (millions of dollars)	1996			1995
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Energy Transmission				
Canadian Mainline				
Pipeline	7,172.9	1,804.8	5,368.1	5,118.2
Compression	2,068.0	522.0	1,546.0	1,431.6
Metering and other	348.4	89.1	259.3	243.7
	9,589.3	2,415.9	7,173.4	6,793.5
Under construction	114.5	–	114.5	96.6
	9,703.8	2,415.9	7,287.9	6,890.1
Interconnected Pipelines				
Pipeline	2,051.6	657.2	1,394.4	1,346.7
Compression	533.4	136.7	396.7	284.0
Metering and other	204.0	43.5	160.5	96.1
	2,789.0	837.4	1,951.6	1,726.8
Under construction	16.9	–	16.9	19.9
	2,805.9	837.4	1,968.5	1,746.7
Express Pipeline, under construction	342.5	–	342.5	–
	12,852.2	3,253.3	9,598.9	8,636.8
Energy Marketing (primarily storage)	44.8	11.8	33.0	36.7
Energy Processing				
Power generation	428.1	76.8	351.3	288.5
Chemicals	333.8	37.2	296.6	10.0
Gas gathering and processing	437.2	62.3	374.9	35.4
	1,199.1	176.3	1,022.8	333.9
Corporate	46.7	11.3	35.4	33.7
	14,142.8	3,452.7	10,690.1	9,041.1

NOTE 4 Joint Venture Investments

(millions of dollars)		TransCanada's Proportionate Share				
		Income/(Loss) Before Income Tax			Net Assets	
		Year ended December 31			December 31	
	Ownership Interest	**1996**	1995	1994	**1996**	1995
Energy Transmission						
Interconnected Pipelines						
Great Lakes System	50%	**84.2**	64.5	71.9	**375.3**	370.3
Northern Border Pipeline	30%	**32.6**	30.7	31.8	**216.9**	225.7
Iroquois System	29%	**13.5**	9.9	12.4	**75.8**	71.5
Tuscarora Pipeline	50%	**3.8**	0.8	–	**22.8**	23.4
Foothills Pipe Lines (Sask.)	44%	**5.5**	5.9	5.2	**34.1**	31.3
Trans Québec & Maritimes Pipeline	50%	**10.9**	10.3	9.8	**46.3**	46.3
Foothills Pipe Lines (South B.C.)	49%	**3.2**	–	–	**21.4**	–
Express Pipeline	50%	**–**	–	–	**312.7**	–
Energy Marketing and Processing						
Ocean State Power Plant	40%	**17.6**	19.7	20.1	**96.9**	101.3
Other	25–50%	**(0.5)**	13.5	10.9	**54.4**	68.0
		170.8	155.3	162.1	**1,256.6**	937.8

Consolidated retained earnings at December 31, 1996, includes $302.4 million (1995 – $300.2 million) which represents undistributed earnings from joint ventures.

Summarized Financial Information of Joint Ventures

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Revenues	**552.2**	520.5	506.2
Costs and expenses	**(189.0)**	(191.4)	(167.2)
Depreciation	**(111.2)**	(91.4)	(89.6)
Joint venture financial charges and other	**(81.2)**	(82.4)	(87.3)
Proportionate share of income before corporate financing and income tax of joint ventures	**170.8**	155.3	162.1

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Cash flow from operations	**288.0**	233.7	225.4
Cash flow from investing activities	**(357.4)**	(119.5)	(108.0)
Cash flow from financing activities	**55.9**	(104.5)	(89.4)
Proportionate share of changes in cash and short-term investments of joint ventures	**(13.5)**	9.7	28.0

December 31 (millions of dollars)	1996	1995
Cash and short-term investments	**52.1**	65.6
Other current assets	**126.6**	106.0
Plant, property and equipment	**2,365.1**	1,989.5
Deferred amounts	**12.0**	11.9
Current liabilities	**(231.7)**	(151.8)
Long-term non-recourse debt	**(964.6)**	(973.1)
Deferred income taxes	**(102.9)**	(110.3)
Proportionate share of net assets of joint ventures	**1,256.6**	937.8

NOTE 5 Long-Term Investments

December 31 (millions of dollars)	Ownership Interest	1996	1995
Equity Investments			
TransGas de Occidente S.A.	34.0%	**31.2**	31.1
Oleoducto Central S.A.	17.5%	**103.5**	45.6
CentrOriente	40.0%	**2.1**	–
Alberta Natural Gas Company Ltd (ANG)	49.5%	**–**	164.2
		136.8	240.9
Cost Investment			
PT Paiton Energy Company	10.0%	**34.4**	–
		171.2	240.9

Consolidated retained earnings at December 31, 1996 includes $13.7 million (1995 – $23.1 million) which represents undistributed earnings from equity investments.

The Company acquired the remaining common shares of ANG in March 1996. TransCanada paid cash consideration of $314.2 million and issued 2.7 million common shares in exchange for the shares of ANG.

NOTE 6 Long-Term Debt

		1996		1995	
	Maturity Dates	Outstanding December 31 (1)	Weighted Average Interest Rate (2)	Outstanding December 31 (1)	Weighted Average Interest Rate (2)
CANADIAN MAINLINE					
First Mortgage Pipe Line Bonds					
In U.S. dollars					
(1996 – US$44.5; 1995 – US$193.9)	1997	**60.9**	**16.8%**	264.7	16.2%
In Pounds Sterling					
(1996 and 1995 – £25.0)	2007	**58.7**	**16.5%**	53.0	16.5%
Debentures					
In Canadian dollars	1998 to 2020	**1,655.0**	**10.9%**	1,779.7	10.9%
In U.S. dollars					
(1996 and 1995 – US$800.0)	2012 to 2023	**1,095.7**	**9.2%**	1,092.2	9.2%
Medium-Term Notes					
In Canadian dollars	1997 to 2031	**1,609.0**	**8.6%**	1,144.4	8.8%
		4,479.3		4,334.0	
Foreign exchange differential recoverable					
through the tollmaking process		**(147.9)**		(143.2)	
Total		**4,331.4**		4,190.8	
OTHER					
Medium-Term Notes					
In Canadian dollars	1998 to 2005	**352.0**	**8.7%**	247.0	9.5%
In U.S. dollars					
(1996 – US$220.0; 1995 – nil)	2001 to 2016	**301.3**	**7.2%**	–	–
Subordinated Debentures					
In U.S. dollars					
(1996 and 1995 – US$200.0)	2006	**273.9**	**9.1%**	273.0	9.1%
Notes, Debentures and Bonds of Subsidiary					
In Canadian dollars	2003	**110.0**	**8.4%**	–	–
In U.S. dollars					
(1996 – US$38.4; 1995 – nil)	1997 to 2010	**52.7**	**6.6%**	–	–
Total		**1,089.9**		520.0	
Total Long-Term Debt		**5,421.3**		4,710.8	
Less: Long-Term Debt Due Within One Year		**273.1**		358.7	
		5,148.2		4,352.1	

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

(2) Weighted average interest rates are stated as at the respective outstanding dates. The effective weighted average interest rate on the U.S. dollar denominated subordinated debentures, resulting from swap agreements, is 8.2 per cent at December 31, 1996 (1995 – 8.4 per cent).

First Mortgage Pipe Line Bonds

The Deed of Trust and Mortgage securing the Company's First Mortgage Pipe Line Bonds limits the specific and floating charges to those assets comprising the present and future Canadian Mainline and the Company's present and future gas transportation contracts. No further bonds will be issued under the Deed of Trust and Mortgage.

Notes, Debentures and Bonds of Subsidiary

The notes and debentures are unsecured. Bonds of US$13.4 million are secured by subsidiary assets.

Medium-Term Notes

The Company has established medium-term note programs in Canada and the United States. At December 31, 1996, the Company can issue medium-term notes of up to $689.5 million in Canada and US$280.0 million in the United States under these existing programs.

Mandatory Retirements

Mandatory retirements of all long-term debt of the Company approximate: 1997 – $273.1 million; 1998 – $282.1 million; 1999 – $205.2 million; 2000 – $286.2 million; and 2001 – $304.9 million.

Financial Charges

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Interest on long-term debt	**543.1**	503.1	474.2
Amortization of forward foreign exchange contract premiums	**(10.5)**	(10.5)	(3.4)
Interest on long-term debt, net	**532.6**	492.6	470.8
Regulatory deferrals and amortizations	**28.2**	6.7	(3.7)
Non-regulatory foreign exchange	**(5.0)**	0.5	(1.8)
Short-term interest and other financial charges	**9.7**	11.9	9.3
Interest capitalized	**(12.4)**	(2.9)	(0.3)
	20.5	16.2	3.5
	553.1	508.8	474.3

The Company made interest payments of $538.9 million, $512.3 million and $482.9 million for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 7 Non-Recourse Debt of Joint Ventures

	Maturity Dates	1996 Outstanding December 31 (1)	1996 Weighted Average Interest Rate (2)	1995 Outstanding December 31 (1)	1995 Weighted Average Interest Rate (2)
Great Lakes System					
Senior Unsecured Notes					
(1996 – US$235.4; 1995 – US$246.9)	1997 to 2021	**322.4**	**9.2%**	337.0	9.2%
Northern Border Pipeline					
Senior Secured Notes					
(1996 and 1995 – US$75.0)	2003	**102.7**	**8.4%**	102.4	8.4%
Bank Loan					
(1996 – US$38.3; 1995 – US$48.0)	1999	**52.5**	**6.1%**	65.5	6.4%
Iroquois System					
Bank Loan					
(1996 – US$122.9; 1995 – US$131.8)	2006 to 2008	**168.3**	**8.7%**	179.9	8.7%
Tuscarora Pipeline					
Senior Secured Notes					
(1996 – US$45.3; 1995 – US$45.9)	2010	**62.0**	**7.1%**	62.7	7.1%
Foothills Pipe Lines (Sask.)					
Note	2001	**71.0**	**7.3%**	70.8	8.5%
Trans Québec & Maritimes Pipeline					
First Mortgage Bonds	1998 to 2005	**97.0**	**9.9%**	101.0	10.0%
Foothills Pipe Lines (South B.C.)					
Bank Loans	2003 to 2005	**48.2**	**8.3%**	–	–
Ocean State Power Plant					
Senior Secured Notes					
(1996 – US$66.9; 1995 – US$70.7)	2002 to 2011	**91.6**	**7.7%**	96.6	7.6%
Total Non-Recourse Debt of Joint Ventures		**1,015.7**		1,015.9	
Less: Non-Recourse Debt of Joint Ventures					
Due Within One Year		**51.1**		42.8	
		964.6		973.1	

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

(2) *Weighted average interest rates are stated as at the respective outstanding dates. The effective weighted average interest rates on the bank loans of Northern Border Pipeline and the Iroquois System, resulting from swap agreements, are 7.6 per cent for both at December 31, 1996 (1995 – 7.4 per cent and 7.6 per cent, respectively).*

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

The Company's proportionate share of mandatory retirements of the non-recourse joint venture debt, as a result of maturities and sinking fund obligations, approximates: 1997 – $51.1 million; 1998 – $69.5 million; 1999 – $69.1 million; 2000 – $89.6 million; and 2001 – $58.8 million.

Financial Charges of Joint Ventures

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Interest on long-term non-recourse debt	**89.1**	87.2	91.2
Other	**2.1**	2.1	1.7
	91.2	89.3	92.9

The Company's proportionate share of the interest payments made by joint ventures is $84.5 million, $76.3 million and $92.1 million for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 8 Convertible Debentures

In December 1996, the Company issued 6,263,048 common shares to settle the 10.426 per cent convertible debentures.

NOTE 9 Junior Subordinated Debentures and Preferred Securities

		1996	
	Maturity Dates	**Outstanding December 31** ***(millions of dollars)***	**Interest Rate**
Junior Subordinated Debentures			
Junior Debentures (US$160.0 million)	2045	**218.1**	**8.75%**
Canadian Originated Preferred Securities (COPrS) (US$3.8 million)	2045	**5.1**	**8.50%**
		223.2	

Junior Debentures

In July 1996, the Company issued US$160.0 million of Junior Subordinated Debentures (Junior Debentures) to TransCanada Capital, an unaffiliated business trust. TransCanada Capital issued US$160.0 million of Trust Originated Preferred Securities (TOPrS) through a public issue in the United States. The Junior Debentures, which comprise substantially all of the assets of TransCanada Capital, have terms which parallel the terms of the TOPrS. The Junior Debentures are redeemable at par by the Company at any time on or after July 23, 2001 and in certain circumstances prior to that date. The Company may elect to defer interest payments on the Junior Debentures. Interest and deferred interest, if any, are payable in cash.

Preferred Securities

In November 1996, the Company issued US$200.0 million of COPrS. The COPrS are redeemable by the Company at par at any time on or after November 7, 2001 and in certain circumstances prior to that date. The Company may elect to defer interest payments on the COPrS and settle deferred interest in either cash or common shares.

Since deferred interest may be settled through the issuance of common shares at the option of the Company, the COPrS have a debt and equity component. The debt component of $5.1 million (US$3.8 million) at December 31, 1996 represents the discounted amount of the principal repayable at final maturity. The remaining $261.1 million (US$196.2 million) is classified as Preferred Securities in Shareholders' Equity at December 31, 1996.

NOTE 10 Preferred Shares

December 31	Dividend Rate Per Share	Redemption Price Per Share	**1996** ***(millions of dollars)***	1995 *(millions of dollars)*
FIRST PREFERRED SHARES				
Cumulative redeemable				
$2.80 Series (1996 and 1995 – 552,968)	$2.80	$50.50	**27.6**	27.6
Series O (1996 and 1995 – 3,000,000)	$3.95	$52.00–$50.00	**150.0**	150.0
Series P (1996 and 1995 – 2,600,000)	$3.875	$52.00–$50.00	**130.0**	130.0
Cumulative redeemable retractable				
Series N (1996 – nil; 1995 – 1,500,000)	$4.50	$50.00	**–**	75.0
Series Q (1996 and 1995 – 2,100,000)	$3.275	$50.00	**105.0**	105.0
Series R (1996 and 1995 – 2,000,000)	$2.975	$50.00	**100.0**	100.0
Cumulative redeemable perpetual				
Series M (1996 – nil; 1995 – 150)	$42,750	$500,000	**–**	75.0
			512.6	662.6

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

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

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

NOTE 11 Common Shares

	Number of Shares *(thousands)*	Amount *(millions of dollars)*
Outstanding at January 1, 1994	180,010	863.9
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	4,759	82.0
Exercise of options	52	0.9
Cancellation of common shares	(10)	(0.1)
Outstanding at December 31, 1994	184,811	946.7
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	5,148	86.9
Exercise of options	24	0.4
Conversion of Equity Preferred Shares	12,500	197.0
Outstanding at December 31, 1995	202,483	1,231.0
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	**5,007**	**97.1**
Exercise of options	**252**	**4.3**
Issued for acquisition of subsidiaries	**3,533**	**68.9**
Issued in settlement of convertible debentures	**6,263**	**143.2**
Cancellation of common shares	**(2)**	**–**
Outstanding at December 31, 1996	**217,536**	**1,544.5**

Common Shares Issued and Outstanding

The Company is authorized to issue an unlimited number of common shares of no par value. The common shares issued in settlement of the convertible debentures in 1996 have been recorded net of issue expenses. In 1995, 12.5 million Cumulative Equity Second Preferred Shares, Series B (Equity Preferred Shares), which provided a cumulative annual dividend of $1.25 per share, were converted into 12.5 million common shares of the Company.

Net Income Per Share

Net income per share is calculated by dividing net income applicable to common shares by the weighted average number of common shares outstanding. The Equity Preferred Shares were considered to be the equivalent of common shares for purposes of net income per share calculations. The weighted average number of shares, in millions, for the years ended December 31, 1996, 1995 and 1994, is 208.5, 200.1 and 195.0, respectively. Fully diluted earnings per share have not been presented as the effect of potential dilution of preferred shares Series O, P, Q and R and options is not material.

Employee Stock Incentive Plan

	Number of Shares *(thousands)*	Exercise Prices	Options Exercisable *(thousands)*
Outstanding at January 1, 1994	1,933	$14.70 – $20.85	871
Granted	501	$17.375	
Exercised	(52)	$14.70 – $17.50	
Cancelled or expired	(70)	$14.70 – $20.10	
Outstanding at December 31, 1994	2,312	$14.70 – $20.85	1,145
Granted	957	$18.40 – $18.455	
Exercised	(24)	$14.70 – $17.50	
Cancelled or expired	(39)	$17.125 – $20.10	
Outstanding at December 31, 1995	3,206	$14.70 – $20.85	1,504
Granted	**1,001**	**$19.179 – $24.10**	
Exercised	**(252)**	**$14.70 – $20.10**	
Cancelled or expired	**(27)**	**$17.125 – $20.10**	
Outstanding at December 31, 1996	**3,928**	**$14.70 – $24.10**	**1,793**

The Key Employee Stock Incentive Plan (KESIP) permits the award of options to purchase the Company's common shares to certain key employees, some of whom are also officers. Options may be exercised at a price determined at the time the option is awarded. Generally, 20 per cent of the common shares subject to an option may be purchased at the end of each year following the award date of the option. The Company may issue up to 12.0 million shares under KESIP.

Shareholder Rights Plan

In 1995, shareholders of the Company ratified a Shareholder Rights Plan designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Under certain circumstances, each common share is entitled to one right which entitles certain holders to purchase common shares of the Company at 50 per cent of the then market price.

Restriction on Dividends

Certain terms under the Company's preferred share provisions, preferred securities, junior subordinated debentures and debt instruments could potentially restrict the Company's ability to declare dividends on preferred and common shares. At December 31, 1996, such terms did not restrict or alter the Company's ability to declare dividends.

NOTE 12 Risk Management and Financial Instruments

The Company invests in foreign operations, issues short and long-term debt including amounts in foreign currencies, incurs costs in foreign currencies, and purchases and sells energy commodities. These activities result in exposures to fluctuations in foreign currency exchange rates, interest rates and energy prices. The Company uses financial instruments to reduce the price or cash flow risk that may result from these activities.

Credit Risk

The use of financial instruments creates credit exposure resulting from the possibility that a counterparty to an instrument in which the Company has an unrealized gain fails to perform according to the terms of the contract. Credit exposure is minimized by dealing only with creditworthy counterparties in accordance with established credit approval practices. At December 31, 1996, credit exposure is $89.6 million for foreign currency and interest rate instruments and $74.5 million for energy price risk instruments. The largest credit exposure to a single counterparty is $36.6 million.

Carrying Values of Financial Instruments

The carrying amounts of financial instruments related to U.S. dollar net asset hedges partially offset the foreign exchange adjustment in shareholders' equity. Carrying amounts for interest rate swaps represent the net accrued interest from the last payment date to the reporting date. Foreign currency transactions hedged by foreign exchange contracts are recorded at the contract rate. The carrying amounts shown in the tables that follow are recorded in the Statement of Consolidated Financial Position.

Fair Values of Financial Instruments

Fair values of financial instruments are determined using various methods, depending upon the nature of the instrument. Cash and short-term investments and notes payable are valued at their carrying amounts due to the short period to maturity. The fair values of interest rate and cross-currency swaps, forward foreign exchange contracts and energy price risk instruments have been estimated using market rates at December 31, 1996 and 1995. These fair values approximate the amount that the Company would receive or pay if the instruments were closed out at these dates. The fair values of long-term debt, non-recourse debt of joint ventures, convertible debentures and junior subordinated debentures are determined using market prices for the same or similar issues.

Notional Amounts

Notional principal amounts are not recorded in the financial statements because these amounts are not exchanged by the Company and its counterparties and are not a measure of the Company's exposure. Notional amounts are used only as the basis for determining payments for instruments such as interest rate swaps.

The tables that follow provide information on the Company's financial instruments but not on the corresponding positions that have been hedged.

Foreign Investments – U.S. Dollar Net Asset Hedges

At December 31, 1996, the Company had net assets denominated in U.S. dollars of approximately US$442.2 million (1995 – US$549.0 million), which creates an exposure to changes in the U.S./Canadian dollar exchange rate. The Company enters into cross-currency swaps and forward foreign exchange contracts to hedge, on an after-tax basis, this exposure. The cross-currency swaps include a floating interest rate which the Company has partially hedged by entering into interest rate swaps and forward rate agreements. The fair values shown in the table below for foreign exchange risk are offset by related translation gains or losses in the foreign exchange adjustment in shareholders' equity.

Asset/(Liability)

December 31 (millions of dollars)	**1996**		1995	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Foreign exchange risk				
Cross-currency swaps	**(22.0)**	**(13.4)**	(10.7)	(5.9)
Forward foreign exchange contracts	**7.8**	**11.9**	11.4	13.7
Interest rate risk				
Interest rate swaps				
In Canadian dollars	**1.0**	**15.2**	0.1	5.6
In U.S. dollars	**(0.1)**	**(0.5)**	0.1	(0.8)
Forward rate agreements	**–**	**(0.2)**	–	(0.1)

The principal amounts of the cross-currency swaps and forward foreign exchange contracts are US$450.0 million (1995 – US$600.0 million) and US$205.0 million (1995 – US$250.0 million), respectively. Notional principal amounts for interest rate swaps are $352.1 million (1995 – $217.5 million) and US$75.0 million (1995 – US$150.0 million) and the notional principal amounts of the forward rate agreements are US$250.0 million (1995 – US$125.0 million).

U.S. Dollar Transaction Hedges

The energy marketing business purchases and sells certain energy commodities in Canadian and U.S. dollars. To reduce risk and protect margins when purchase and sale contracts are denominated in different currencies, the Company enters into forward foreign exchange contracts, having terms ranging from one month to five years, which establish the foreign exchange rate for the cash flows from these purchase and sale transactions.

Asset/(Liability)

December 31 (millions of dollars)	**1996**		1995	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Forward foreign exchange contracts	**8.9**	**29.0**	11.8	17.8

The principal amounts of forward foreign exchange contracts are US$348.7 million (1995 – US$374.6 million).

Long-Term Debt Interest Rate Management

The Company entered into an interest rate swap to convert the interest cost on a portion of the U.S. dollar subordinated debentures from a fixed to a floating rate. The subordinated debentures and the interest rate swap mature in 2006. The Company also enters into forward rate agreements which fix certain of the interest rates on the quarterly rate-setting dates of the interest rate swap.

Asset/(Liability)

December 31 (millions of dollars)	**1996**		1995	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Interest rate risk				
Interest rate swap	**0.1**	**(3.2)**	(0.1)	0.2
Forward rate agreements	**–**	**(0.1)**	–	–

The notional principal amount of the interest rate swap is US$50.0 million (1995 – US$50.0 million). The notional principal amount of the forward rate agreements is US$100.0 million (1995 – nil).

Energy Price Risk Management

The Company purchases and sells financial instruments to manage the price risk associated with sales, purchases and inventories of certain energy commodities. Futures contracts, which require the Company to buy or sell energy commodities at fixed prices, are used to reduce the risk associated with unmatched fixed price commitments. Price and basis swaps are used to reduce the risk associated with a fixed or index price so that the price basis of purchase and sales contracts is matched. The Company also uses put options to reduce the price risk related to holding inventories of energy commodities. The financial instruments have terms ranging from less than one month to five years. The fair values shown in the table below are offset by related fair values on physical positions.

Asset/(Liability)

December 31 (millions of dollars)	**1996**		1995	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Natural gas				
Futures contracts	**0.7**	**0.7**	(1.8)	(1.8)
Swaps	**–**	**(47.6)**	–	32.2
Options	**–**	**0.1**	–	–

Notional volumes for natural gas futures contracts are 3.8 Bcf (1995 – 11.6 Bcf), 537.4 Bcf (1995 – 419.8 Bcf) for swaps, and 6.3 Bcf (1995 – nil) for options.

Hedging Activities of Joint Ventures

Certain of the Company's joint ventures enter into interest rate swaps to convert floating rate debt to a fixed rate. The Company's proportionate share of the credit exposure of its joint ventures is $10.2 million at December 31, 1996.

Asset/(Liability)	TransCanada's Proportionate Share			
December 31 (millions of dollars)	**1996**		1995	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Interest rate swaps	**2.5**	**11.9**	2.7	(14.8)

The notional principal amount of the interest rate swaps is US$187.5 million (1995 – US$195.0 million).

Fair Values of Other Financial Instruments

December 31 (millions of dollars)	**1996**		1995	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Long-term debt				
Canadian Mainline	**4,479.3**	**5,176.7**	4,334.0	4,984.6
Other	**1,089.9**	**1,175.8**	520.0	597.8
Non-recourse debt of joint ventures	**1,015.7**	**1,122.5**	1,015.9	1,045.1
Convertible debentures	**–**	**–**	150.0	150.0
Junior subordinated debentures	**223.2**	**233.1**	–	–

The fair values are provided solely for information purposes and are not recorded in the Statement of Consolidated Financial Position.

NOTE 13 Income Taxes

Provision for Income Taxes

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Current			
Canada	**162.4**	142.5	109.1
Foreign	**81.0**	38.1	20.1
	243.4	180.6	129.2
Deferred			
Canada	**7.2**	(37.0)	(21.8)
Foreign	**3.9**	(0.7)	8.1
	11.1	(37.7)	(13.7)
	254.5	142.9	115.5

Reconciliation of Income Tax Expense

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Income before income taxes	**679.5**	540.4	474.1
Income not subject to tax currently	**(177.1)**	(144.4)	(147.5)
	502.4	396.0	326.6
Federal and provincial statutory tax rate	**43.7%**	43.7%	43.7%
Expected income tax expense	**219.5**	173.1	142.7
Non-deductible expenses	**12.9**	6.4	4.1
Amortization of Canadian Mainline deferred income taxes	**–**	(25.3)	(25.3)
Non-deductible capital losses	**11.4**	4.4	5.8
Net difference between the federal and provincial statutory tax rate and rates of foreign authorities	**(11.1)**	(14.2)	(8.6)
Utilization of prior years' operating losses	**–**	(11.6)	(13.9)
Large corporations tax	**18.0**	14.3	14.3
Other	**3.8**	(4.2)	(3.6)
Actual income tax expense	**254.5**	142.9	115.5

Provision for Deferred Income Taxes

Deferred income taxes result from timing differences in the recognition of revenue and expense for income tax and financial statement purposes.

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Capital cost allowance in excess of depreciation	**24.8**	1.0	8.0
Deferred amounts	**(12.9)**	(14.8)	5.5
Amortization of Canadian Mainline deferred income taxes	**–**	(25.3)	(25.3)
Other	**(0.8)**	1.4	(1.9)
	11.1	(37.7)	(13.7)

At the direction of the NEB, the Company follows the taxes payable method of accounting for those income taxes related to the operations of the Canadian Mainline. Had the deferral method of accounting been prescribed by the NEB for the Canadian Mainline from the date of commencement of operations, additional deferred income taxes in the amount of $816.5 million to December 31, 1996 (1995 – $744.9 million) would have been recorded and recovered in tolls to date through the tollmaking process.

Income Tax Payments

Income tax payments of $263.5 million, $136.4 million and $165.1 million were made during the years ended December 31, 1996, 1995 and 1994, respectively.

Geographic Components of Income before Income Taxes

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Canada	**458.0**	407.3	373.5
Foreign	**221.5**	133.1	100.6
	679.5	540.4	474.1

Unremitted Earnings of Foreign Investments

Income taxes have not been provided on the unremitted earnings of foreign investments which the Company intends to indefinitely reinvest in foreign operations. If provision for these taxes had been made, deferred income taxes would have increased by approximately $23.0 million at December 31, 1996 (1995 – $14.0 million, 1994 – $12.0 million).

NOTE 14 Deferred Amounts

December 31 (millions of dollars)	**1996**	1995
Canadian Mainline	**(10.8)**	37.4
Deferred amounts related to financial instruments	**(22.6)**	(9.9)
Capitalized project costs	**9.1**	3.3
Other	**66.3**	75.8
Deferred amounts of joint ventures	**12.0**	11.9
	54.0	118.5

The deferred amounts of the Canadian Mainline are recovered from or refunded to tollpayers in future periods through the regulatory process.

NOTE 15 Notes Payable

	1996		1995	
	Balance at End of Year *(millions of dollars)*	Weighted Average Interest Rate Per Annum at End of Year	Balance at End of Year *(millions of dollars)*	Weighted Average Interest Rate Per Annum at End of Year
Commercial paper				
In Canadian dollars	169.8	3.2%	48.4	6.5%
In U.S. dollars	36.8	5.5%	0.1	9.5%
Notes payable of joint ventures				
In Canadian dollars	15.8	5.3%	11.4	7.2%
In U.S. dollars	4.1	5.9%	–	–
	226.5		59.9	

The Company has unused lines of credit of $900.0 million at December 31, 1996 of which $600.0 million supports the Company's commercial paper program and the balance is available to secure energy commodity purchases and for general corporate purposes. These lines of credit are available at prime rates of Canadian chartered and U.S. banks and at other negotiated financial bases. The cost to maintain the unused portion of the lines of credit is approximately $0.8 million for the year ended December 31, 1996 (1995 – $0.8 million). At December 31, 1996, the Company has outstanding letters of credit of $23.0 million to secure energy commodity purchases in 1997.

In January 1997, the Company completed the establishment of an aggregate of $1.5 billion revolving syndicated credit facilities to replace the $600.0 million lines of credit that were in place at December 31, 1996. The first facility, in the amount of $1.0 billion, is fully revolving and has a term of five years which may be extended annually for one year at the option of the Company and the lenders. The second facility, in the amount of $500.0 million, has a 364 day revolving period which may be extended prior to expiry for successive 364 day periods at the option of the Company and the lenders. If the 364 day revolving period is not extended, the outstanding borrowings under the second facility are repayable after a term of five years plus one day.

NOTE 16 Pension Plans

The Company's non-contributory pension plans cover substantially all employees who have completed one year of service and provide a defined benefit pension based on length of service and the employee's final average earnings.

The Company's net pension expense was $14.9 million, $12.0 million, and $11.0 million for the years ended December 31, 1996, 1995 and 1994, respectively.

The actuarial present value of current accumulated pension benefits, substantially all of which are vested, amounted to $335.5 million at December 31, 1996 (1995 – $262.6 million). At December 31, 1996, the pension plan assets amounted to $335.8 million (1995 – $256.8 million).

Pension plan assets are valued at average market value and include marketable equity securities and corporate and government debt securities. The rate of return on pension plan assets was estimated to be 8.5 per cent per annum.

In determining the actuarial present value of the projected pension benefit obligation, the discount rate used was 8.5 per cent and the rate of projected increase in future compensation levels used ranged from 3.0 to 5.0 per cent.

NOTE 17 (Increase)/Decrease in Operating Working Capital

Year ended December 31 (millions of dollars)	**1996**	1995	1994
(Increase)/decrease in accounts receivable	**(488.4)**	(36.6)	28.4
(Increase)/decrease in inventories	**(69.3)**	8.1	(18.8)
Decrease in other current assets	**3.0**	0.1	12.1
Increase/(decrease) in accounts payable	**482.2**	46.1	(85.1)
Increase in interest accrued	**10.1**	0.6	1.2
	(62.4)	18.3	(62.2)

NOTE 18 Contingencies

The Company and its subsidiaries are subject to various legal proceedings and actions arising in the normal course of business. Management considers the aggregate liability, if any, of these actions and proceedings to be immaterial. The following information is provided with respect to two proceedings in the United States.

(a) Iroquois Settlement

A U.S. subsidiary of the Company holds a 29 per cent general partnership interest in the Iroquois Gas Transmission System L.P. (Iroquois).

In May 1996, a number of investigations and proceedings by United States federal and state authorities, the Federal Energy Regulatory Commission, the Army Corps of Engineers and the Federal Bureau of Investigation relating to the construction of the pipeline system owned by Iroquois were settled. In connection with this settlement, TransCanada recorded after tax provisions of $7.9 million in 1995 and $6.2 million in 1996.

(b) Other

A U.S. subsidiary of the Company is one of the subjects of an action in Montana alleging anti-trust conspiracy and violations and claiming treble damages. The Company is unable to determine at this time how this matter will be resolved but does not believe it will have a material effect on its financial position and no provision has been made with respect to this action.

NOTE 19 Significant Differences Between Canadian and U.S. GAAP

Net Income Reconciliation

Year ended December 31 (millions of dollars except per share amounts)	**1996**	1995	1994
Net income as reported in accordance with Canadian GAAP	**425.0**	397.5	358.6
U.S. GAAP adjustments			
Preferred securities charges *(1)*	**(1.9)**	–	–
Foreign currency translation *(2)*	**(3.5)**	1.1	3.4
Income taxes *(3)*	**(3.0)**	(3.2)	(13.5)
Net income in accordance with U.S. GAAP	**416.6**	395.4	348.5
Net income per share in accordance with U.S. GAAP	**$1.82**	$1.74	$1.55

(1) Under U.S. GAAP, the financial charges related to Canadian Originated Preferred Securities are recognized as an expense.

(2) Under U.S. GAAP, the unrealized foreign exchange gains and losses with respect to borrowings in foreign currencies are recognized in income immediately.

(3) Under U.S. GAAP, the liability method is used to calculate deferred income taxes and deferred income tax is calculated as the net change in the deferred tax liability during the year. Refer to "Income Taxes" on page 72.

Condensed Statement of Consolidated Income *(4)*

Year ended December 31 (millions of dollars)	**1996**	1995	1994
Revenues	**10,431.2**	6,667.3	4,901.3
Cost of sales	**8,009.1**	4,796.3	3,197.3
Other costs and expenses	**1,109.2**	774.5	713.1
Depreciation	**284.7**	233.4	220.9
	9,403.0	5,804.2	4,131.3
Operating income	**1,028.2**	863.1	770.0
Other (income)/expense			
Income from equity investments	**(177.8)**	(166.0)	(165.5)
Other expenses	**533.4**	487.6	458.0
Income taxes	**256.0**	146.1	129.0
	611.6	467.7	421.5
Net income in accordance with U.S. GAAP	**416.6**	395.4	348.5

Condensed Statement of Consolidated Financial Position *(4)*

December 31 (millions of dollars)	**1996**	1995
Current assets	**1,540.5**	836.9
Long-term investments	**1,300.1**	1,113.7
Plant, property and equipment	**8,447.1**	7,114.6
Regulatory asset	**1,346.7**	1,212.7
Deferred amounts	**49.7**	106.6
	12,684.1	10,384.5
Current liabilities	**1,869.4**	1,219.4
Long-term debt	**5,148.2**	4,352.1
Deferred income taxes	**1,476.7**	1,269.8
Convertible debentures	**–**	150.0
Canadian Originated Preferred Securities *(5)*	**273.9**	–
Trust Originated Preferred Securities	**218.1**	–
Shareholders' equity	**3,697.8**	3,393.2
	12,684.1	10,384.5

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

(5) Under U.S. GAAP, COPrS is classified as a liability. The fair value of the COPrS at December 31, 1996 is $280.8 million.

(6) Under U.S. GAAP, the issuance of shares to purchase subsidiaries is a non-cash item. Funds used in investing activities and funds generated from financing activities would be $68.9 million less than the amounts reported under Canadian GAAP.

Income Taxes

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

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

December 31 (millions of dollars)	**1996**	1995
Deferred tax liabilities		
Accelerated tax depreciation on plant and equipment	**958.1**	780.8
Taxes on future revenue requirement	**459.7**	416.7
Undistributed earnings of subsidiaries and joint ventures	**131.8**	119.7
Other	**25.4**	58.6
	1,575.0	1,375.8
Deferred tax assets		
Net operating and capital loss carryforwards	**70.3**	133.4
Cost of investments in subsidiaries and joint ventures	**38.9**	38.8
Other	**73.2**	55.1
	182.4	227.3
Valuation allowance	**(84.1)**	(121.3)
	98.3	106.0
Net deferred tax liability	**1,476.7**	1,269.8

The valuation allowance was decreased by $37.2 million in 1996, resulting primarily from lower capital loss carry forwards. The valuation allowance was increased in 1995 by $45.4 million primarily to offset increased capital losses carried forward arising from debt retired during the year.

Other

TransCanada has adopted Statement of Financial Accounting Standards (FAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," effective January 1, 1996 and the provisions of this standard have no material effect on the Company's results of operations or financial position. FAS No. 123, "Accounting for Stock-Based Compensation" was adopted effective January 1, 1996 and the measurement rules of APB Opinion No. 25, "Accounting for Stock Issued to Employees," have been retained. The disclosures required under FAS No. 123 are not material to the Company.

Selected Quarterly Consolidated Financial Data

The following sets forth selected quarterly financial data for the four quarters of 1996 and 1995 in millions of dollars except for per share amounts.

Three months ended (unaudited)	March 31	June 30	September 30	December 31
1996				
Revenues	**2,277.4**	**2,588.1**	**2,728.1**	**3,197.0**
Net income applicable to common shares	**91.8**	**95.4**	**96.0**	**102.0**
Net income per share	**$0.45**	**$0.46**	**$0.46**	**$0.48**
Dividends declared per common share	**$0.27**	**$0.27**	**$0.27**	**$0.29**
1995				
Revenues	1,697.5	1,814.9	1,665.1	1,828.1
Net income applicable to common shares	85.2	88.3	87.5	89.1
Net income per share	$0.43	$0.44	$0.44	$0.44
Dividends declared per common share	$0.25	$0.25	$0.25	$0.27

Consolidated Ratio of Earnings to Fixed Charges

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

Year ended December 31	**1996**	1995	1994	1993	1992	1991	1990
Ratio of earnings to fixed charges *(1)*	**2.1**	2.0	1.9	2.0	2.0	1.8	1.8

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

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

Year ended December 31	**1996**	1995	1994	1993	1992	1991	1990
Ratio of earnings to fixed charges	**2.1**	2.0	1.9	2.0	2.0	1.9	1.9

Differences are described in Note 19 "Significant Differences Between Canadian and U.S. GAAP", to the consolidated financial statements.

Seven-Year Financial and Operating Highlights

FINANCIAL

(millions of dollars except where indicated)	1996	1995	1994	1993	1992	1991	1990
Operating Results							
Revenues	**10,790.6**	7,005.6	5,218.5	4,531.7	3,981.2	3,236.2	3,106.5
Net income	**425.0**	397.5	358.6	355.6	328.7	251.2	214.9
Assets							
Plant, property and equipment							
Canadian Mainline	**7,287.9**	6,890.1	6,677.6	6,430.5	5,876.1	4,727.0	3,469.5
North American pipeline investments	**2,311.0**	1,746.7	1,743.1	1,644.9	1,577.1	1,417.9	960.9
Energy processing and other	**1,091.2**	404.3	339.5	300.7	313.7	301.6	197.8
Total assets	**12,615.4**	10,393.7	9,926.4	9,312.8	9,398.7	7,650.2	5,967.1
Capitalization							
Long-term debt	**5,148.2**	4,352.1	4,252.3	4,170.0	3,894.8	3,369.6	2,859.3
Non-recourse debt of joint ventures	**964.6**	973.1	907.9	889.1	975.1	868.5	494.2
Junior subordinated debentures	**223.2**	–	–	–	–	–	–
Preferred securities	**261.1**	–	–	–	–	–	–
Preferred shares							
Subject to mandatory redemption	**–**	75.0	75.0	75.0	75.0	155.0	155.0
Not subject to mandatory redemption	**512.6**	587.6	537.6	507.8	513.3	384.0	234.3
Equity preferred shares and common shareholders' equity	**3,219.9**	2,766.6	2,536.4	2,314.3	2,098.2	1,659.3	1,280.4
Cash Flow Data							
Funds generated from operations	**831.0**	684.7	647.3	600.7	597.5	410.9	399.7
Capital expenditures	**1,294.2**	673.7	623.0	833.1	1,426.2	1,911.6	646.5
Share Statistics							
Net income per share	**$1.85**	$1.75	$1.60	$1.62	$1.56	$1.34	$1.23
Dividends declared per common share	**$1.10**	$1.02	$0.94	$0.86	$0.78	$0.73	$0.69
Funds generated from operations per share	**$3.99**	$3.42	$3.32	$3.15	$3.30	$2.51	$2.60
Return on Average Common Equity	**13.01%**	13.14%	12.78%	13.92%	14.78%	14.77%	15.31%
Registered Common Shareholders, December 31	**17,388**	17,345	17,748	18,168	18,639	18,871	17,733
Number of Regular Employees, December 31	**2,663**	1,949	1,848	1,764	1,791	1,784	1,757
U.S. GAAP Information							
Net income	**416.6**	395.4	348.5	364.3	343.5	266.5	225.9
Net income per share	**$1.82**	$1.74	$1.55	$1.66	$1.64	$1.43	$1.31
Equity preferred shares and common shareholders' equity	**3,185.2**	2,730.6	2,500.2	2,286.3	2,072.4	1,615.2	1,214.4

OPERATING

	1996	1995	1994	1993	1992	1991	1990
Canadian Mainline gas transmission volumes delivered (billions of cubic feet)							
Annual	**2,437.8**	2,351.5	2,219.8	2,127.8	1,971.3	1,655.1	1,509.6
Maximum per day	**7.8**	7.8	7.3	7.1	5.7	5.5	5.1
Canadian Mainline including loop line – kilometres of pipeline	**14 274**	13 955	13 843	13 687	13 106	12 242	11 400
Canadian Mainline compressor power (MW)	**1,954**	1,886	1,766	1,627	1,582	1,282	1,211

Corporate Information

Directors

(as of January 1, 1997)

Robert E. Dineen, Jr.
Partner, Shearman & Sterling
New York

Wendy Dobson
Professor, Faculty of Management
University of Toronto
Toronto

L. Yves Fortier, C.C., Q.C.
Chairman and a Senior Partner
Ogilvy Renault
Montréal

Kerry L. Hawkins
President
Cargill Limited
Winnipeg

Thomas E. Kierans
President and
Chief Executive Officer
C.D. Howe Institute
Toronto

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

Gerald J. Maier
Chairman of the Board
TransCanada PipeLines Limited
Calgary

James R. Paul
Chairman of the Board
Worldwide Cellular Inc.
Houston, Texas

Harry G. Schaefer
President
H.G. Schaefer & Associates
Calgary

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

Joseph D. Thompson, P.Eng
Chairman, President and
Chief Executive Officer
PCL Construction Group Inc.
Edmonton

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

Margaret K. Witte
Chairman, President and
Chief Executive Officer
Royal Oak Mines Inc.
Kirkland, Washington

Corporate Governance

TransCanada's board of directors (the board) has ultimate responsibility for the overall stewardship of the company. Day to day management is the responsibility of the chief executive officer (the CEO) and other senior management.

The board discharges its responsibilities directly and through committees. At regularly scheduled meetings, members of the board and management discuss a broad range of issues relevant to the company's strategy and business interests. The board also receives reports from management on the company's operational and economic performance.

Strategies, business plans, corporate policies, financings, human resource programs and succession plans are items proposed by management for consideration and, if deemed appropriate, approval by the board. In addition, reports of board committees are received and considered. The board meets nine times each year and unscheduled meetings are held from time to time as required.

There were 11 meetings of the board in 1996.

All committees of the board have a majority of members who are unrelated directors and, in the case of the Human Resources committee, the Governance committee and the Audit and Environmental committee, all members are outside or non-management directors.

The following is a brief description of the mandate of each board committee, its composition, and the number of meetings held during the past year:

Audit and Environmental Committee

The mandate of the Audit and Environmental committee is to:

- monitor accounting, finance, control and audit functions and the presentation of financial statements;
- approve the release of the quarterly financial results;
- review the audited annual consolidated financial statements and recommend them to the full board for approval;
- ensure that management has established an effective system of internal controls;
- ensure that policies are in place establishing standards of conduct with respect to the environment and health and safety matters;
- review risk management policies and procedures;
- review issues relating to legal and regulatory responsibilities to ensure compliance; and
- meet with the outside auditors; with the director, Internal Audit; and the director, Environment, Health and Safety, in each case independently of other management.

The committee met six times in 1996.

Chair:
H.G. Schaefer

Members:
R.E. Dineen, Jr.
K.L. Hawkins
J.R. Paul
J.D. Thompson
M.K. Witte
G.J. Maier *(ex officio)*

Governance Committee

The mandate of the Governance committee is to:

- enhance governance through a continuing assessment of governance issues and make recommendations in respect thereof;
- recommend to the board candidates for nomination as directors;
- review the performance of directors and the board;
- review and recommend compensation for board and committee service; and
- monitor the quality of the relationship between management and the board and recommend improvements if necessary or desirable.

The committee met six times in 1996.

Chair:
W. Dobson

Members:
L.Y. Fortier
D.S. Macdonald
G.J. Maier

Human Resources Committee

The mandate of the Human Resources committee is to:

- review with the CEO human resource policies and plans regarding recruitment, training, compensation, benefits, and succession and report on these matters to the board;
- assess annually the performance against objectives of the CEO and other senior officers of the company;
- approve the salary and other remuneration of the CEO and other senior officers; and
- administer the company's pension plan and the stock option plan and approve stock option grants in accordance with the terms of that plan.

The committee met seven times in 1996.

Chair:
A.R. Taylor

Members:
W. Dobson
T.E. Kierans
D.S. Macdonald
H.G. Schaefer
G.J. Maier *(ex officio)*

Executive Committee

The Executive committee may exercise all powers of the board, with certain exceptions prescribed by law.

The committee is available to meet from time to time with the CEO to discuss significant policy issues, business plans, budgets, acquisitions and divestitures.

The committee met three times in 1996.

Further information with respect to TransCanada's system of corporate governance is contained in the Management Proxy Circular dated March 6, 1997.

Chair:
G.J. Maier

Members:
L.Y. Fortier
T.E. Kierans
D.S. Macdonald
A.R. Taylor
G.W. Watson

Executive Officers

(as of January 1, 1997)

George W. Watson
President and
Chief Executive Officer

Gavin J. Couper
Senior Vice-President,
Strategic Resources

Michael Durnin
Senior Vice-President

A. Jake Epp
Senior Vice-President

Robert B. Hodgins
Senior Vice-President and
Chief Financial Officer

Stephen J. J. Letwin
President,
TransCanada Energy USA Inc.

Wayne E. Lunt
Senior Vice-President,
Associated Pipelines and Chemicals

Garry P. Mihaichuk
Senior Vice-President

Walentin Mirosh
President,
Alberta Natural Gas Company Ltd

Robert J. Reid
Senior Vice-President

Ray T. Smith
Vice-President and Controller

G. Lawrence Spackman
President,
Gas Marketing Group
TransCanada Energy Ltd.

Robert A.M. Young, Q.C.
Senior Vice-President, Law and
Chief Compliance Officer

Officers

H. Frederick Button
Vice-President,
Project Development

Doron J. Cohen
Vice-President,
Information Systems and
Telecommunications

Marcel R. Coutu
Vice-President,
Finance

David M. Dominy
Vice-President,
Evaluations and Acquisitions

Max Feldman
Vice-President,
Customer Service and Marketing

Steven Jakymiw
Vice-President,
Associated Pipelines and
Investments

Alison T. Love
Corporate Secretary and
Associate General Counsel

Barry G. Luft
Vice-President,
Project Development

James M. Murray
General Counsel,
Litigation & Regulatory
and Assistant Corporate Secretary

Gary G. Penrose
General Manager,
Taxation

David E. Reid
Vice-President,
Engineering

David Russell
Vice-President,
Consulting

Bruce A. Stevenson
Assistant Corporate Secretary

John G. Walker
Vice-President,
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Bruce A. Westell
Treasurer

Paul R. Wigle
Vice-President,
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Corporate Offices

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Jl. Jend. Surdirman Kav. 1
Jakarta 10220, Indonesia
Telephone: 62-21-574-8868

Singapore Office
150 Beach Road
#17-04 Gateway West
Singapore 189720

Investor Information

Stock Exchanges

Common and preferred shares are listed on the Toronto, Montréal, Vancouver, Alberta and Winnipeg stock exchanges. Common shares are also listed on the New York Stock Exchange.

Stock Symbols

Common all exchanges: TRP; $2.80 Cumulative redeemable first preferred: TRP.PR.A; Cumulative redeemable retractable first preferred Series O: TRP.PR.O; Cumulative redeemable retractable first preferred Series Q: TRP.PR.Q; and Series R: TRP.PR.R; COPrS℠: TRP PrC; TOPrS℠: TCL Pr.

Important Dates

Scheduled dividend payment dates in 1997 are January 31, April 30, July 31 and October 31. Quarterly earnings news releases in 1997 are scheduled for April 23, July 22 and October 22.

Dividend Reinvestment and Share Purchase Plan

TransCanada's dividend reinvestment and share purchase plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage or administrative fees. Participants in the plan may make optional cash payments to buy additional shares of up to $5,000 (US$3,500) per quarter.

Non-resident Investors

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

Certain exemptions related to the tax may be available to residents of the United States. Corporate investors holding more than 10 per cent of the voting shares of a company may pay withholding tax at a rate of five per cent for dividends paid in 1997 and beyond. Shareholders should consult their tax advisors.

Common Shares

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

Preferred Shares

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

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

Trust Originated Preferred Securities℠ (TOPrS℠)

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

Canadian Originated Preferred Securities℠ (COPrS℠)

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

First Mortgage Pipe Line Bonds

Trustee and Registrar: The R-M Trust Company, as agent for National Trust Company, Toronto. Co-Registrar and Paying Agent U.S. Series 16 3/4% – Banker's Trust Company, New York, N.Y.; Co-Registrar and Paying Agent U.K. Series, 16 1/2% – the Royal Bank of Scotland plc, London, England.

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

Debentures

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

11.40% series J	10.625% series Q
10.45% series K	11.85% series R
10.80% series L	11.90% series S
10.55% series M	11.65% series T
11.10% series N	11.80% series U
10.50% series O	9.80% series V
10.50% series P	9.45% series W

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

Subordinated Debentures

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

Canadian Medium Term Notes

Trustee: The R-M Trust Company (Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver).

U.S. Medium Term Notes

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

Common Share Price Range

Toronto Stock Exchange

	High	Low
Fiscal 1995	$19.00	$16.50
First Quarter 1996	$20.00	$18.63
Second Quarter 1996	$20.50	$18.88
Third Quarter 1996	$22.45	$20.05
Fourth Quarter 1996	**$24.50**	**$21.80**

New York Stock Exchange

(US dollars)	High	Low
Fiscal 1995	$14.00	$11.63
First Quarter 1996	$14.38	$13.63
Second Quarter 1996	$15.00	$13.88
Third Quarter 1996	$16.50	$15.38
Fourth Quarter 1996	**$18.13**	**$16.00**

Additional statistical information can be obtained by contacting Gary Lloyd, director, Investor Relations.

Call toll-free 1-800-361-6522 (Canada and U.S. Mainland)
Direct dial (403) 267-8518
Investor fax line (403) 267-8538

Annual Information Form

TransCanada's 1996 Annual Information Form, as filed with Canadian securities commissions and as filed under Form 40-F with the U.S. Securities and Exchange Commission, may be obtained from:

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

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

Quarterly Updates

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

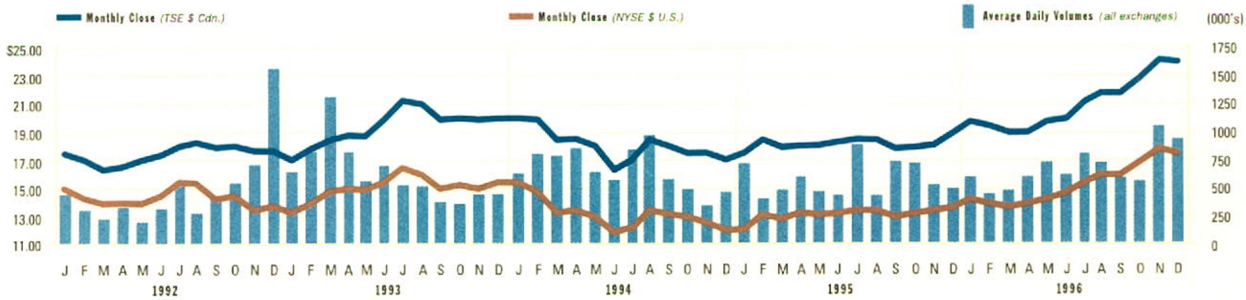
To change your address, eliminate multiple mailings, request information regarding cheques, share certificates, stock transfers or dividend reinvestment plan account updates, please contact the transfer agent:

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

Internet Site

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

Common Share Performance



Abbreviations

ANG	Alberta Natural Gas Company Ltd
ANGUS	ANGUS Chemical Company
Bcf	Billion cubic feet
Cancarb	Cancarb Limited
CanStates	CanStates Gas Marketing
Cibola	Cibola Energy Services Corporation
ELEC	Enron Louisiana Energy Company
Express	Express oil pipeline
FERC	Federal Energy Regulatory Commission
Foothills (Sask.)	Foothills Pipe Lines (Sask.) Ltd.
Foothills (South B.C.)	Foothills Pipe Lines (South B.C.)
Great Lakes	Great Lakes Gas Transmission Company
GWh	Gigawatt hours
Iroquois	Iroquois Gas Transmission System
MMbbls	Millions of barrels
MMcf	Million cubic feet
MW	Megawatts
NEB	National Energy Board
NGL	Natural gas liquids
Northern Border	Northern Border Pipeline Company
OCENSA	Oleoducto Central S.A.
Portland Project	Portland Natural Gas Transmission System
TQM	Trans Québec & Maritimes Pipeline Inc.
TransGas	TransGas de Occidente S.A.
Tuscarora	Tuscarora Gas Transmission Company
WCSB	Western Canadian Sedimentary Basin

Metric Conversion Table

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

Metric	Imperial	Factor
kilometres	miles	0.62
millimetres	inches	0.04
kilowatts	horsepower	1.34
gigajoules	million British thermal units	0.95
cubic metres*	cubic feet	35.3
cubic metres (liquid measure)	barrels	6.29
degrees celsius	degrees Fahrenheit	multiply by 1.8, then add 32 degrees to convert to Celsius subtract 32 degrees, then divide by 1.8

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

Performance Improvement

When individuals improve their performance we recognize that both TransCanada and the employee prosper. Continuously developing employees' performance not only assists individuals in their career development, it enables the accomplishment of business goals and enhances shareholder value. Once the corporate planning process is complete, and TransCanada's business objectives have been established and communicated, all employees are expected to work to align their work objectives and skill development with TransCanada's requirements. TransCanada helps employees improve their performance by providing internal and external training through workshops, self study aids, interactive multimedia computer learning, occupational on-the-job training for Canadian Mainline field employees, and training on computer software. We also sponsor membership in professional associations and provide financial support to employees who wish to further their education in areas that will benefit TransCanada.

Donations

We have always welcomed our corporate responsibility to the communities in which we live and work. In 1996, TransCanada donated approximately \$2.6 million to support organizations involved in education, health care, sports and civic activities. This amount includes a multi-year donation of \$500,000 for the new TransCanada PipeLines Novel Cancer Therapeutics Laboratory in Calgary to be used for the development of cancer treatments.

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TransCanada welcomes questions from shareholders and potential investors. Please telephone Gary Lloyd, director, Investor Relations, at 1-800-361-6522 (Canada and U.S. Mainland) or direct dial (403) 267-8518.
The investor fax line is (403) 267-8538.
Visit TransCanada's Internet site at:
http://www.transcanada.com

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