TransCanada PipeLines Limited 1995 Annual Report

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TransCanada

Corporate Profile

TransCanada PipeLines Limited, a major Canadian company with assets in excess of $10 billion, is a leading transporter and marketer of natural gas in North America. Our pipeline system transports gas from the Western Canadian Sedimentary Basin to four of the continent's major gas markets that represent about 45 per cent of North American consumption. Additional activities in energy marketing, power generation, gas liquids extraction, gas storage and carbon black manufacturing extend TransCanada's energy management reach throughout the continent. Globally, TransCanada pursues, evaluates and invests in energy-related opportunities that expand the scope of its current activities.

Mission Statement

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

Annual Meeting

The 1996 Annual Meeting of Shareholders is scheduled for April 23, 1996 at 10:30 a.m., in the Hotel Saskatchewan, Regina, Saskatchewan.

Contents

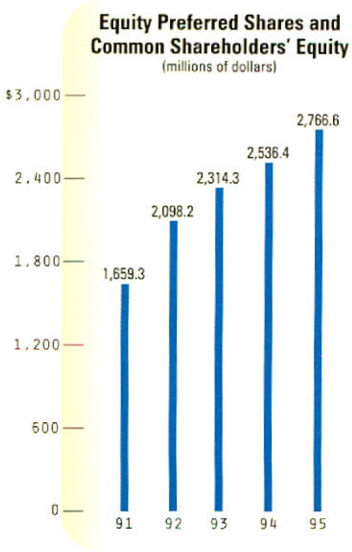
We will layer additional non-regulated, higher return operations on top of our foundation, the Canadian mainline and interconnected pipelines throughout North America. These new operations will expand our services as an energy provider in North America and around the globe.

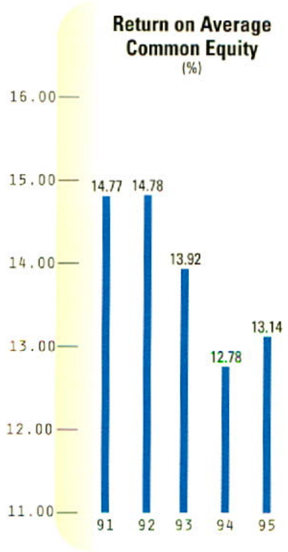
In 1995, the average number of TransCanada common shares traded daily on all exchanges was 577,000.

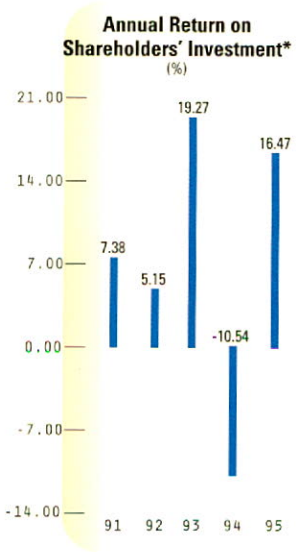
Our goal is to add to shareholder value and achieve a 50 per cent increase in earnings per share from the 1994 level of earnings by the year 2000. To do this, we will strive to transport natural gas more safely and efficiently than any other pipeline in North America. We will offer a full range of energy commodities and services to our customers, including natural gas, crude oil, refined products and electricity marketing, natural gas storage, liquids extraction and carbon black manufacturing.

And we will tap our considerable skills in financing, building and operating natural gas pipelines and power generation plants to develop high-return global energy projects.

We will not change direction. Simply, we will do what we do best – better, in more places, more often.







* The return on an investment in shares consists of the total of dividends received and the capital gain or loss on the shares over a specific period of time.

TransCanada's long-term, primary goal is to build and sustain shareholder value, while conducting our business as good corporate citizens, respectful of the environment and the communities in which we live and work.

In 1995, we made strong progress toward that goal in all of our major business sectors by focusing on action plans to address the three primary challenges we identified in last year's annual report to shareholders.

Those three challenges – to maintain and strengthen our North American Pipeline System; to improve and build upon our significant energy marketing skills; to develop global business opportunities that provide the right balance between risk and reward – will continue to shape our business strategy in 1996 and beyond.

Last year, TransCanada established a goal of attaining a 50 per cent increase in total earnings by the year 2000 to $2.40 per share from the 1994 level of $1.60 per share. We believe we are on target to achieve the goal. However, crucial factors remain out of our hands, primarily the allowed rates of return on our pipeline businesses that are set by regulatory agencies in Canada and the United States.

Financial Review and Outlook

As indicated by the graphs accompanying this letter, TransCanada's financial performance has been strong over the past five years. During that period, total assets increased by 36 per cent, funds generated from operations rose by 67 per cent and net income was up 58 per cent.

In 1995, TransCanada's common shares provided a total investor return of 16 per cent, comprising 10 per cent capital appreciation and a dividend yield of six per cent. This was built on a nine per cent gain in earnings per share and an eight per cent increase in dividends.

The quarterly dividend on common shares was increased by eight per cent in December 1995 to 27 cents per share from 25 cents per share, the sixth consecutive year in which dividends were increased. Over these six years, these dividend increases represent an increase of 50 per cent in dividends paid to shareholders.

In absolute terms, TransCanada's 1995 earnings set a new company record at $397.5 million, up 11 per cent from $358.6 million in 1994. On a per share basis, earnings were $1.75, up nine per cent from $1.60 in 1994. The increase was due primarily to strong profits from our North American Pipeline System and Energy Management activities.

NOTABLE ACHIEVEMENTS

1995

George Watson
President and chief executive officer

We delivered a record 2,351.5 Bcf of gas, up six per cent from 1994, through the Canadian mainline, TransCanada's largest asset and the mainstay of our North American Pipeline System.

We negotiated a four-year, incentive cost recovery and revenue sharing approach to setting pipeline tolls that adds value by strengthening the competitiveness of the Canadian mainline. The agreement provides additional incentive and opportunity to manage costs, increase revenue and generate increased earnings for shareholders.

The Canadian mainline was the major contributor to increased earnings in 1995, as a result of the 12.25 per cent rate of return on common equity that was allowed by the National Energy Board (NEB). The rate of return was established under the NEB's formula that links pipeline returns to rates of return on long-term Canadian bonds. For 1996, this formula set the allowed return on the Canadian mainline at 11.25 per cent. This change alone represents a reduction of about $21 million from 1995 in the Canadian mainline earnings.

This up-and-down performance from our largest asset is largely beyond the control of the company. It is not due to any operational or strategic moves – it is due to regulatory formulas and changes in financial markets. Regulated earnings from the Canadian mainline and our interconnected pipelines in Canada and the United States will continue to fluctuate, according to the regulators' determinations of the allowed rate of return on common equity, while earnings from non-regulated operations continue to grow.

Building for the future – 3 strong legs

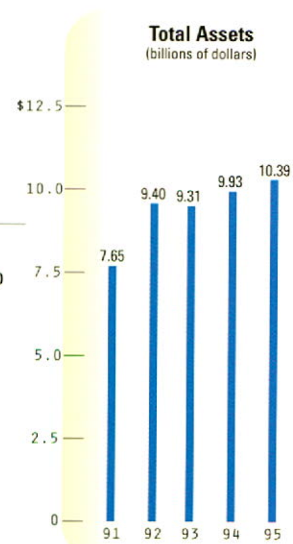
Businesses subject to both a tightly regulated capital structure and rate of return on common equity are constrained in their ability to make meaningful and consistent increases in earnings per share, regardless of growth of the enterprise and its earnings in absolute terms. Notwithstanding that reality of a regulated business, TransCanada's pipeline businesses have been, over the years, the primary driver in the accumulation of very significant retained earnings and the strong cash flows enjoyed today. It is from this healthy fiscal position that TransCanada is able to pursue non-regulated businesses and accumulate growth in shareholder value through improved increases in earnings per share.

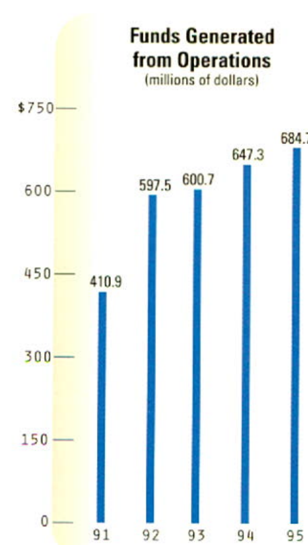
We are positioning TransCanada to generate increased shareholder value, building a company comprised of three intertwined profit centres – three strong legs.

We are not forsaking our roots as a natural gas pipeline company. Rather, we are building new businesses on top of that solid base: non-regulated businesses that will generate rising earnings in an increasingly competitive world, provide for dividend growth and propel us into the next century. We are expanding our natural gas marketing skills into marketing all forms of energy — not only gas, but oil, refined products, gas liquids and electricity. And we are taking our expertise in pipelines, power plants and project management and applying it to projects outside of North America.

The Tuscarora gas pipeline, between Malin, Oregon and Reno, Nevada, 50 per cent owned, was built and placed in service in December.

We combined our natural gas marketing operations to better meet the needs of our customers.





North American Pipeline System

TransCanada's combined North American pipeline assets currently provide about 90 per cent of our earnings. We are resolved to enhance the competitiveness and earning power of these assets.

Since 1989, we've expanded the Canadian mainline to meet higher demand for natural gas in both Canada and the United States. This expansion program injected more than $5 billion into the Canadian economy – along with significant spinoff benefits – and increased maximum daily service on the system to about 7.8 Bcf per day from five Bcf per day in 1988. The strong expansion pace continues in 1996, with capital expenditures on the mainline forecast at $668 million.

Meanwhile, TransCanada has continued its work to establish an incentive regulation program. Late in 1995, we reached agreement on such a program with our customers. Subsequently, that settlement was approved by the NEB and went into effect on January 1, 1996. The settlement represents both a challenge and an opportunity. It will improve both cost-effectiveness and profitability of the Canadian mainline by allowing TransCanada to share in cost savings and incremental revenues generated from existing assets.

Energy Management

Energy Management facilitates a cohesive energy marketing strategy and project development that enhances customer service – and earnings for shareholders. We are accomplishing this through two action plans.

Primarily as a result of our acquisition of the Northridge marketing businesses in late 1994, TransCanada now markets energy in virtually all its forms throughout North America. Last year, we bought and sold 1,295.1 Bcf of gas and 95.6 million barrels of crude oil, refined products and gas liquids. While these are significant numbers now, we expect they will be substantially over-shadowed by our operations over the next few years.

The second action plan is to build or acquire physical assets within the value chain of various energy commodities. A good example of this is TransCanada's 50 per cent interest in the building of the Express oil pipeline from Alberta to Wyoming and the announced acquisition of the Platte pipeline system between Wyoming and Illinois.

Global Opportunities

Globally, our first three international projects are in various stages of implementation, and at the end of 1995 we began to realize earnings from one of them, the Cusiana oil pipeline project in Colombia.

TransCanada is a major participant in North America's energy infrastructure. We intend to pursue opportunities in other parts of the world where the level of development in our areas of experience and expertise is similar to the level in North America some 40 years ago.

NOTABLE ACHIEVEMENTS

1995

Gerry Maier
Chairman of the board of directors

As part of our Energy Management action plan, we took a 50 per cent interest in the Express oil pipeline project to provide new market access for western Canadian crude oil in the United States.

Our Global Opportunities group completed all the necessary agreements and began construction work on the Cusiana oil pipeline and the Mariquita to Cali gas pipeline, both in Colombia.

We approach global business opportunities in a focused manner, concentrating on those areas where energy growth rate potential is three to five times that of North America and where risks can be mitigated to North American levels. Our preferred areas are Latin America, the Middle East and Southeast Asia – areas that have both a need for energy and the potential for exports.

Doing business internationally carries increased risk – but increased returns as well – and our efforts rely heavily on TransCanada's strengths in technology, operations, project management and financial management. Consistent with our approach in North America, the management of risk is integral to our global strategy. We are confident our careful and professional approach to this new world will provide increasing rewards in the years ahead.

Board of Directors

J.V. Raymond Cyr is not standing for re-election in 1996 to the board of directors for personal reasons. Mr. Cyr has served on the board of directors for nine years and during that time, he has made a strong and consistent contribution during a period of unprecedented growth and transformation. His wise counsel and dedication to the affairs of TransCanada will be greatly missed.

Conclusion

Shareholder value is a combination of the reality within an organization and the investors' perception of that reality. We believe that TransCanada is building shareholder value by applying our expertise and experience to energy businesses in both the regulated and non-regulated environments.

TransCanada will implement a new concept in 1996 – Value Added – as a means of measuring our shareholder value achievements. The Value Added philosophy is that when employees act like owners, only decisions that add shareholder value will be executed; long-term benefits or costs are considered, not short-term implications.

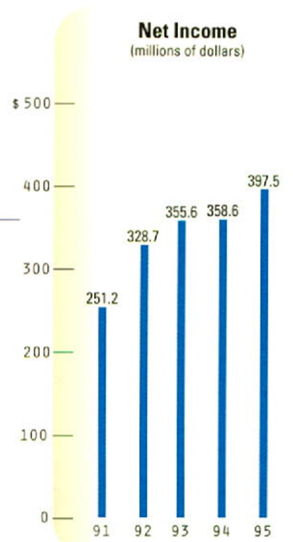
As we work toward the successful transition from a North American pipeline company to a global energy company, we recognize that success is made possible only by the hard work, dedication, skill and expertise of all TransCanada employees.

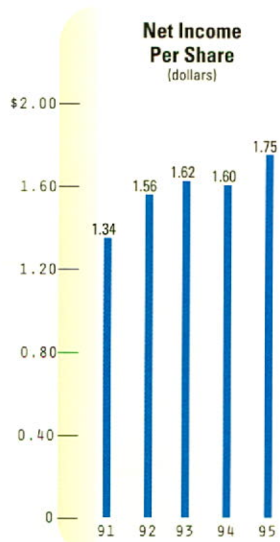
We thank them for their exemplary performance in 1995 and look forward to the challenges and opportunities that lie before TransCanada in 1996 and beyond.

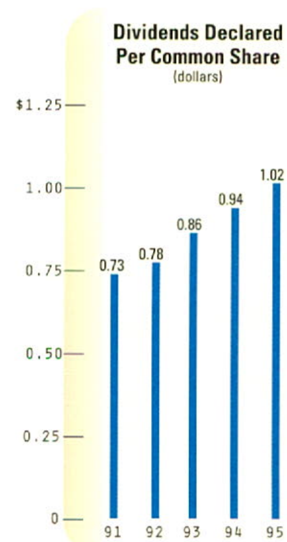
George W. Watson
President and chief executive officer
February 23, 1996

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

In Tanzania, we managed the construction of an emergency power plant as part of a larger gas to electricity project; we expect to proceed with the larger project during 1996.





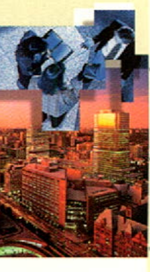


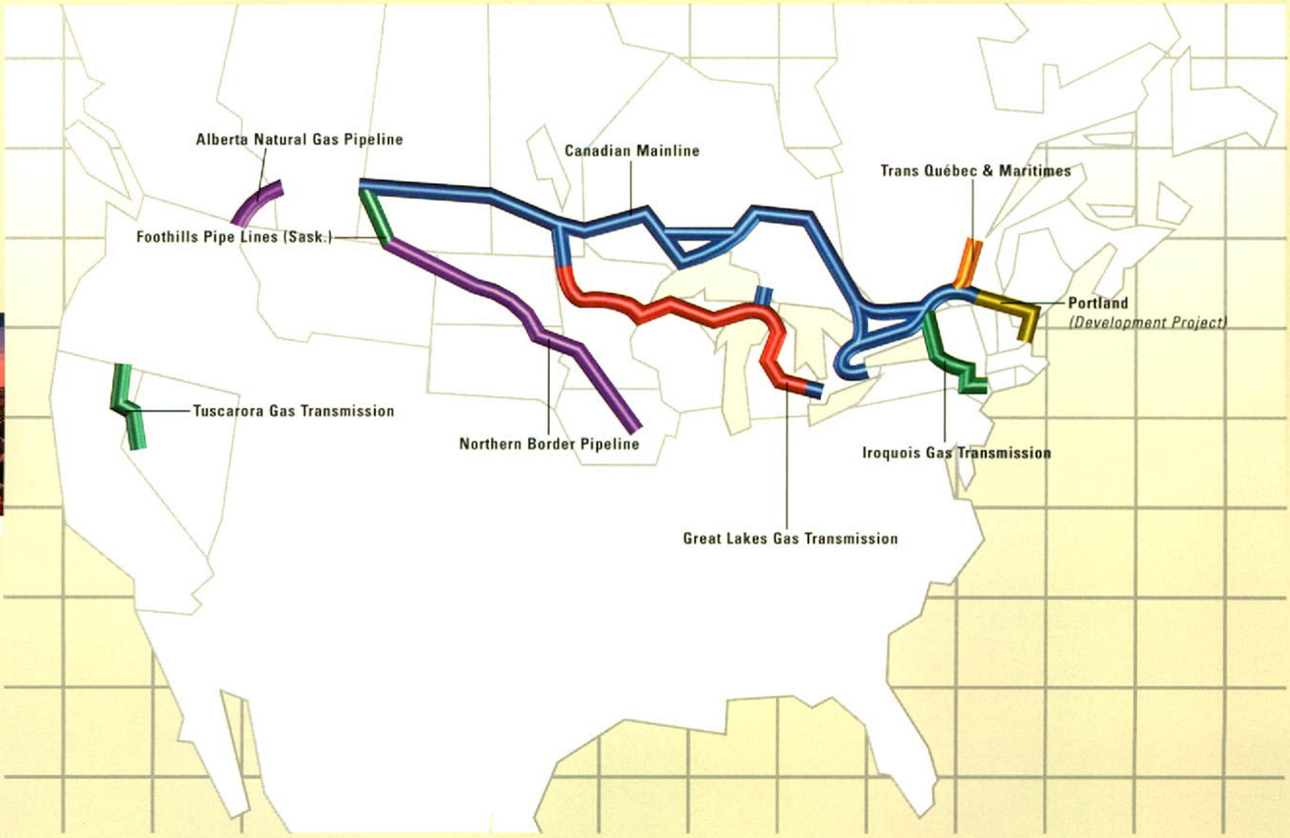
North American Pipeline System

Since 1985, North American natural gas consumption has grown 21 per cent and Canadian gas has captured 80 per cent of that growth. By providing a reliable link between the Western Canadian Sedimentary Basin and continental gas markets, TransCanada has transported about half the growth in North American consumption over the past decade.

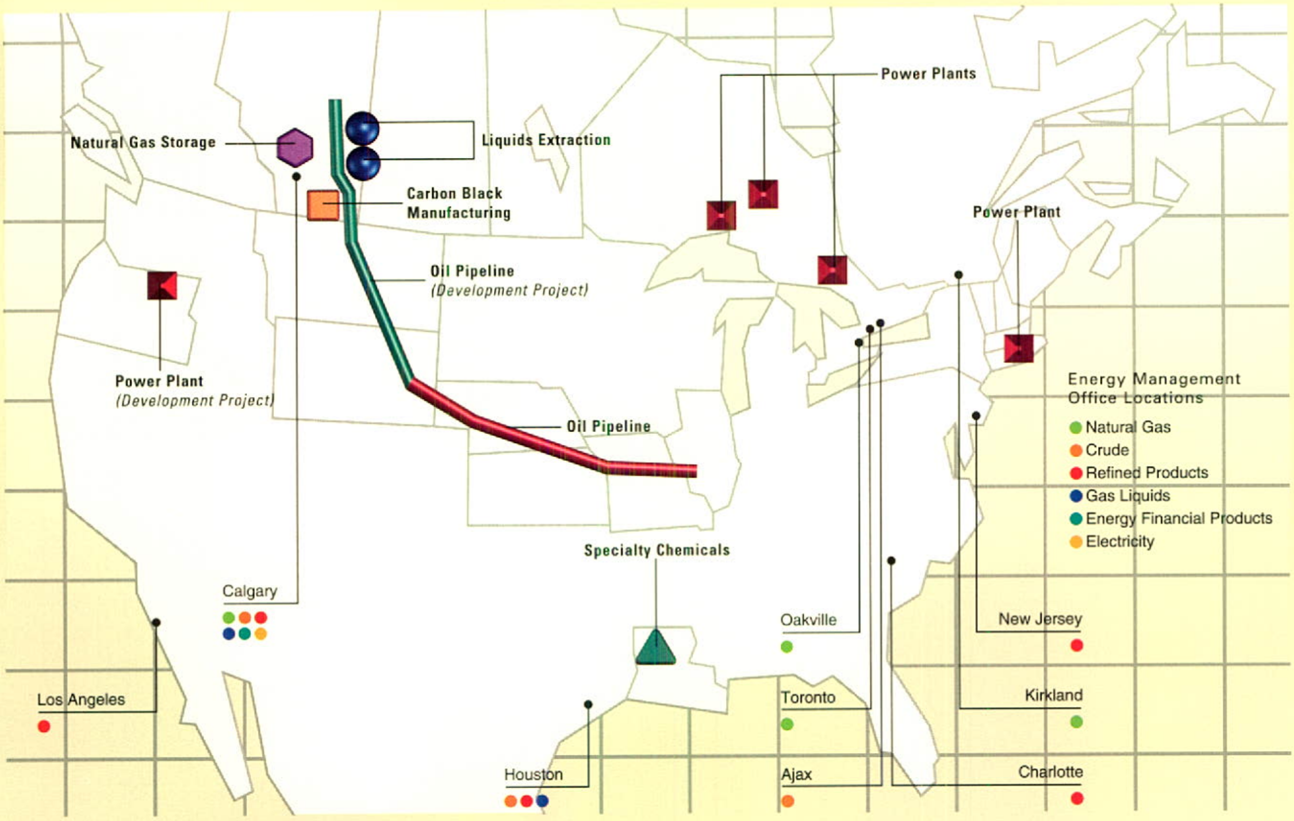
During 1995, the Canadian mainline transported a record 2,351.5 billion cubic feet (Bcf) of natural gas, an increase of 5.9 per cent over 1994. Domestic deliveries were 1,193 Bcf, compared with 1,203 Bcf in 1994 and export deliveries rose to 1,158.5 Bcf, up 13.9 per cent over 1994. Average daily deliveries were 6.4 Bcf, compared with 6.1 Bcf in 1994.

TransCanada's North American pipeline system, including the Canadian mainline and investments in seven interconnected pipelines, provides a strong, reliable earnings base.





	Ownership (per cent)	Length (kilometres)	Maximum Daily Delivery (Bcfd)	1995 Deliveries (Bcf)
Canadian Mainline	100	13 955	7.800	2,351.5
Trans Québec & Maritimes Pipeline Inc.	50	342	.515	112.0
Alberta Natural Gas Pipeline	49.5	177	2.518	552.0
Foothills Pipe Lines (Sask.) Ltd.	44	259	1.480	829.9
Great Lakes Gas Transmission Company	50	3 203	2.285	953.3
Tuscarora Gas Transmission Company	50	369	.111	1.9
Northern Border Pipeline Company	30	1 560	1.675	627.7
Iroquois Gas Transmission System	29	604	.750	314.5

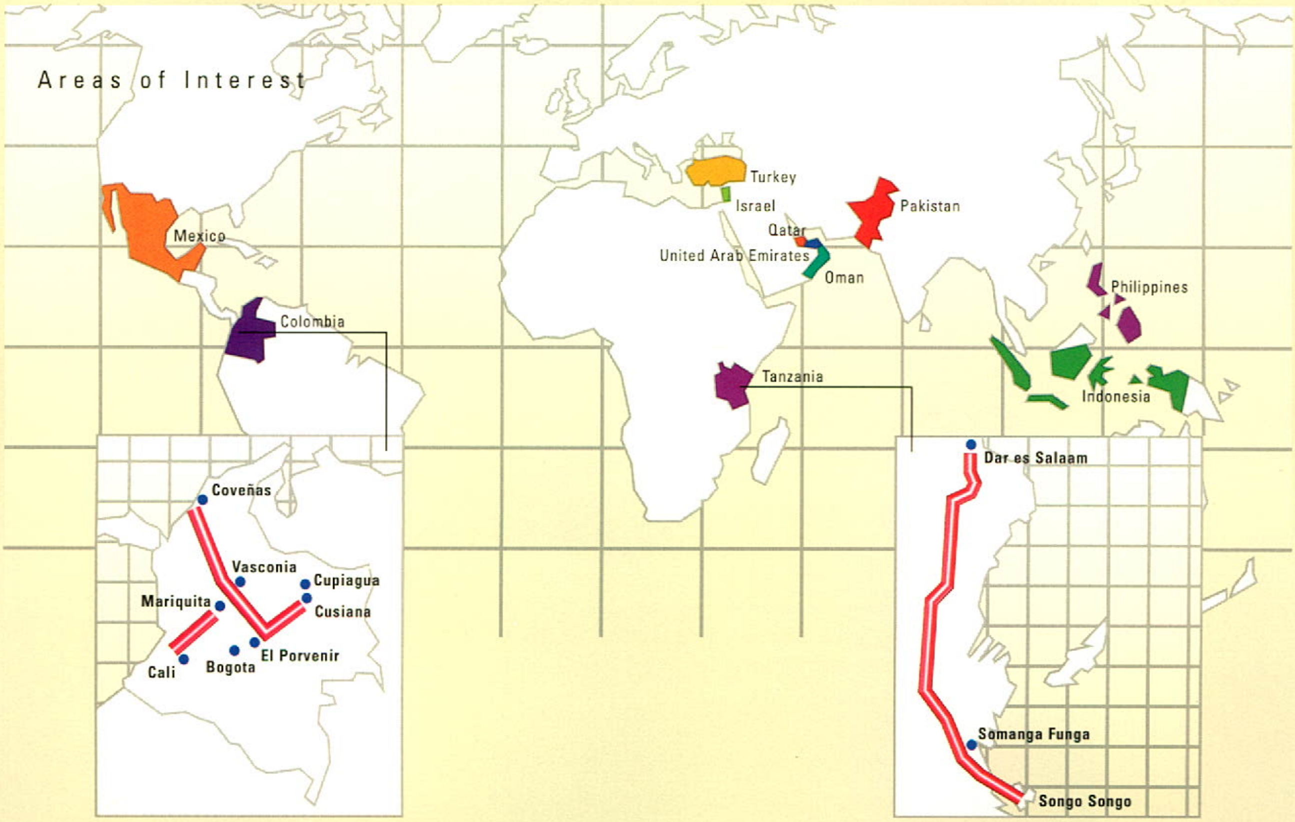


Energy Management

With changes in technology and deregulation of energy markets, today's customers insist on flexibility when it comes to making energy choices. TransCanada's energy management activities include power generation, gas storage, liquids extraction, carbon black manufacturing, chemicals manufacturing and participating in an electronic commerce service called NrG Highway. Responding to the needs of the marketplace, TransCanada Energy Management delivers a diverse line of energy products.

TransCanada marketed 1,295.1 Bcf of natural gas during 1995, a 10.6 per cent increase in volume sold over 1994. Canadian sales were 767.7 Bcf , while sales to the U.S. accounted for the remainder. During the year TransCanada also sold 95.6 million barrels of crude oil, refined products and natural gas liquids, and began marketing electricity to customers throughout North America.

By combining our resources and talent in the Energy Management group, we will develop a shared vision and common strategy that will create new business opportunities for TransCanada.



Global Opportunities

Around the world, as populations grow and countries industrialize, demand for affordable, reliable sources of energy also grows. While much of the natural gas infrastructure in Canada was built almost 40 years ago, in many parts of the world natural gas reserves are only beginning to be developed. As a pioneer in gas transmission and the development of independent power generation plants, there are good opportunities for TransCanada to market its expertise globally.

In 1995, significant progress was made on projects in South America and Africa. TransCanada is currently exploring new project opportunities in the United Arab Emirates, Pakistan, Turkey, the Philippines, Oman, Mexico, Israel and Indonesia.

Success in the global arena demands a geographic focus, strong negotiation skills, a careful balancing of risk with reward and the resolve to back out of a project if it no longer meets our criteria.

Significant Events

1995

JANUARY 1995

January 20
TransCanada reports 1994 net income of $358.6 million ($1.60 per share), a $3 million increase from the $355.6 million ($1.62 per share) reported in 1993. The company maintained its 1994 net income at approximately the same level as 1993, despite a reduction from 12.25 per cent to 11.25 per cent in the return on deemed common equity for the Canadian mainline.

FEBRUARY 1995

February 16
TransCanada and its partner are awarded the management contract by TANESCO for the construction of a US$40 million, 75-megawatt emergency power plant in Ubungo, Tanzania. This is an acceleration of this component of the Songo Songo gas to electricity project.

February 22
TransCanada and its partners reach agreement with Empresa Colombiana de Petroleos (Ecopetrol) for the construction, ownership and operation of a US$310 million, 344-kilometre natural gas pipeline system, with over 400 kilometres of laterals, from Mariquita to Cali in Colombia, South America.

APRIL 1995

April 3
TransCanada and its partners announce that all shareholder, operating and transportation agreements for Oleoducto Central S.A. (OCENSA), a new Colombian oil pipeline company, have been substantially completed. OCENSA will own, expand, finance and operate the US$1.8 billion pipeline, related transportation infrastructure and port facilities to carry oil from the Cusiana and Cupiagua fields to the Caribbean port of Coveñas. TransCanada has a 17.5 per cent interest in the pipeline company and, with a partner, will operate the facilities on behalf of OCENSA.

April 11
The National Energy Board (NEB) releases its decision on the 1995 multi-pipeline hearing on the cost of capital (rate of return on common equity and capital structure) setting a benchmark rate of return on common equity of 12.25 per cent for TransCanada. The NEB also ruled a deemed common equity ratio of 30 per cent appropriate for TransCanada, also effective January 1, 1995.

MAY 1995

May 18
TransCanada awards two contracts valued at a total of $50 million for construction of power generation plants at Kapuskasing and North Bay, Ontario. Using natural gas and waste heat from adjacent TransCanada compressor stations as energy sources, each plant will produce 40 megawatts of electricity – enough power to supply electricity to 20,000 homes. They are expected to be in service by December 1996.

JUNE 1995

June 2
Tuscarora Gas Transmission Company (Tuscarora), an equal partnership between Sierra Pacific Resources Corporation of Nevada and TransCanada, receives U.S. Federal Energy Regulatory Commission (FERC) approval to construct a US$130 million natural gas pipeline between Malin, Oregon and Reno, Nevada. The pipeline is designed to deliver up to 111 million cubic feet (MMcf) of natural gas per day to customers in northeastern California and Nevada.

JULY 1995

July 29
A line break caused by stress corrosion cracking occurs adjacent to a compressor station near Rapid City, Manitoba on the Canadian mainline.

July 31
TransCanada merges the natural gas marketing operations of its subsidiaries into TransCanada Gas Services. By consolidating gas marketing activities TransCanada can economize and better meet the needs of its customers.

OCTOBER 1995

October 13
Northern Border Pipeline Company files an application with the FERC to expand and extend its pipeline system at a cost of US$796 million.

October 23
TransCanada and its partners sign an agreement of intent with the government of Tanzania and the World Bank on the second phase of the US$300 million Songo Songo gas to electricity project, the development of the Songo Songo natural gas field, including gas processing and transportation facilities.

October 29
The emergency power plant in Tanzania commences operation. Construction was under budget and completed in record time.

DECEMBER 1995

December 1
Tuscarora begins operations on schedule.

December 8
The NEB announces a 1996 rate of return on common equity of 11.25 per cent for TransCanada, an adjustment resulting from its multi-pipeline cost of capital decision earlier in the year.

December 20
TransCanada becomes the first major natural gas transmission pipeline in North America to reach agreement on an incentive cost recovery and revenue sharing mechanism that provides an opportunity to increase Canadian mainline earnings and aligns the interests of TransCanada and its stakeholders.

JUNE 1995

June 8
Express Pipeline Ltd., a company equally owned by TransCanada and Alberta Energy Company Ltd., files an application with the NEB seeking approval to build a 170,000 barrel per day oil pipeline that will significantly expand access to U.S. markets for Alberta oil producers. The $530 million, 1 262-kilometre pipeline will stretch from Hardisty, Alberta to Casper, Wyoming. If built, Express will be the first wide-diameter link between western Canadian oil producing regions and the U.S. Rocky Mountain region.

AUGUST 1995

August 23
Cancarb Limited, a wholly owned subsidiary and the world's leading manufacturer of thermal carbon black, receives regulatory approvals for a $16 million expansion of its Medicine Hat, Alberta plant. This will increase annual production capacity by one-third, or an additional 20 million pounds of carbon black.

NOVEMBER 1995

November 22
TransCanada and its partners form a Mexican company (Distribución de Gas Natural, S.A. de C.V.) and present a Statement of Interest to the Mexican Energy Regulatory Commission to construct, own and operate a natural gas distribution system in the Mexico City Metropolitan Area.

November 30
The NEB approves TransCanada's 1996/1997 facilities expansion of the Canadian mainline, supported by long-term firm market requirements, that will increase shipping capacity by 192 MMcf per day.

JANUARY 1996

January 19
TransCanada announces net income rose 11 per cent in 1995, to $397.5 million or $1.75 per share from $358.6 million or $1.60 per share in 1994. This increase was attributable to a higher rate of return on deemed common equity for the Canadian mainline and increased contributions from energy management activites.

North American Pipeline System

TransCanada's North American Pipeline System taps into the Western Canadian Sedimentary Basin (WCSB), which holds over 30 per cent of the combined U.S. and Canadian proven reserves of natural gas. Since supply costs of the WCSB are substantially lower than competing basins, it is in an excellent position to capture growth in gas demand in North America.

Canadian mainline – 100% 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 U.S. and is a major transporter to eastern Canadian markets.

Foothills Pipe Lines (Sask.) – 44% interest
Foothills carries gas from Alberta's eastern border to the Northern Border pipeline system.

Alberta Natural Gas Pipeline – 49.5% interest
ANG carries gas from Alberta's western border through British Columbia to the U.S. border where it connects with the Pacific Gas Transmission System and growing markets in the Pacific Northwest.

Trans Québec & Maritimes Pipeline – 50% interest
TQM connects with the Canadian mainline and transports natural gas from Montréal eastward to Québec City.

The Canadian mainline and investments in seven interconnected North American pipelines provide the critical transportation link between the reserves of the WCSB and major population centres in eastern Canada, and the northeastern, midwestern and northwestern U.S.

Great Lakes Gas Transmission System – 50% interest

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 Pipeline – 30% interest

NORTHERN BORDER CONNECTS TO FOOTHILLS NEAR MONCHY, SASKATCHEWAN AND CARRIES GAS TO MARKETS IN THE U.S. MIDWEST.

Iroquois Gas Transmission System – 29% interest

IROQUOIS CONNECTS TO 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 System – 50% interest

TUSCARORA CONNECTS WITH THE PACIFIC GAS TRANSMISSION SYSTEM AND TRANSPORTS GAS FROM MALIN, OREGON TO GROWING MARKETS IN NORTHEASTERN CALIFORNIA AND NEVADA.

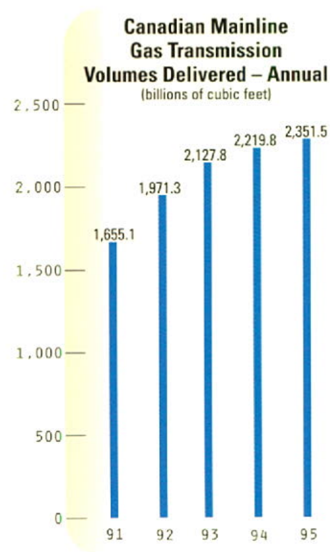
Our Goal To be the most profitable transporter of natural gas in North America by seeking out niche opportunities for development or expansion, continuously improving our efficiency, maintaining our excellent safety, environmental and operating standards and responding to the needs of our customers.

Our Strategy Build or acquire pipelines to meet market needs, where economically feasible, and offer transportation services and enhancements that maximize pipeline use.

Canadian Mainline

Safe and efficient, reliable and profitable, the Canadian mainline, 13 955 kilometres of pipeline, shipped 2,351.5 Bcf of natural gas in 1995 – more than 10 per cent of all the natural gas used in North America. Originally built almost 40 years ago by a small group of visionaries who predicted the marketability of western Canadian natural gas in eastern markets, the Canadian mainline remains the foundation of our business.

In Canada, the National Energy Board (NEB) regulates the construction of pipeline facilities, sets tolls and approves tariffs and the import and export of natural gas. Since the return earned by shareholders is based in part on the level of rate base in the pipeline, growth in rate base via expansions provides an increase in earnings. Since 1989, $5.5 billion has been invested to increase delivery capacity of the Canadian mainline by 75 per cent. Much of this expansion was driven by rising U.S. demand. From 1988 to 1995, for example, U.S. imports of natural gas climbed from 1.3 trillion cubic feet (Tcf) to 2.7 Tcf. In 1995, we spent $430 million expanding our system in response to demonstrated long-term firm market demand as well as maintaining the integrity and efficiency of our system. In 1996, TransCanada expects to spend $668 million on capital construction and add about 200 MMcf per day of new delivery capacity.



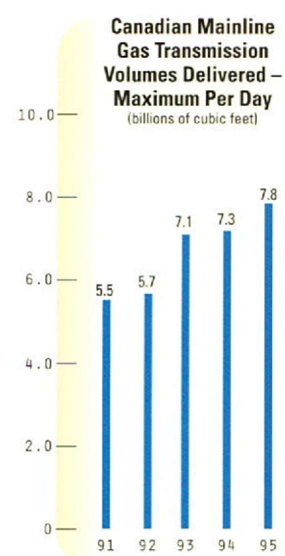
Our core asset, like most North American pipelines, earns a regulated return. In April 1995, the NEB released its decision on the 1995 multi-pipeline hearing on the cost of capital (rate of return on common equity and capital structure) setting a benchmark rate of return on common equity of 12.25 per cent and establishing a deemed common equity ratio of 30 per cent for TransCanada, both effective January 1, 1995. The multi-pipeline hearing on the cost of capital also established an automatic adjustment mechanism for determining the rate of return on common equity for a given test year. For 1996, applying this formula has resulted in the benchmark rate of return on common equity being set at 11.25 per cent.

Incentive Settlement

In December 1995, TransCanada became the first major natural gas transmission company in North America to reach a settlement on incentive toll regulation with its major export and domestic customers and suppliers. Though only moderately changing the risk/reward profile of the pipeline, the Incentive Cost Recovery and Revenue Sharing Settlement will provide TransCanada with an additional incentive to generate cost savings and incremental revenues from existing assets by allowing us to keep a portion of those savings and incremental revenues.

With this settlement, TransCanada intends to move away from the current method of resolving all issues in a costly hearing setting that provides little reward for efficiencies and, since all incremental revenues are returned to the shippers, less incentive to maximize discretionary revenues. This four-year settlement will encourage operating efficiencies and incremental revenue generation, resulting in lower tolls for shippers. As TransCanada will share savings on controllable costs (and cost overruns) equally with the shippers, we will focus on maintaining and improving our quality of service, managing controllable costs and generating discretionary revenue from our system. The settlement will be applied to determine TransCanada's net revenue requirement for toll-making purposes during its term.

While TransCanada continues to be regulated by the NEB, this settlement gives the Canadian mainline the ability to profit from increases in productivity and creativity. The settlement was approved by the NEB on February 22, 1996 and extends for a four-year term commencing January 1, 1996.



Stress Corrosion Cracking

On July 29, 1995, a line break occurred adjacent to a compressor station near Rapid City, Manitoba on the Canadian mainline. The break was attributed to stress corrosion cracking (SCC), which can be described as a group of hairline cracks on the pipe's exterior surface that under certain conditions can grow and affect the integrity of the pipeline.

SCC was first discovered in the U.S. in the mid 1960s and since then has been found on oil and gas pipelines around the world. TransCanada's first SCC rupture occurred in the mid 1980s. SCC is not isolated to TransCanada's pipeline system and incidents are rare considering the extent of our pipeline.

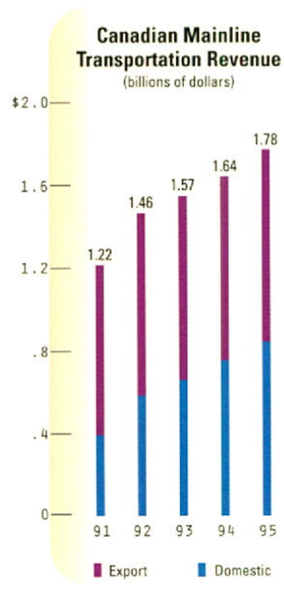
TransCanada has spent more than $170 million since 1985 testing and replacing pipe to ensure the integrity of the Canadian mainline and is an industry leader in research related to SCC. For the past 10 years, we have been working with British Gas to develop a pipeline inspection tool that will detect SCC before it poses a problem.

In April 1996, TransCanada will be participating in the industry-wide NEB inquiry into SCC. While SCC remains a challenge, our current program and research activities are effectively managing the problem.

Expansion

A regulated pipeline can expand when a customer requests additional firm transportation service and potential shippers demonstrate that there is a market requirement for new capacity.

Ultimately, a decision is made to expand a pipeline if a project is economically justified based on the size of the market and the cost of expanding or extending a pipeline into that market. TransCanada and its interconnected pipelines are continually interacting with potential customers and propose expansion projects when sufficient market requirements exist. For example, Northern Border has applied to the FERC to expand and extend its pipeline system into the heart of the Chicago market in 1998 with the addition of 243 kilometres (150 miles) of pipe and 222 megawatts of compression.



The Northern Border expansion, expected to cost US$796 million, will increase the pipeline's receipt capability at the Canadian border and in the northern plains region by 41 per cent (700 MMcf per day), to 2.4 Bcf per day. This expansion will open up new markets and may create future opportunities for growth.

In support of Northern Border's expansion, Foothills Pipe Lines (Sask.) would add pipe looping and compression at a cost of approximately $125 million. The expansion is planned for 1998.

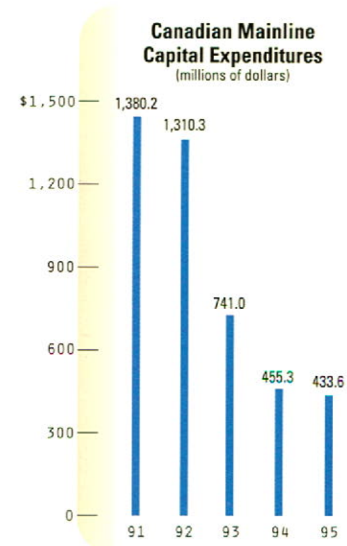
Niche Opportunities

Tuscarora is an example of the kind of niche market opportunities existing for natural gas in North America. This pipeline between Malin, Oregon and Reno, Nevada was built by the Tuscarora Gas Transmission Company, a partnership between subsidiaries of Sierra Pacific Resources Corporation of Nevada and TransCanada. Costing US$130 million, the pipeline is designed to deliver 111 MMcf per day of natural gas to customers in northeastern California and Nevada. Although Tuscarora has the smallest delivery capacity of our interconnected pipelines, it can be expanded to respond quickly to new demands for gas service.

TransCanada has a strong financial base from which to finance construction and operation of projects, and we have been able to employ innovative financing structures which enhance the economics of these projects. In addition, as project developer, TransCanada has been successful at containment of construction costs. Construction costs on Tuscarora, for example, were held to within four per cent of the original budget estimate. This achievement is typical of our track record in developing and managing major construction projects and operating pipelines.

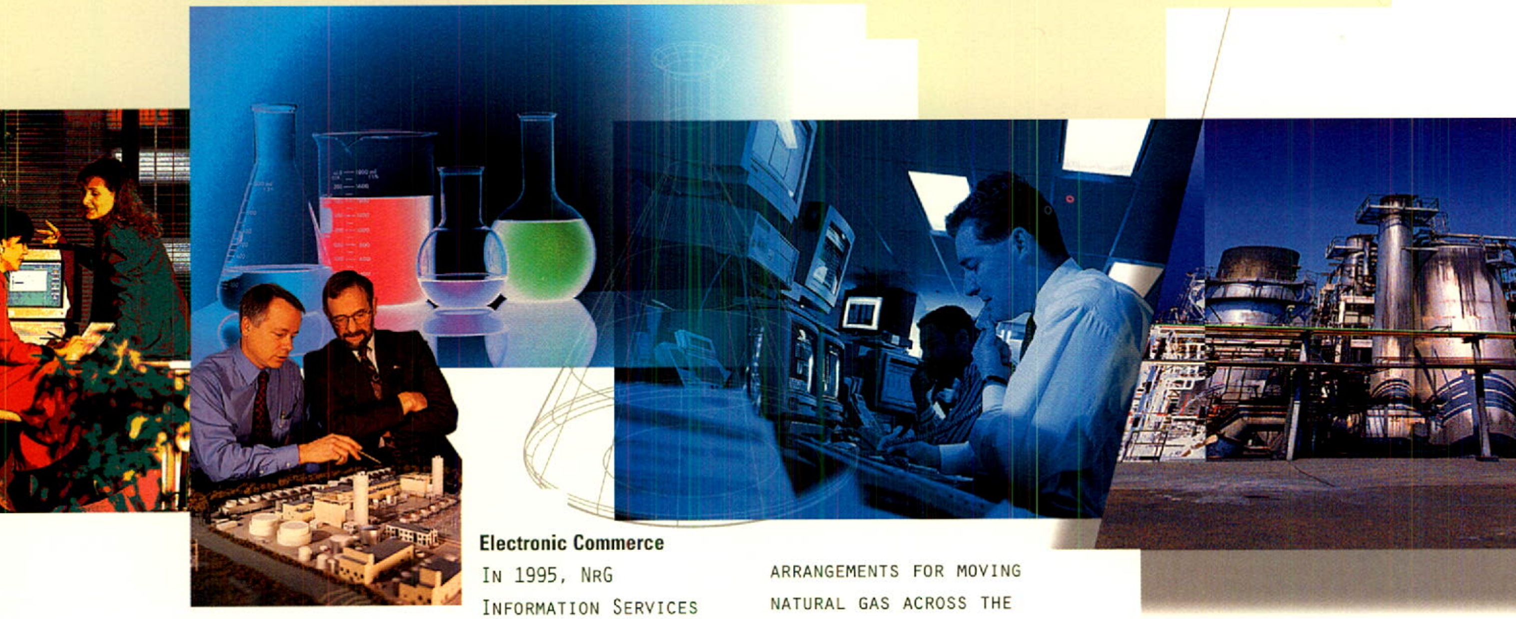
New Project

A project currently under consideration is the Portland Natural Gas Transmission System (Portland), in which TransCanada will hold a 20 per cent interest. At a total cost of US$240 million, the Portland partnership intends to construct a 250-mile (403-kilometre), 20-inch diameter transmission system that will connect with the Canadian mainline at Highwater, Québec to deliver natural gas to markets in New England. Construction of Portland would require TransCanada to expand upstream capacity on the Canadian mainline. The planned in-service date of Portland is November 1998.



Energy Management

Energy Management TransCanada Energy Management brings a sharper focus, new definition and increased synergy to the supply, processing and sales activities of TransCanada. Energy Management facilitates a cohesive energy marketing strategy, the coordination of risk management activities and the development of projects that enhance customer services – and earnings for our shareholders.



Liquids Extraction

TransCanada holds a 50 per cent interest in the Empress II natural gas liquids extraction plant, built in 1983 on the Alberta/Saskatchewan border; and in a gas liquids extraction plant at Cochrane, Alberta, through its 49.5 per cent ownership of Alberta Natural Gas Company Ltd (ANG).

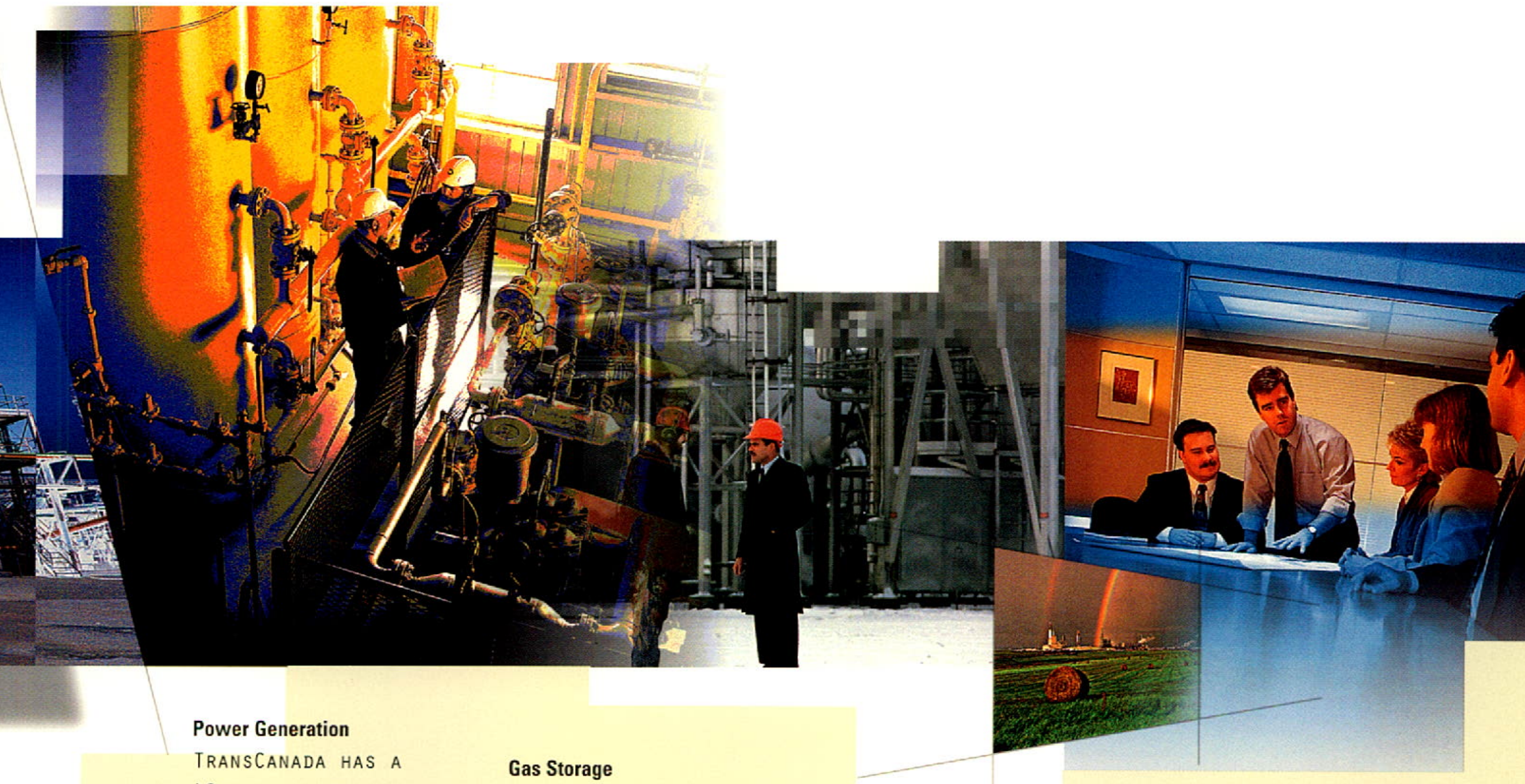
Electronic Commerce

In 1995, NrG Information Services Inc., jointly owned by TransCanada, NOVA Corporation and Westcoast Energy Inc., welcomed Tenneco Gas Pipeline Company as a fourth partner, making NrG Highway the first continental natural gas transportation electronic commerce service. The non-proprietary bulletin board allows gas transportation customers to make seamless contractual and operational arrangements for moving natural gas across the participating pipelines, reducing the confusion, time and expense often incurred in transporting natural gas over multiple pipeline systems. The goal of NrG Highway is simple: to meet the evolving energy needs of our customers by making gas transportation easier, more cost-effective and reliable through electronic commerce and common business standards.

Natural Gas

100 per cent owned, TransCanada Gas Services' primary market regions include western and eastern Canada, the U.S. midwest, northeast, Pacific northwest and California.

Our Goal To increase earnings by becoming one of North America's leading energy marketers, providing a full range of energy products and services to our customers.



Power Generation

TransCanada has a 40 per cent ownership in the 500-megawatt Ocean State power plant, located in Rhode Island, and owns and operates the 38-megawatt Nipigon, Ontario power plant. Two new wholly owned 40-megawatt power plants at Kapuskasing and North Bay, Ontario, will be in service late in 1996.

Gas Storage

TransCanada holds a 40 per cent interest in the 40 Bcf CrossAlta underground natural gas storage facility located in Alberta. ANG also owns a 20 per cent interest in CrossAlta.

Crude Oil and Other Products

TransCanada's wholly owned subsidiaries market crude oil, refined products, natural gas liquids and electricity throughout North America.

Carbon Black Manufacturing

100 per cent owned by TransCanada, Cancarb is the world's leading manufacturer of thermal carbon black. Cancarb had record sales in 1995.

Our Strategy We will manage and market all forms of energy – not only natural gas, but crude oil and refined products, natural gas liquids, electricity, natural gas storage, liquids extraction, carbon black manufacturing and chemicals. We will provide one-stop energy shopping by seizing opportunities for growth – up, down and across the various energy commodity value chains.

Natural Gas

In 1995, TransCanada merged the operations of Western Gas and Northridge Gas Marketing into a new company, TransCanada Gas Services (TCGS). By combining these resources and skills, TransCanada continues to strengthen and improve service to its gas marketing customers, both gas suppliers and buyers in North America.

With annual sales of 1.3 Tcf, TCGS is the largest gas marketer in Canada and the leading exporter of Canadian gas to the United States. It markets gas to local distribution companies, institutional and industrial gas users, other marketers, pipelines and power producers throughout the continent. Core services include gas purchases and sales, arranging transportation, storage and exchange.

Power Generation & Electricity

Natural gas is an abundant, efficient and reliable energy source with clean air advantages. 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 plant in Rhode Island, the first independent power plant in North America.

With the recent developments in the electric power industry in North America, including the possibility of deregulation, TransCanada sees the best potential for investment in electricity supply in the development and operation of micro-generation facilities for niche markets. Natural gas-fuelled, combined-cycle plants are popular around the world since they are economical, can be built quickly and offer major environmental benefits over oil and coal-fired plants. Rated at 38 megawatts, our power plant at Nipigon, Ontario uses this technology and captures waste heat from the adjacent compressor station on the Canadian mainline. During 1995, TransCanada began constructing two plants at North Bay and Kapuskasing, Ontario. Rated at 40 megawatts each, these plants will be placed in service late 1996. Our recognized expertise in this technology has served as a springboard to power projects outside of North America.

TransCanada purchases electricity from utilities and various wholesalers and resells to consumers in the provinces of Alberta and British Columbia, and in the states of Washington, Oregon and California. Where TransCanada has a significant gas presence, our services include exchanges, storage and transportation. As a FERC authorized power marketer, we are licensed to conduct business in the U.S.; in 1995, we were the first non-electrical utility to export electricity from Canada.

In 1996, we plan to combine our expertise in power generation asset development with our skills as a commercial electrical marketer to establish TransCanada as an asset-based electric power marketing company.

Petroleum and Products

TransCanada gathers, aggregates and markets crude oil on behalf of independent, small to medium-size producers in Western Canada, Texas and Louisiana. We plan to expand this business by providing cost effective, efficient marketing and transportation services to producers and a full range of crude oil services to refiners in North America. In 1995, TransCanada sold 61 million barrels of crude oil.

TransCanada processes crude oil with refiners, buys products on a spot or term basis and sells to independent wholesalers, retailers and industrial customers, in central and western Canada and in the U.S. Our product line includes all grades of gasolines and distillates. Our competitive advantage is in our ability to offer innovative pricing alternatives. In 1995, TransCanada sold 29.5 million barrels of refined products.

We also market natural gas liquids and liquefied petroleum gases in the U.S. and Canada. In 1996, TransCanada will maximize revenues in natural gas liquids by continuing to provide producers with services not readily available from other marketers in the industry, including risk management, marketing, transportation and storage and third-party gas processing in the U.S. Our capacity at five processing facilities in Alberta enhances flexibility and netbacks to producers. In 1995, TransCanada sold 5.1 million barrels of natural gas liquids.

Carbon Black Manufacturing

Cancarb, a wholly owned subsidiary of TransCanada, is the world's leading manufacturer and marketer of medium thermal carbon black. Its product, Thermax, is used on six continents in the manufacturing of rubber products, cable, metal carbides and plastics. In 1995, Cancarb's revenues from its sales of Thermax increased 13 per cent over 1994. Cancarb continued its efforts to expand overseas markets. In 1995, sales outside North America represented 66 per cent of total sales, up from 58 per cent in 1994. In both 1994 and 1995, Cancarb's demand was in excess of its capacity. As a result of its marketing success, Cancarb is expanding its Medicine Hat, Alberta plant to increase production capacity by one-third. The expansion is expected to be completed in June 1996.

New Project

The U.S. oil market is key to the success of the proposed Express oil pipeline (equally owned by TransCanada and Alberta Energy Company Ltd.) between Alberta and Wyoming, connecting there with other pipelines to reach Salt Lake City, Utah; Denver, Colorado and southern Illinois. The project is attractive because it offers TransCanada the opportunity to combine our pipeline expertise with our crude oil marketing expertise to create a profitable new business line.

The U.S. now imports more than 50 per cent of the oil it consumes; with the exception of 1991, oil production in the U.S. has fallen every year since 1985. If Express receives regulatory approval, the pipeline will significantly expand access to U.S. oil markets for Canadian producers and U.S. oil markets will be offered a safe, secure supply of a highly strategic resource.

The proposed 1 262-kilometre (785-mile) pipeline is designed to transport 170,000 barrels per day. During a bidding process in late 1995, producers, marketers and refiners committed to more than 85 per cent of the pipeline's capacity, most for a 15-year term.

In January 1996, TransCanada and its partner in Express entered into an agreement to acquire Platte Pipeline Company from its current owners. The 180,000 barrel per day pipeline gathers crude oil primarily from Wyoming and carries it to refineries in the St. Louis area. If the Express oil pipeline is built, it will connect to Platte's system.

Global Opportunities Large untapped energy supply basins are located near growing energy markets in Latin America, throughout Southeast Asia and in the Middle East. Our challenges are to locate the correct mix of supply and demand, carefully assess the regulatory,

Oleoducto Central S.A. - Colombia

TransCanada has a 17.5 per cent interest and joint operating responsibility for the US$1.8 billion Cusiana oil pipeline project which will transport crude oil from the Cusiana and Cupiagua oil fields in the interior of Colombia to the port of Coveñas on the Caribbean coast.

TransGas de Occidente S.A. - Colombia

TransCanada has a 34 per cent interest in the US$310 million natural gas pipeline, from Mariquita to Cali, which is part of Colombia's national gasification plan.

Tanzania

TransCanada, with its partner Ocelot Energy Inc., acted as construction managers for a 75-megawatt power plant at Ubungo, Tanzania. This is the first phase of a planned larger project, estimated to cost US$300 million, that will include a proposed offshore/onshore natural gas pipeline from Songo Songo Island to Dar es Salaam, plus an associated gas processing plant.

economic and political climate of prospective countries, find the right partners, arrange financing that limits risk and protects assets, provide people to oversee the development and operate the asset at a good rate of return – all for the benefit of our shareholders.

Mexico

TransCanada along with its partners have formed a Mexican company and presented a statement of interest to the Mexican Energy Regulatory Commission to construct, own and operate a natural gas distribution system in the Mexico City Metropolitan Area.

Gulf South Asia

TransCanada has a 25 per cent interest in this project to transport gas from Qatar to Pakistan. Total cost of the project is estimated at US$3.2 billion.

Our Goal To increase shareholder value by selecting and developing global opportunities that offer good returns with manageable risks.

Our Strategy To construct and be the operator of the infrastructure between good energy supply and strong energy demand. Focusing on pipelines and power generation projects, we only pursue opportunities that allow us to use our core competencies and serve as a springboard for further projects.

Pipelines in Colombia

TransCanada has two pipelines under construction in Colombia. In March 1995, TransCanada finalized the documentation relating to its participation in the Cusiana oil pipeline, consisting of the purchase and expansion of crude oil transportation infrastructure (pipelines, pumping facilities and tankage) from the Cusiana and Cupiagua oilfields to Coveñas on the Caribbean coast, a distance of about 800 kilometres. The total project cost is approximately US$1.8 billion, of which approximately US$300 million was used to purchase existing pipeline infrastructure, currently in operation. Approximately US$1.5 billion is for the Phase II expansion, expected to be in service in mid-1997. TransCanada has a 17.5 per cent interest in this project, and joint operating responsibilities.

In November 1995, TransGas raised US$240 million of debt to finance the majority of the US$310 million Marquita to Cali natural gas pipeline. The debt carries a 15-year maturity and, to date, represents the largest term financing for a project in a developing country. The project comprises a 344-kilometre, 20-inch natural gas pipeline system, along with 400 kilometres of laterals, which is part of Colombia's national gasification plan. TransCanada holds a 34 per cent interest in the project. Construction on the project started in January 1996.

Gas to Electricity in Tanzania

In November 1995, a 75-megawatt emergency power plant, managed by TransCanada, began operating on fuel oil. Located at Ubungo, Dar es Salaam, it is the first phase of the US$300 million Songo Songo gas to electricity project being developed by TransCanada and its partner, Ocelot Tanzania Inc. Conceived in February and completed within budget in a record eight months, the plant, which will be expanded and will switch to natural gas as a fuel source once the Songo Songo gas pipeline is in operation, is helping to ease the power shortage in Tanzania.

The Songo Songo project, which includes gas processing, gas transportation and electric power generation, will provide domestic fuel for power production and industrial use. TransCanada expects to invest US$35 million in the project and, with its partners, will have a 20-year agreement with the government of Tanzania to operate the facilities. All phases of this project are scheduled to be in commercial operation by 1998.

Gulf South Asia Gas Project

In April 1994, TransCanada announced its participation in this major international project to transport gas from Qatar to Pakistan. The 1 600-kilometre (992-mile) pipeline, mostly subsea, will connect the world's largest gas field to growing markets. Total cost of the pipeline is estimated at US$3.2 billion. TransCanada agreed to participate in the development of the project and to acquire a minimum 25 per cent interest. Work in 1995 focused on surveying the proposed route, gathering environmental data and ongoing discussions of project terms and conditions.

In order for this project to proceed, the partners will need transit and regulatory approvals and they will need to successfully negotiate and execute a gas purchase agreement with Qatar, a gas sales agreement with Sui Southern (the local gas distribution company in Pakistan) and obtain credit enhancement from the World Bank.

Selecting the Right Project

How do we select our global opportunities? First of all, when it comes to pipeline and power generation projects, serious consideration is given only to projects in areas where there are sufficient hydrocarbon reserves to ensure the long-term economic viability of the project. Next, we need to establish the existence of a market for our product. We also research the political, economic and social stability of the country and judge whether or not the climate is right for investment. Finally, TransCanada assesses whether the project will provide a long-term financial return that is commensurate with the risk.

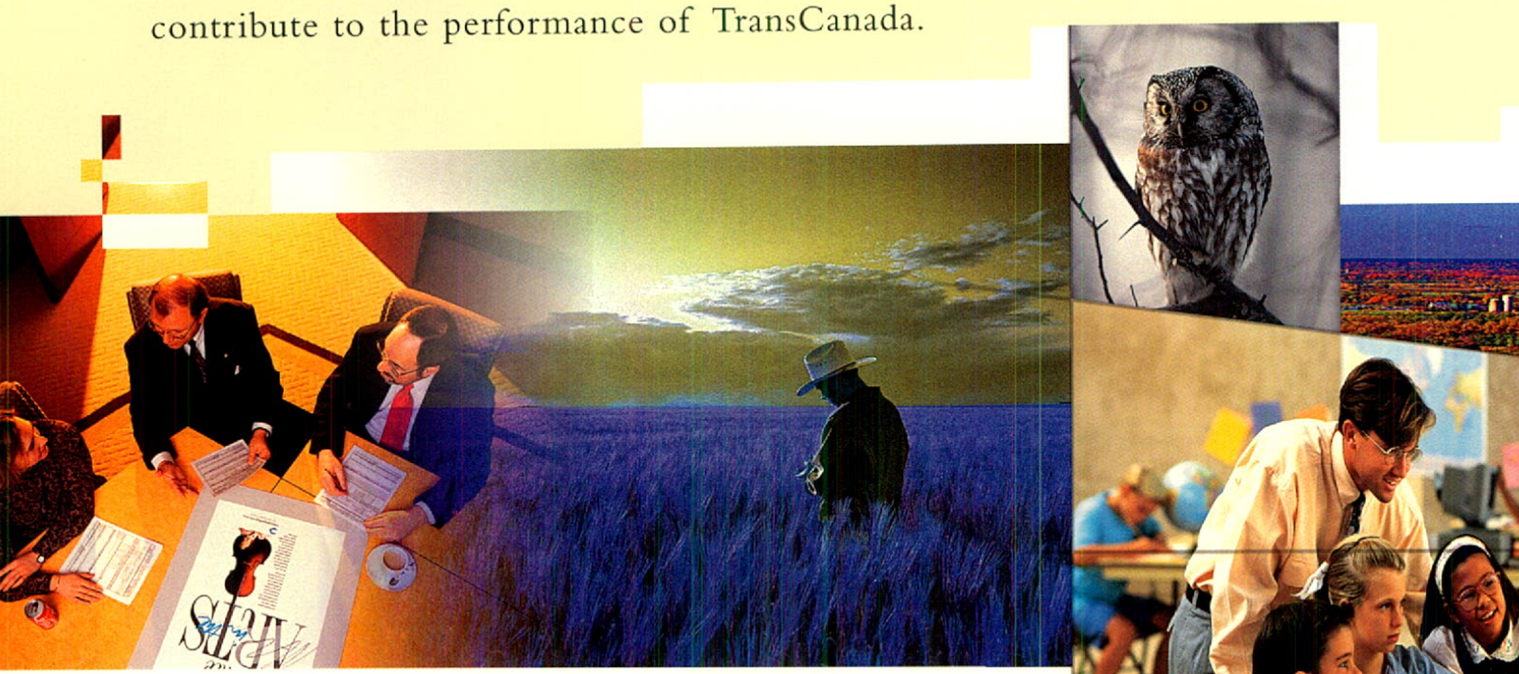
Mexico, with a population of approximately 90 million and abundant hydrocarbon reserves, offers a unique opportunity for investment. Crude oil has been a driving force in the economic development in Mexico for many years and natural gas largely has been ignored. But changing domestic and external realities are shifting that focus.

In 1995, for example, Mexican law changed to permit private investment in natural gas transportation, distribution and storage. Also, with the devaluation of the peso, export sectors have recently found growing markets for their manufactured products, in turn escalating demand for a secure, inexpensive energy supply. As well, under the terms of the North American Free Trade Agreement, Mexico is undertaking to reduce air emissions from industry and power plants which can be accomplished through conversion to natural gas.

All of these factors combine to create an encouraging climate for private investment and TransCanada has begun exploring the possibility of developing natural gas projects in Mexico. For similar reasons, we are also exploring opportunities in other countries, including the United Arab Emirates, Pakistan, Turkey, the Philippines, Oman, Israel and Indonesia. However we will only develop projects once we are satisfied that all our criteria for success have been met.

Corporate Programs

To be successful in today's competitive business climate, we know that we must provide top-quality service to our customers. To do this, we employ and develop creative and innovative men and women who are encouraged to realize their full potential and contribute to the performance of TransCanada.



Safety

At TransCanada, we believe excellence in safety performance is an essential requirement to the successful operation of our gas transmission system and we are committed to the protection of our employees, physical assets and the public. TransCanada employees are expected to perform their jobs properly in accordance with established procedures and operating philosophy, and managers are responsible for creating a safe work environment. In 1995, TransCanada's lost-time injury frequency declined to 0.12 incidents per 200,000 hours worked, a much better performance than our objective of 0.20. This was a record acheivement for TransCanada. Our motor vehicle accident frequency of 1.27 accidents per million kilometres driven also surpassed the objective of 1.91. During 1995, TransCanada employees worked more than 2.3 million hours between lost-time accidents.

Donations

Our long-term business success and economic strength depend on the health of the communities in which we work and live. That is why we have always welcomed our corporate responsibility to help improve those communities. In 1995, TransCanada gave approximately $2.3 million to organizations involved in education, health care, culture, sports and civic activities. TransCanada matches dollar-for-dollar employee contributions to specified education and health care institutes, agencies and projects, up to a maximum of $1,000 per employee per year. Educational programs receive about 40 per cent of our donations budget. Through this sponsorship, we help prepare Canadian youth to excel in the global marketplace.

Our Goal To 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 our operations.

Our Strategy We will foster a working environment that emphasizes teamwork, initiative, involvement, communication and the achievement of goals.

Employee Training

Our corporate family includes engineers, scientists, lawyers, administrators, computer specialists, economists, accountants, marketers, analysts and other highly skilled and innovative individuals, who share a commitment to customer service and strive for excellence.

We encourage our employees to function as a highly effective, responsive team, working together to succeed in a competitive, dynamic world. In 1995, we invested approximately $2 million in training programs to help our employees remain current in their professions.

Environment

Responsible environmental management is a corporate value at TransCanada. Operating facilities are continuously monitored and audited to ensure compliance with corporate standards, applicable legislation and industry best practices. In 1995, we received a first place award in the annual Canadian Energy Pipeline Association (CEPA) Environment Awards competition for our waste management program and an honourable mention for our voluntary emissions reduction program. In September 1995, in support of Canada's Voluntary Climate Change Challenge, we documented our plan to limit TransCanada's greenhouse gas emissions and our corporate strategy and commitment to continued emission management through the year 2000.

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 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 individually and as a group. The Audit Committee reviews with Management and the independent external auditors the annual consolidated financial statements of the Company prior to submission 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 Peat Marwick Thorne, 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 Peat Marwick Thorne on page 44 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 19, 1996

This discussion has been prepared by Management and is a review of the financial results of TransCanada PipeLines Limited (TransCanada) prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). It compares TransCanada's financial performance in 1995 to 1994 and should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1994 and 1993 are highlighted. Note 18 to the consolidated financial statements describes significant differences between Canadian GAAP and United States generally accepted accounting principles (U.S. GAAP).

To assist in understanding TransCanada's regulated operations and the use of financial instruments in our non-regulated operations, definitions of selected terms follow this discussion.

RESULTS OF OPERATIONS

Net income increased 10.8 per cent in 1995, totalling $397.5 million, or $1.75 per share. This increase was primarily due to the higher approved rate of return on common equity for the Canadian mainline (12.25 per cent in 1995 compared to 11.25 per cent in 1994) and the improved contribution from energy management activities. These increases in net income were partially offset by higher project expenses and development costs incurred in 1995 as we continued to actively pursue North American and international projects.

Year ended December 31	**1995**	1994	1993
Net income *(millions of dollars)*	**397.5**	358.6	355.6
Net income per share	**$1.75**	$1.60	$1.62

Proportionate Consolidation

In accordance with the requirements of Canadian GAAP, TransCanada uses the proportionate consolidation method of accounting for its investments in joint venture operations.

The proportionate consolidation method and the equity method result in the same net income and shareholders' equity. However all assets, liabilities, revenues, expenses and most cash flow items are increased when proportionate consolidation is used. Note 4(a) to the consolidated financial statements identifies the assets, liabilities, revenues, expenses and cash flows related to joint venture investments. Of particular significance is TransCanada's share of long-term debt of joint ventures. The debt is secured by the rights and assets of the joint ventures alone and not by the rights and assets of TransCanada, except to the extent of TransCanada's investments in the joint ventures. This debt has been separately identified as Non-Recourse Debt of Joint Ventures.

TransCanada adopted the Canadian GAAP requirements for proportionate consolidation in 1994. Management believes that financial statements prepared under the equity method are more meaningful because they avoid co-mingling assets and liabilities subject to direct control with assets and liabilities of joint ventures and therefore not controlled directly. Condensed Statements of Consolidated Income and Consolidated Financial Position, prepared in accordance with U.S. GAAP using the equity method of accounting for joint ventures, are included in Note 18 to the consolidated financial statements.

Canadian Mainline and Interconnected Pipelines

TransCanada's principal business, the operation of the Canadian natural gas transmission system (the Canadian mainline) and our investments in interconnected pipelines, is contained in this segment. Costs related to the investigation, evaluation and development of new pipelines in North America are also included.

Canadian Mainline

Operating income from the Canadian mainline increased 10.5 per cent in 1995, compared to 1994, as a result of an increase in the approved rate of return on deemed common equity to 12.25 per cent for 1995 and a higher average rate base. Total deliveries of natural gas on the Canadian mainline reached a record 2,351.5 billion cubic feet in 1995, a 5.9 per cent increase over 1994 deliveries, resulting from the construction of new facilities to provide additional services to customers. In 1995, export deliveries represented 49.3 per cent of total deliveries, compared to 45.8 per cent and 43.4 per cent in 1994 and 1993, respectively.

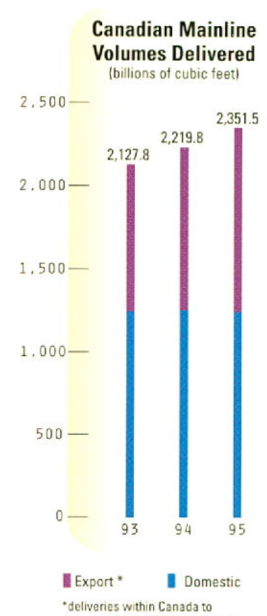
Canadian Mainline Highlights

Year ended December 31 (millions of dollars except rates of return)	**1995**	1994	1993
Operating revenues	**1,790.3**	1,654.1	1,584.1
Operating income	**851.6**	770.8	731.0
Capital expenditures	**433.6**	455.3	741.0
Average rate base and gas plant under construction	**6,768.3**	6,501.3	6,179.5
Allowed rate of return on common equity*	**12.25%**	11.25%	12.25%

**The deemed common equity component of total capitalization was 30 per cent in all three years.*

The Canadian mainline is regulated by the National Energy Board (NEB). The NEB sets tolls for the Canadian mainline which allow for the recovery of projected costs of transporting natural gas and provide a return on our investment in the Canadian mainline rate base. Factors considered in setting approved tolls include estimating rate base as well as depreciation, operating and financing costs. 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 income from the Canadian mainline. Most of the costs of the Canadian mainline are fixed and are recovered monthly from shippers.

In addition, the NEB 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.



Interconnected Pipelines

Interconnected pipelines integrate the Canadian mainline into a North American network of natural gas pipelines. TransCanada's joint venture investments in interconnected pipelines include: in the United States - the Great Lakes System, Northern Border Pipeline, the Iroquois System and Tuscarora Pipeline; and in Canada - Foothills Pipe Lines (Sask.) and Trans Québec & Maritimes Pipeline. The Company's affiliation with these pipelines allows it to serve markets in Québec and the northeast, midwest and northwest regions of the United States.

These pipelines, which are also subject to the authority of regulatory bodies, contributed operating income of $192.2 million in 1995, compared to $189.3 million and $186.5 million in 1994 and 1993, respectively. Increased contributions from the interconnected pipelines in 1995, due to increased throughput and lower project development costs, were partially offset by the provision recorded in 1995 for the estimated settlement costs for the investigation and proceedings into matters relating to the construction of the Iroquois System. Note 17 to the consolidated financial statements describes these legal proceedings.

Project Development

Costs incurred in 1995 were not significant. Costs of $13 million related to the SunShine pipeline project in Florida were expensed in 1994.

Energy Management

During 1995, TransCanada has continued to manage our energy marketing activities and operating assets to maximize profit opportunities. The Energy Management segment markets natural gas and other energy commodities, such as crude oil and related refined products and operates assets such as independent power generation plants, natural gas liquids extraction plants and carbon black manufacturing facilities. Our investment in Alberta Natural Gas Company Ltd (ANG) is also included in this segment.

Operating income from this segment was $86.8 million in 1995, a 16.4 per cent increase compared to $74.6 million in 1994. Significant factors contributing to the increase include a strong performance from Cancarb's carbon black manufacturing operations and improved results from the chemicals and gas marketing and services businesses of ANG.

Energy Marketing

Energy marketing operations are conducted by the TransCanada Energy Management (TCEM) subsidiaries. TransCanada completed the acquisition of all the outstanding shares of the Northridge group of companies on October 28, 1994, and the consolidated financial statements include the results of Northridge from the date of acquisition. In 1995, TransCanada's natural gas marketing operations were merged into TransCanada Gas Services (TCGS).

TCGS generates almost 75 per cent of its natural gas marketing revenues from sales of natural gas under a netback agreement with Alberta producers and marketers, including a marketing fee. The netback agreement provides for the purchase of natural gas in Alberta and its subsequent sale in Canada and the United States. The marketing fee earned from netback sales is based on both volumes sold and prices obtained for natural gas. The principal risk to TCGS with respect to netback sales is the level of its marketing fee in relation to operating costs. In addition, TCGS enters into non-netback contracts for the purchase and sale of natural gas. The principal risk to TCGS with respect to non-netback sales is the different price basis of purchase and sales contracts.

Volumes of crude oil, refined products, natural gas liquids and electricity are purchased and sold primarily under short-term contracts with producers, customers and marketers in Canada and the United States by other TCEM companies. The principal risk of marketing petroleum and other products is also the different price basis of purchase and sales contracts.

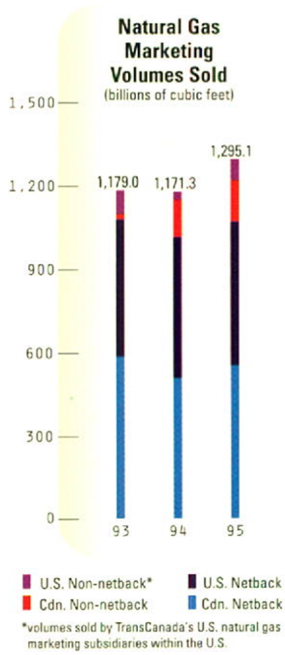
Various forms of financial instruments are used to reduce price and foreign exchange risk related to the purchase and sale of natural gas and other energy commodities. These are described in the section "Financial and Energy Price Risk Management" on page 34 and in Note 5 to the consolidated financial statements.

Energy marketing revenues are dependent upon a number of factors including weather, pipeline operations, pipeline tariff structures and supply and demand.

Natural Gas Marketing

Higher volumes of natural gas were sold in 1995 because of a full year contribution from the former Northridge gas marketing companies and an increase in other non-netback volumes. Despite increased volumes, total revenues decreased because of reduced sales prices.

In 1994, total natural gas volumes sold decreased and total revenues increased compared to 1993. Revenues increased mainly as a result of the Northridge acquisition and because a higher component of the netback price pool was indexed to the spot market in 1994 compared to 1993. This resulted in increased prices for producers and higher marketing fees in 1994.



Petroleum and Products Marketing

Marketing volumes from crude oil, refined products and natural gas liquids totalled 95.6 million barrels and generated operating revenues of $2,611.0 million for the year ended December 31, 1995. Overall, margins in the crude oil business were lower in 1995 than during 1994. The petroleum and products marketing activities contributed 21.5 million barrels of sales and $476.0 million in operating revenues for the two-month period ended December 31, 1994.

Other Energy Management Operations

Other energy management operations comprise the generation of electric power, including our joint venture investment in the Ocean State Power Plant; Cancarb's carbon black manufacturing activities; our interests in the Empress II natural gas liquids extraction plant, the CrossAlta gas storage facility, and NrG's natural gas transportation commerce service; and our equity investment in ANG.

Contributions from these activities increased in 1995 compared to both 1994 and 1993. The significant factors impacting the improved performance include increased sales volumes and prices combined with reduced production costs from the carbon black operations of Cancarb, and the higher contribution from ANG. During 1995, ANG experienced improved margins in both its chemical business and gas marketing and services business.

Project Development

Higher costs, primarily from the development of the Express Pipeline project, resulted in a $3.8 million increase in project development costs in 1995 compared to 1994. The 1994 amount of $2.5 million represented a decrease of $14.5 million from 1993. Project development costs in 1993 included approximately $13 million related to power generation plants for which construction commenced in 1995.

Global

Income from our global business strategy has been recognized for the first time in 1995 - equity income of $4.7 million from the investment in Oleoducto Central S.A. (OCENSA), an oil pipeline in Colombia. This segment includes our investments in, and income from, global businesses as well as costs for the investigation, evaluation and development of other international, energy-related business opportunities.

During 1995, we continued to focus on developing global opportunities. This is reflected in the increase in operating loss for this segment to $18.9 million for 1995, resulting from increased project development costs, compared to $11.9 million and $2.6 million in 1994 and 1993, respectively. A significant portion of 1995 costs relate to the Gulf South Asia project, an initiative to connect a gas field off Qatar, to markets in Pakistan; and the Songo Songo gas to electricity project, the development of a natural gas field, including gas processing and transportation facilities, in Tanzania.

Other Expense/(Income)

Financial charges increased seven per cent in 1995 compared to 1994. Additional medium-term notes were issued during 1995 to finance the 1995 Canadian mainline expansion program and other corporate programs. The 1994 amount of $474.3 million represented an increase of $10.3 million from 1993. This was due to increases in long-term debt resulting from the Canadian mainline expansion and higher interest rates in 1994.

Total AFUDC in 1995 was $12.1 million, $9.2 million related to the Canadian mainline and $2.9 million from the Company's joint venture operations. AFUDC from the Canadian mainline remained relatively constant in 1995 compared to the $8.7 million recorded in 1994. In 1994, AFUDC for the Canadian mainline was $9.4 million less than the $18.1 million recorded in 1993, a direct result of the slowdown in the expansion program.

Interest and other income totalled $14.7 million in 1995, an increase of $8.7 million compared to 1994. The increase is primarily due to higher interest income in 1995 resulting from a higher average level of cash available for short-term investments. Cash available for short-term investments was, on average, lower during 1994 than in 1993 resulting in lower interest income in 1994.

Income Taxes

Income taxes in 1995 were $142.9 million, compared to $115.5 million and $85.7 million in 1994 and 1993, respectively. Increases in both 1995 and 1994, when compared to prior year amounts, occurred as a result of higher taxable income and higher overall tax rates.

Liquidity and Capital Resources

Cash Generated From Operations

Year ended December 31 (millions of dollars)	**1995**	1994	1993
As reported	**703.0**	585.1	709.2
Equity method*	**618.3**	459.2	589.7

**These amounts represent the cash flow from operations over which TransCanada has direct control.*

Cash generated from operations, which increased 20 per cent in 1995 compared to 1994, continued to be TransCanada's primary source of liquidity. The improvement in 1995 over 1994 is attributable to a stronger contribution from the Canadian mainline and increased cash flow from operating working capital.

A decrease of $124.1 million in cash generated from operations in 1994 compared to 1993 resulted from a significant cash outflow from TransCanada's working capital in 1994, offset partially by higher funds generated from operations.

Investment Activities

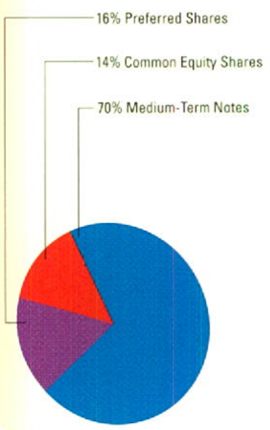
Capital expenditures increased $50.7 million to $673.7 million in 1995 compared to 1994. Historically, TransCanada's most significant investment activity has been expansion of the Canadian mainline. Decreases in Canadian mainline capital expenditures in 1995 compared to 1994 were more than offset by increased investment activities in the Energy Management and Global segments. The major factors contributing to the 1995 increase include the North Bay and Kapuskasing power plants under construction in Ontario and the two pipeline projects under construction in Colombia.

Capital expenditures in 1994 were $210.1 million less than 1993, a function of reduced expansion on the Canadian mainline.

Dividends

In the fourth quarter of each of the last four years, TransCanada has declared an increase of two cents per share in the quarterly dividend on common shares. As a result of the 1995 increase, the quarterly dividend is now 27 cents per share. The 1994 and 1993 fourth-quarter increases brought quarterly dividends per common share to 25 and 23 cents, respectively.

1995 Cash Generated from Financings



Financing Activities

In 1995, TransCanada generated cash of $626.9 million from the issuance of medium-term notes, preferred shares and common equity. This cash, combined with cash generated from operations, was used to finance capital expenditures and investments, retire debt and pay dividends on preferred, equity preferred and common shares.

TransCanada's pro-rata share of non-recourse debt of joint ventures increased $31.5 million in 1995. This increase reflects our pro-rata share of non-recourse debt related to the Tuscarora pipeline, offset partially by decreases in non-recourse debt of other joint ventures. Decreases in non-recourse joint venture debt of $40.6 million and $32.9 million were experienced in 1994 and 1993, respectively.

Credit Facilities

At December 31, 1995, lines of credit of $600 million were available to support TransCanada's commercial paper program. In 1995, we filed a shelf prospectus to continue the Canadian Medium-Term Note Program and at December 31, 1995, $789.1 million was available to be issued under this program. A shelf prospectus was also filed in the United States in 1995 which allows for the issuance of up to US$500 million of debentures or Medium-Term Notes.

Financial and Energy Price Risk Management

TransCanada uses financial instruments to manage exposures to changes in U.S. dollar exchange rates, interest rates on short and long-term debt and prices of energy commodities in our non-regulated operations. Financial instruments are used to hedge these exposures by creating offsetting positions and therefore reducing price or cash flow risk. TransCanada does not use leveraged derivatives to manage risk. The exposures related to financial and energy price risk are subject to controls which are strictly monitored, including financial controls which are designed to limit any potential loss to an amount that is not significant.

The fair value of financial instruments, in the information below, represents the amount TransCanada would receive or pay if the financial instruments had been closed on the year-end date.

Financial Risk Management

December 31, 1995 (millions of dollars)	Principal Amount	Fair Value Gain/(Loss)
U.S. dollar net asset hedges	US850.0	7.8
Related interest rate hedges		
Canadian dollars	217.5*	5.6
U.S. dollars	US275.0*	(0.9)
U.S. dollar transaction hedges	US375.5	17.7
Interest rate hedges		
Short-term debt	75.0*	0.1
Long-term debt	US50.0*	0.2

**Represents notional principal amounts.*

TransCanada's U.S. dollar asset position at December 31, 1995 was 86 per cent hedged on an after-tax basis using U.S. dollar denominated debt, cross-currency swaps and forward foreign exchange contracts. Some of the financial instruments used to hedge the U.S. dollar net assets have interest rate risk and this risk has been hedged using interest rate swaps and forward rate agreements. Most of TransCanada's non-regulated U.S. dollar operating transactions are conducted in the energy marketing operations. These transactions are for varying terms and the majority of our foreign exchange exposure has been hedged using forward foreign exchange contracts for periods up to five years. TransCanada also hedges interest rate risk on outstanding commercial paper and certain long-term debt.

Energy Price Risk Management

December 31, 1995	Notional Volumes	Fair Value Gain/(Loss) *(millions of dollars)*
Natural gas price hedges	431.4 Bcf	30.4
Crude oil and refined products price hedges	5.0 MMBbls	(0.2)

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 energy commodity purchases and 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, from the different delivery points used, or from a mix of fixed and variable prices.

Environment

TransCanada is strongly committed to the protection of the environment. Central to this commitment is the need to ensure that all decisions affecting the environment are made with full consideration of their current and potential future effects. Our standards meet current government standards. Where there is a demonstrated benefit, considering the economic and technical viability, TransCanada strives to exceed these standards.

OUTLOOK

Canadian Mainline and Interconnected Pipelines

Canadian Mainline

Rate of Return on Common Equity The rate of return on common equity for the Canadian mainline is based on a pre-determined adjustment mechanism, as approved in the NEB's Multi-Pipeline Cost of Capital Decision in April 1995. The deemed common equity ratio is set at 30 per cent. The allowed common equity return for 1996 has been set at 11.25 per cent, a decrease of one per cent from the return approved for 1995. This will reduce earnings in 1996 for the Canadian mainline by approximately $21 million or 10 cents per share. Approximately six cents per share of this decrease will be offset as a result of the forecasted increase in average rate base to $7.1 billion, from $6.8 billion in 1995.

Incentive Regulation In December 1995, TransCanada negotiated an Incentive Cost Recovery and Revenue Sharing Settlement (the Settlement) with its major domestic and export customers and suppliers. It provides for an equal sharing between TransCanada and its shippers of controllable cost variances above or below a predetermined target, which is reset each year, and a one-third/two-thirds sharing of discretionary transportation service revenues above a predetermined target. The Settlement also allows for a sharing of savings and costs that result from foreign exchange and interest rate management programs. This Settlement was approved by the NEB on February 22, 1996 and extends for a four-year term commencing January 1, 1996.

This Settlement should provide additional incentive for the employees of the Canadian mainline to manage costs to increase profits, while the Company continues to operate the system safely and reliably. As a result of the sharing of discretionary revenues, management of throughput on the system will also be rewarded through increased profits.

Capital Expenditures Capital expenditures for 1996 are expected to be approximately $668 million, of which about $455 million relates to expenditures for capacity increases on the Canadian mainline. These increases will allow for the shipment of incremental volumes of 192 million cubic feet (MMcf) per day, 61 per cent of which is for domestic volumes. Expansion of the Canadian mainline cannot proceed without first receiving NEB approval and approval has been received for most of the 1996 capital program.

TransCanada has received many requests for new services for 1997. Of these requests, approximately 126 MMcf per day could be included in an expansion program that would result in capital expenditures of $274 million. This, together with other capital expenditures, results in an expected capital program of over $400 million in 1997.

Business Risks

(i) Stress Corrosion Cracking

On July 29, 1995, a line break occurred on the Canadian mainline adjacent to the TransCanada's compressor station near Rapid City, Manitoba. The line break was caused by stress corrosion cracking (SCC). SCC involves a complex process which can result in the formation of cracks on the surface of a buried pipeline. This line break was the seventh rupture on the Canadian mainline due to SCC since 1985, and was the first evidence of any significant SCC in western Canada. As a result, TransCanada accelerated and expanded its SCC investigative program in western Canada. The program was previously focused in Ontario.

The NEB has announced a public inquiry into SCC on Canadian oil and gas pipelines and has established an inquiry panel to meet with research and science experts and to hold a public hearing in Calgary in April 1996. One of the possible outcomes of the inquiry is that TransCanada may be ordered to reduce the pressure at which gas is transported on the system, which would have a detrimental effect on throughput volumes. TransCanada believes that our extensive program to detect SCC significantly mitigates the risk and that a reduction of delivery pressure will not lessen the problems associated with SCC.

(ii) Gas Supply

The gas supply pool for the Canadian mainline is the Western Canadian Sedimentary Basin, which holds 30 per cent of the combined U.S. and Canadian proven reserves. TransCanada's prices are competitive with U.S. carriers now and we believe that they should continue to be so in the long term.

TransCanada currently transports approximately one half of the total natural gas volumes produced in Alberta. We expect that, given the surplus production capacity in the province, producers will continue to rely on TransCanada to provide access to markets east of Alberta.

(iii) Other

Over the past few years, the remaining term of transportation contracts has decreased. This creates uncertainty for the Canadian mainline in that it becomes difficult to determine whether existing capacity is sufficient to meet future demand. Consequently, we will only build additional facilities to meet projected requirements of prospective new shippers when the transportation contract is for a minimum term of ten years.

The deregulation of the electric power industry creates another uncertainty. Customers of the Canadian mainline include independent power producers that use natural gas to fuel their power plants. The competition resulting from deregulation may affect the quantity of power generated by these plants and consequently the volumes of the gas transported to them by TransCanada.

Both of these factors indicate some uncertainty about future market demand for natural gas but are not expected to have a material effect on financial results.

Interconnected Pipelines

No substantial changes are expected in 1996 in the operations of the interconnected North American pipelines. In 1995, Northern Border filed an application with the U.S. Federal Energy Regulatory Commission (FERC) to expand pipeline capacity from the Canadian border to Harper, Iowa and extend the system from Harper to a point near Manhattan, Illinois. If approved, the expected in-service date is early 1998.

The Tuscarora pipeline, which commenced operations in December 1995, is expected to contribute a full year of earnings in 1996.

Projects

TransCanada has announced its intention to purchase a 20 per cent interest in the proposed Portland system (Portland) to extend natural gas service into the U.S. northeast. Portland will consist of a US$240 million, 250-mile (403-kilometre), 20-inch pipeline from the Canada/U.S. border near Highwater, Québec to Portland, Maine, then connect with Tennessee Gas near Haverhill, Massachusetts. Initial capacity is 175 MMcf per day, expandable through the addition of compression to 330 MMcf per day. Portland expects to file a certificate application with the FERC by March 31, 1996. If approved and built, the expected in-service date is November 1, 1998.

Portland will provide another market for Canadian natural gas into the U.S. northeast and add additional diversification for the Canadian mainline. If Portland is approved, TransCanada intends to build a 54-kilometre extension of the Canadian mainline to Highwater and add additional looping and compression facilities. TCGS intends to contract for 30 MMcf per day of firm service on Portland.

Energy Management

The strategy for the Energy Management operations is to find customers who want energy in any form and then to acquire and deliver that energy profitably. This segment of the business is expected to generate shareholder value from returns greater than those that can be earned in regulated businesses, primarily through the construction and acquisition of assets such as the Express pipeline project (Express), discussed below.

Energy Marketing

The energy marketing operations are not expected to generate significantly greater earnings in 1996 than they did in 1995, due to the competitive nature of the business and the resultant narrow margins.

The cornerstone of our gas marketing business continues to be our netback marketing arrangements. The netback marketing arrangement gives our largest supply pool access to a variety of long and short-term markets tied to a number of geographically different price indices. Market diversity provides an advantage that we believe is important to future success.

Our non-netback business generates both long and short-term profits using our marketing and hedging expertise. During 1995, the merger of the gas marketing operations allowed for a sharing of expertise and experience that presented several opportunities. After examining the alternatives, several deals were concluded in 1995 which will generate revenues for the next four years.

Assets

Power Generation Construction of the power generation plants at North Bay and Kapuskasing in Ontario is on schedule and is expected to be completed in December 1996. Consequently, there will not be a substantial change in power generation earnings in 1996.

ANG On January 19, 1996, TransCanada announced that management of ANG had been advised that TransCanada proposed to offer to purchase all of the shares of ANG not already owned by TransCanada at a price of $25.75 per share. The price has subsequently been increased to $26.25 per share. ANG shareholders who accept the offer will have the option of cash or TransCanada common shares having an equivalent value to $26.25 based on the weighted average trading price of TransCanada common shares on the Toronto Stock Exchange on the ten consecutive trading days ending on March 8, 1996.

At December 31, 1995, TransCanada owned 12.8 million common shares or 49.5 per cent of ANG. The offer will be subject to receipt of necessary regulatory approvals and to a number of conditions, including that two-thirds of the ANG shares owned by minority shareholders are tendered to the offer. The offer was mailed to shareholders of ANG on February 15, 1996.

Projects

As part of TransCanada's strategy to increase our returns and shareholder value, we continue to assess the construction or acquisition of energy-related businesses that build on our current core competencies. Since most of these projects are still in the development stage and require substantial construction time, they will not have a significant impact on earnings in 1996. However the progress made in 1995 indicates that steps have been taken to achieve our strategy.

Express TransCanada and Alberta Energy Company Ltd., as equal partners in Express, filed a Facilities Application with the NEB seeking approval to build a 170,000 barrel per day, multi-batch crude oil pipeline from Hardisty, Alberta to Casper, Wyoming, which will cost approximately $530 million. In Wyoming, Express will connect with other pipelines so that crude oil can reach Salt Lake City, Utah and areas south of Chicago, Illinois. Express has the potential to be expanded to 280,000 barrels per day.

In December 1995, an "open season" identified potential customer shipping commitments amounting to 145,000 barrels per day, or approximately 85 per cent of available capacity. A joint hearing by the NEB and the Canadian Environmental Assessment Agency on the Facilities Application commenced on January 15, 1996. The outcome of this hearing cannot be predicted.

The acquisition of Platte Pipeline Company (Platte), an integral part of the Express project, was announced on January 15, 1996 and is expected to be completed on February 29, 1996. Platte consists of more than 940 miles of pipeline from Casper, Wyoming to Wood River, Illinois, 335 miles of gathering systems, and oil tank storage capacity of 3.8 million barrels.

Express, and the related acquisition of Platte, are part of the Energy Management strategy. TransCanada's gas pipeline expertise will be combined with our crude oil marketing expertise to create a new business line. Beyond the pipeline investment itself, TransCanada is considering add-on investments such as storage, processing, gathering and tankage.

Global

Internationally, TransCanada's strategy is to exploit our core competencies in constructing and operating pipelines by participating in energy-related businesses outside of North America, with an objective to earn returns higher than those approved for the Canadian mainline. We intend to focus our efforts in Latin America, Southeast Asia and the Middle East.

TransCanada recognizes that investing in foreign countries has different and sometimes greater risks than investing in North American operations. Before making an investment decision, a country risk analysis is performed which evaluates the economic and other risk characteristics and results in a rating relative to the risk profile. The maximum amount we will invest in any particular country is dependent upon the rating received. Each individual project is also evaluated to determine if it will add shareholder value through returns higher than the cost of capital to be invested in the project. Since the projects currently under development require the construction of a significant amount of facilities, earnings will be minimal from them in 1996. However, we believe that our progress in Colombia is evidence that TransCanada's global strategy is being achieved.

TransCanada's focus will be to invest in and operate pipeline businesses, although other types of energy infrastructure businesses will be used to gain a presence in a country, if appropriate. It is also our intention to concentrate efforts at any one time on fewer projects, focusing on those that require a larger investment and which will generate earnings in the next five years. It is our practice to expense costs related to the investigation and development of these projects until such time as they become commercially viable.

OCENSA

Construction of the expansion to the oil pipeline from the Cusiana and Cupiagua oil fields to the port of Coveñas on the Caribbean coast commenced in 1995 and the planned completion date is late 1997. Our involvement in the operations of the existing pipeline began in December 1995. Earnings from this investment were first recognized in 1995 and are expected to approximate $10 million in 1996. TransCanada expects to invest a total of about $102.6 million in this pipeline in 1996 and 1997.

TransGas de Occidente S.A.

Construction work on the natural gas pipeline from Mariquita to Cali began in January 1996 and will be ongoing throughout 1996. No earnings are anticipated from this project until 1997 when the pipeline is expected to commence service. No cash contributions from TransCanada are expected to be required in 1996.

Songo Songo

Development work is continuing on the Songo Songo natural gas field, including gas processing and transportation facilities, in Tanzania. Assuming funding is arranged, all phases of the project are expected to be in commercial operation by 1998. TransCanada's investment in this project is estimated to be US$35 million.

DEFINITIONS

The following sets out the definitions used by TransCanada for certain terms referred to elsewhere in this document.

Regulated Operations

Rate Base Is the sum of the cost, net of accumulated depreciation, of the assets used in the transmission of natural gas, principally, gas plant in service, plus or minus the balance of certain deferred amounts.

Gas Plant in Service Consists primarily of the pipe and compression facilities used in the transmission of natural gas.

Allowance for Funds Used During Construction Is an allowance to compensate for the cost of financing debt and equity funds used during construction of rate base. This allowance is capitalized (added to the cost of the gas plant under construction). It is calculated using the allowed rate of return on rate base.

Rate of Return on Common Equity Is the component of the rate of return on rate base which represents the return earned on behalf of the common shareholders.

Deemed Common Equity Component Is the amount of common equity deemed to be dedicated to finance rate base and is also referred to as the common equity ratio.

Financial and Energy Price Risk Management Activities

Cross-Currency Swap Is a transaction in which two counterparties agree to exchange principal and interest denominated in different currencies based on an agreed-upon currency exchange rate.

Forward Foreign Exchange Contract Is a contract to pay or receive specific amounts of a currency at a future date in exchange for another currency at an agreed-upon exchange rate.

Range Forward Contract Is a combination of a buy option and a sell option for foreign currency, which caps a potential benefit and provides a floor, or bottom limit, for a potential loss.

Interest Rate Swap Is an agreement in which one counterparty agrees to pay a fixed rate of interest to the other counterparty in exchange for a variable rate of interest on a fixed notional principal amount over a specified period of time.

Forward Rate Agreement Is an agreement to exchange dollar amounts at a specified future date based on the difference between a particular interest rate index and an agreed-upon fixed interest rate.

Futures Contract Is a standardized contract traded on an organized exchange, which obligates one party to buy and another party to sell a specific asset at a future date.

Price Swap Is an agreement in which one counterparty agrees to pay a fixed price for a commodity to the other counterparty in exchange for a price based on a commodity index. The payments are based on fixed notional quantities.

Basis Swap Is an agreement in which one counterparty agrees to pay a floating price based on a commodity index at a certain delivery point in exchange for the floating price on the commodity futures market.

Option Is a contract that provides the option holder the right, but not the obligation, to buy or sell the underlying instrument.

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	0.64
kilowatts	horsepower	1.34
gigajoules	million British thermal units	0.95
cubic metres*	cubic feet	35.3
cubic metres – (liquid measure)	barrels	6.29

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

Consolidated Income

Year ended December 31 (millions of dollars except per share amounts)	**1995**	1994	1993
Revenues	**7,005.6**	5,218.5	4,531.7
Cost of Sales	**4,698.2**	3,100.3	2,529.3
Other Costs and Expenses	**875.4**	789.0	757.6
Depreciation	**320.3**	306.4	283.4
	5,893.9	4,195.7	3,570.3
Operating Income	**1,111.7**	1,022.8	961.4
Other Expense/(Income)			
Financial charges *(Note 9)*	**508.8**	474.3	464.0
Financial charges of joint ventures *(Note 9)*	**89.3**	92.9	91.6
Allowance for funds used during construction	**(12.1)**	(12.5)	(21.1)
Interest and other income	**(14.7)**	(6.0)	(14.4)
	571.3	548.7	520.1
Income before Income Taxes	**540.4**	474.1	441.3
Income Taxes *(Note 11)*	**142.9**	115.5	85.7
Net Income	**397.5**	358.6	355.6
Net Income Per Share *(Note 13)*	**$1.75**	$1.60	$1.62

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)	**1995**	1994	1993
Cash Generated From Operations			
Net income	**397.5**	358.6	355.6
Depreciation	**320.3**	306.4	283.4
Deferred income taxes	**(22.9)**	(13.7)	(38.6)
Allowance for equity funds used during construction	**(5.4)**	(5.4)	(8.9)
Other	**(4.8)**	1.4	9.2
Funds generated from operations	**684.7**	647.3	600.7
Decrease/(increase) in operating working capital *(Note 16)*	**18.3**	(62.2)	108.5
	703.0	585.1	709.2
Investment Activities			
Capital expenditures *(Note 2)*	**(673.7)**	(623.0)	(833.1)
Deferred amounts and other	**18.8**	(11.7)	65.7
	(654.9)	(634.7)	(767.4)
Dividends Paid	**(248.4)**	(229.1)	(211.3)
Financing Activities			
(Decrease)/increase in notes payable	**(114.5)**	92.3	(99.0)
Long-term debt issued	**441.1**	248.3	366.8
Reduction of long-term debt	**(187.9)**	(108.6)	(577.8)
Increase/(decrease) in non-recourse debt of joint ventures	**31.5**	(40.6)	(32.9)
Preferred shares issued	**98.5**	103.0	–
Preferred shares redeemed or repurchased	**(50.0)**	(75.2)	(5.5)
Common shares issued	**87.3**	82.8	72.9
	306.0	302.0	(275.5)
Increase/(Decrease) in Cash and Short-Term Investments	**105.7**	23.3	(545.0)
Cash and Short-Term Investments			
- at beginning of year	**113.3**	90.0	635.0
Cash and Short-Term Investments			
- at end of year	**219.0**	113.3	90.0

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

Consolidated Financial Position

December 31 (millions of dollars)	**1995**	1994
ASSETS		
Current Assets		
Cash and short-term investments *(Note 6)*	**219.0**	113.3
Accounts receivable	**677.0**	641.9
Storage inventory	**84.2**	92.6
Other	**13.0**	13.2
	993.2	861.0
Equity Investments *(Note 4)*	**240.9**	153.9
Plant, Property and Equipment *(Notes 3, 7 and 8)*	**9,041.1**	8,760.2
Deferred Amounts *(Note 14)*	**118.5**	151.3
	10,393.7	9,926.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable *(Note 6)*	**59.9**	174.4
Accounts payable	**595.3**	634.3
Income taxes payable	**75.2**	6.5
Interest accrued	**156.3**	156.1
Dividends payable	**66.4**	62.0
Long-term debt due within one year *(Note 7)*	**358.7**	188.3
Non-recourse debt of joint ventures due within one year *(Note 8)*	**42.8**	99.0
	1,354.6	1,320.6
Long-Term Debt *(Note 7)*	**4,352.1**	4,252.3
Non-Recourse Debt of Joint Ventures *(Note 8)*	**973.1**	907.9
Deferred Income Taxes	**134.7**	146.6
Convertible Debentures *(Note 10)*	**150.0**	150.0
Preferred Shares (redeemable) *(Note 12)*	**662.6**	612.6
Equity Preferred Shares and Common Shareholders' Equity		
Equity preferred shares *(Note 13)*	**-**	197.0
Common shares *(Note 13)*	**1,231.0**	946.7
Contributed surplus	**264.6**	266.8
Retained earnings	**1,234.4**	1,089.7
Foreign exchange adjustment	**36.6**	36.2
	2,766.6	2,536.4
Contingencies *(Note 17)*		
	10,393.7	9,926.4

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)	**1995**	1994	1993
Contributed Surplus			
Balance at beginning of year	**266.8**	266.8	269.6
Share issue expenses	**(2.2)**	–	(2.8)
Balance at end of year	**264.6**	266.8	266.8
Retained Earnings			
Balance at beginning of year	**1,089.7**	965.2	825.7
Net income	**397.5**	358.6	355.6
	1,487.2	1,323.8	1,181.3
Dividends			
Preferred (redeemable)	**47.4**	46.6	46.6
Equity preferred and common	**205.4**	187.5	169.5
	252.8	234.1	216.1
Balance at end of year	**1,234.4**	1,089.7	965.2
Dividends declared per common share	**$1.02**	$0.94	$0.86

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, 1995 and December 31, 1994 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, 1995. 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, 1995 and December 31, 1994 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, 1995 in accordance with Canadian generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
January 19, 1996

TransCanada PipeLines Limited (the Company or TransCanada) is one of North America's leading transporters and marketers of natural gas. The Company's principal business, which accounts for the majority of operating income, is the operation of its Canadian natural gas transmission system (the Canadian mainline) and its investments in interconnected pipelines in Canada and the United States. Natural gas is transported primarily to regional natural gas distribution and transmission companies in Canada and the United States. The energy management business includes the marketing of natural gas, crude oil and related refined products, the management of assets such as independent power generation plants, natural gas liquids extraction plants and carbon black manufacturing facilities and the coordination of these marketing and asset management activities. The Company's activities also include developing and investing in energy-related businesses in North America and internationally.

NOTE 1. Accounting Policies

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

In the preparation of these consolidated financial statements, Management has made estimates and assumptions that affect the recorded amounts of certain of the Company's assets, liabilities, revenues and expenses, and the amounts disclosed for contingent liabilities.

The significant accounting policies of the Company are 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 in affiliates over which it is able to exercise significant influence.

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.

Regulation

The Company's Canadian mainline operations are subject to the authority of the National Energy Board (NEB) with respect to the determination of tolls, construction, operations and related accounting for natural gas transmission. The interconnected pipelines and Ocean State Power Plant are also subject to the authority of certain 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.

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.

Senior Management of the Company monitors all transactions involving financial instruments and approves such transactions depending on size or scope.

Storage Inventory

Storage inventory is carried at the lower of average cost or net realizable value.

Plant, Property and Equipment

Canadian Mainline and Interconnected Pipelines

Gas transmission plant of the Canadian mainline and interconnected pipelines is carried at cost. Depreciation is calculated on a 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 fixed assets 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 is capitalized and included in the cost of gas transmission plant using the rate of return on rate base approved by the regulators.

Energy Management and Other

Power generation and other plant and equipment are carried at cost. Plant and equipment used in power generation operations are depreciated on a straight-line basis over estimated service lives at annual rates from four to 20 per cent. Other plant and equipment are depreciated at various rates. Interest is capitalized on plant under construction and included in the cost of the plant.

Foreign Currency Translation

The Company's self-sustaining foreign operations 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 foreign currency debt related to the Canadian mainline are included in income when they are dealt with in the tollmaking process.

Income Taxes

The NEB has prescribed that the taxes payable method be used for income taxes related to gas transmission operations in Canada 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.

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

The Company operates in three business segments.

(i) *Canadian Mainline and Interconnected Pipelines*

The Company owns and operates the Canadian mainline which extends from Alberta into Québec. This segment also includes the Company's joint venture investments in the following interconnected pipelines: in the United States - the Great Lakes System, Northern Border Pipeline, the Iroquois System and Tuscarora Pipeline; and in Canada - Foothills Pipe Lines (Sask.) and Trans Québec & Maritimes Pipeline. The investigation, evaluation and development of new pipelines in North America is also included in this segment.

(ii) *Energy Management*

The Company's energy management activities include energy marketing and power generation in North America, including the Company's joint venture investment in the Ocean State Power Plant. This segment also includes gas storage, liquids extraction, carbon black manufacturing and the equity investment in Alberta Natural Gas Company Ltd. The investigation, evaluation and development of energy management projects in North America is also included in this segment.

The TransCanada Energy Management subsidiaries undertake the energy marketing operations of the Company. TransCanada Gas Services Limited, as agent for TransCanada, administers the purchase of natural gas acquired under a netback pricing arrangement with Alberta producers and the subsequent sale of this natural gas. TransCanada Gas Services Limited also enters into contracts for the purchase and sale of natural gas. Other subsidiaries of TransCanada Energy Management enter into contracts for the purchase and sale of crude oil, refined products, natural gas liquids and electricity.

The Company's purchase of the Northridge group of companies was completed on October 28, 1994 and these financial statements include the results of Northridge from that date. Had the Company acquired Northridge at the beginning of 1993, revenues would have increased by $2,632.4 million and $2,737.3 million for 1994 and 1993, respectively. The effect of this acquisition on net income and net income per share is not material for 1994 or 1993.

(iii) *Global*

This segment includes the investigation, evaluation and development of international energy-related business opportunities and the Company's investments in, and income from, global projects.

(a) Business Segments

Year ended December 31 (millions of dollars)	**1995**	1994	1993
OPERATIONS			
Canadian Mainline and Interconnected Pipelines			
Operating revenues	**2,017.1**	1,866.0	1,773.2
Costs and expenses	**676.3**	610.7	593.1
Depreciation	**297.3**	282.2	261.8
Project development	**(0.3)**	13.0	0.8
	973.3	905.9	855.7
Operating income	**1,043.8**	960.1	917.5
Energy Management			
Operating revenues - energy marketing	**4,780.9**	3,163.1	2,581.4
Operating revenues - other	**183.8**	175.1	164.6
Income from equity investment	**19.1**	14.3	12.5
	4,983.8	3,352.5	2,758.5
Cost of sales	**4,698.2**	3,100.3	2,529.3
Other costs and expenses	**169.5**	150.9	144.1
Depreciation	**23.0**	24.2	21.6
Project development	**6.3**	2.5	17.0
	4,897.0	3,277.9	2,712.0
Operating income	**86.8**	74.6	46.5
Global			
Income from equity investments	**4.7**	–	–
Costs and expenses	**13.1**	5.3	1.0
Project development	**10.5**	6.6	1.6
	23.6	11.9	2.6
Operating loss	**(18.9)**	(11.9)	(2.6)
Revenues by Geographic Segment			
Canada - domestic	**2,916.2**	2,508.3	2,099.0
Canada - export	**1,986.1**	1,857.2	1,720.9
United States & International	**2,103.3**	853.0	711.8
	7,005.6	5,218.5	4,531.7
Operating Income by Geographic Segment			
Canada	**922.6**	838.0	787.4
United States & International	**189.1**	184.8	174.0
	1,111.7	1,022.8	961.4

Year ended December 31 (millions of dollars)	**1995**	1994	1993
CAPITAL EXPENDITURES			
Canadian Mainline and Interconnected Pipelines	**540.3**	555.4	838.3
Less allowance for equity funds used during construction	**5.4**	5.4	8.9
	534.9	550.0	829.4
Energy Management	**85.8**	48.1	3.7
Global	**53.0**	24.9	–
	673.7	623.0	833.1

December 31 (millions of dollars)	**1995**	1994
ASSETS		
Canadian Mainline and Interconnected Pipelines		
Canada	**7,372.2**	7,164.6
United States	**1,586.0**	1,564.3
	8,958.2	8,728.9
Energy Management		
Energy Marketing (primarily current assets)		
Canada	**384.6**	460.3
United States	**178.7**	118.2
	563.3	578.5
Other		
Canada	**371.6**	310.7
United States	**206.0**	219.9
	577.6	530.6
Global	**78.2**	24.9
Corporate	**216.4**	63.5
	10,393.7	9,926.4

(b) Principal Customers

The following table sets forth the Company's revenues generated from the sale and transmission of natural gas to its five principal customers.

Year ended December 31 (millions of dollars)	**1995**	1994	1993
The Consumers' Gas Company Ltd.	**424.5**	528.3	488.1
Westcoast Energy Inc.	**376.7**	433.2	422.2
Alberta Northeast Gas, Limited	**298.6**	322.8	336.8
Gaz Métropolitain, inc.	**216.3**	327.4	273.0
Natural Gas Pipeline Company	**139.9**	175.7	183.3

NOTE 3. Plant, Property and Equipment

	1995			1994
December 31 (millions of dollars)	**Cost**	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Canadian Mainline				
Pipeline	**6,757.5**	**1,639.3**	**5,118.2**	5,142.3
Compression	**1,904.6**	**473.0**	**1,431.6**	1,300.2
Metering and other	**323.7**	**80.0**	**243.7**	158.9
	8,985.8	**2,192.3**	**6,793.5**	6,601.4
Gas plant under construction	**96.6**	**–**	**96.6**	76.2
	9,082.4	**2,192.3**	**6,890.1**	6,677.6
Interconnected Pipelines				
Pipeline	**1,938.1**	**591.4**	**1,346.7**	1,346.2
Compression	**385.6**	**101.6**	**284.0**	284.5
Metering and other	**152.7**	**56.6**	**96.1**	95.8
	2,476.4	**749.6**	**1,726.8**	1,726.5
Gas plant under construction	**19.9**	**–**	**19.9**	16.6
	2,496.3	**749.6**	**1,746.7**	1,743.1
	11,578.7	**2,941.9**	**8,636.8**	8,420.7
Energy Management and Other				
Power Generation				
Plant and equipment	**282.6**	**60.5**	**222.1**	234.6
Plant under construction	**66.4**	**–**	**66.4**	17.6
Other	**205.4**	**89.6**	**115.8**	87.3
	554.4	**150.1**	**404.3**	339.5
	12,133.1	**3,092.0**	**9,041.1**	8,760.2

NOTE 4. Investments

(a) Joint Venture Investments

	1995		1994		1993	
December 31 (millions of dollars)	**TransCanada's Proportionate Share of Net Assets**	**TransCanada's Proportionate Share of Income Before Income Tax**	TransCanada's Proportionate Share of Net Assets	TransCanada's Proportionate Share of Income Before Income Tax	TransCanada's Proportionate Share of Net Assets	TransCanada's Proportionate Share of Income Before Income Tax
Interconnected Pipelines						
Great Lakes System	**370.3**	**64.5**	396.0	71.9	325.2	58.4
Northern Border Pipeline	**225.7**	**30.7**	242.0	31.8	232.3	29.2
Iroquois System	**71.5**	**9.9**	72.4	12.4	62.8	12.5
Tuscarora Pipeline	**23.4**	**0.8**	–	–	–	–
Foothills Pipe Lines (Sask.)	**31.3**	**5.9**	28.5	5.2	29.7	5.2
Trans Québec & Maritimes Pipeline	**46.3**	**10.3**	52.9	9.8	37.9	10.2
Energy Management						
Ocean State Power Plant	**101.3**	**19.7**	108.3	20.1	107.8	21.4
Other	**68.0**	**13.5**	65.0	10.9	36.4	8.3
	937.8	**155.3**	965.1	162.1	832.1	145.2

Consolidated retained earnings at December 31, 1995, includes $300.2 million (December 31, 1994 - $304.6 million) which represents undistributed earnings from joint ventures.

Interconnected Pipelines

Great Lakes System TransCanada owns a 50 per cent interest in the Great Lakes System which connects to the Canadian mainline at Emerson, Manitoba and extends through the states of Minnesota, Wisconsin and Michigan to Sarnia, Ontario.

Northern Border Pipeline TransCanada owns a 30 per cent interest in Northern Border Pipeline Company, a partnership which owns a natural gas pipeline beginning at the Canada/United States border near Monchy, Saskatchewan and extending through the mid-northern United States to Harper, Iowa.

Iroquois System TransCanada is the operator of and has a 29 per cent interest in Iroquois Gas Transmission System L.P., a partnership which owns a pipeline system beginning at the Canada/United States border near Iroquois, Ontario, extending through the states of New York and Connecticut and ending in Long Island, New York.

Tuscarora Pipeline TransCanada owns a 50 per cent interest in Tuscarora Gas Transmission Company, a partnership which owns a natural gas pipeline beginning at Malin, Oregon and ending in Reno, Nevada. Construction began in July 1995 and the pipeline commenced service during December 1995.

Foothills Pipe Lines (Sask.) TransCanada is the operator of and owns 44 per cent of Foothills Pipe Lines (Sask.) Ltd., which owns a pipeline beginning at the Alberta/Saskatchewan border near Empress, Alberta, and extending through the province of Saskatchewan to the Northern Border pipeline at the Canada/United States border.

Trans Québec & Maritimes Pipeline TransCanada owns a 50 per cent interest in TQM Pipeline Partnership, which owns a pipeline system in the province of Québec extending from Saint-Lazare, near Montréal, to a point just west of Québec City. The pipeline system is operated by Trans Québec & Maritimes Pipeline Inc., in which TransCanada has a 50 per cent interest.

Energy Management

Ocean State Power Plant TransCanada has a 40 per cent interest in Ocean State Power, a partnership which owns a combined-cycle power generation plant located in Rhode Island.

Other TransCanada has a 50 per cent interest in the Empress II natural gas liquids extraction plant on the Alberta/Saskatchewan border. TransCanada also holds a 40 per cent interest in the CrossAlta gas storage facility located near Crossfield, Alberta and a 25 per cent interest in NrG Information Services Inc., which began providing a natural gas transportation electronic commerce service in 1995.

Summarized Financial Information of Joint Ventures

Summarized combined financial position, results of operations and changes in financial position information relating to the Company's pro-rata interest in joint ventures is as follows.

December 31 (millions of dollars)	**1995**	1994
Current assets	**171.6**	156.6
Plant, property and equipment	**1,989.5**	1,993.7
Deferred amounts	**11.9**	12.3
Current liabilities	**(151.8)**	(180.8)
Long-term non-recourse debt	**(973.1)**	(907.9)
Deferred income taxes	**(110.3)**	(108.8)
Proportionate share of net assets of joint ventures	**937.8**	965.1

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Revenues	**520.5**	506.2	473.5
Costs and expenses	**(191.4)**	(167.2)	(159.2)
Depreciation	**(91.4)**	(89.6)	(81.5)
Financial charges and other	**(82.4)**	(87.3)	(87.6)
Proportionate share of income before income tax of joint ventures	**155.3**	162.1	145.2

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Cash flow from operations	**233.7**	225.4	201.9
Cash flow from investment activities	**(283.6)**	(199.1)	(164.4)
Cash flow from financing activities	**59.6**	1.7	(28.0)
Proportionate share of changes in cash and short-term investments of joint ventures	**9.7**	28.0	9.5

(b) Equity Investments

December 31 (millions of dollars)	**1995**	1994
Energy Management		
Alberta Natural Gas Company Ltd	**164.2**	153.9
Global		
TransGas de Occidente S.A.	**31.1**	–
Oleoducto Central S.A.	**45.6**	–
	240.9	153.9

TransCanada's consolidated retained earnings at December 31, 1995 includes $23.1 million (December 31, 1994 - $8.3 million) which represents undistributed earnings from equity investments.

Energy Management

Alberta Natural Gas Company Ltd (ANG) At December 31, 1995, the Company owned 12.8 million common shares, or 49.5 per cent, of ANG. ANG's businesses include natural gas processing, services and transportation, as well as specialty chemicals.

The quoted market value of the Company's investment in ANG's common shares was approximately $259.7 million at December 31, 1995 (December 31, 1994 - $196.0 million). On January 19, 1996, TransCanada announced its intention to purchase all remaining shares of ANG at $25.75 per share, payable in cash or shares of TransCanada. The following tables present estimated summarized financial information of ANG.

December 31 (millions of dollars)	**1995**	1994
Current assets	**191.4**	203.2
Plant, property and equipment *(net)*	**570.7**	522.7
Other assets and deferred amounts *(net)*	**8.2**	5.8
Current liabilities	**(225.7)**	(243.9)
Long-term debt	**(211.1)**	(189.5)
Deferred income taxes	**(79.9)**	(72.7)
Equity	**253.6**	225.6

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Revenues	**665.4**	673.9	665.4
Expenses	**(570.9)**	(610.0)	(598.0)
Interest expense	**(26.6)**	(21.9)	(18.7)
Other	**2.4**	7.4	13.4
Income before income taxes	**70.3**	49.4	62.1
Income taxes	**(24.5)**	(17.9)	(28.7)
Income from continuing operations	**45.8**	31.5	33.4

Global

TransGas de Occidente S.A. (TransGas) TransCanada is the principal project manager and operator and has a 34 per cent interest in TransGas which is constructing a natural gas pipeline system from Mariquita to Cali in Colombia.

Oleoducto Central S.A. (OCENSA) TransCanada holds a 17.5 per cent interest in OCENSA, a Colombian pipeline company which owns and operates a pipeline, related transportation infrastructure and port facilities to transport oil from the Cusiana and Cupiagua fields to the Caribbean port of Coveñas. Expansion of the facilities is currently under construction.

NOTE 5. Financial Instruments

The Company's activities include investing in foreign operations, issuing short and long-term debt including amounts in foreign currencies, and purchasing and selling 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. Interest and foreign exchange exposures related to the gas transmission operations in Canada are mitigated by the regulatory process.

The use of financial instruments creates credit exposure caused by 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. Futures contracts traded on the New York Mercantile Exchange are guaranteed by that institution and therefore have nominal credit risk. At December 31, 1995, credit exposure amounted to $52.2 million for foreign currency and interest rate instruments and $56.9 million for energy price risk instruments. The largest credit exposure to a single counterparty is $20.6 million. The Company's pro-rata share of the credit exposure of its joint ventures is $2.9 million.

The tables that follow provide information on the Company's financial instruments but not on the corresponding positions that have been hedged. The carrying amounts shown in the tables are recorded in the Statement of Consolidated Financial Position. 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. Swiss franc debt, outstanding in prior years and hedged by cross-currency swaps, was carried at the swapped amount. Foreign currency transactions hedged by foreign exchange contracts are recorded at the contract rate.

The fair values of the Company's financial instruments have been determined using various methods, depending upon the nature of the instrument. Cash and short-term investments 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, range forward contracts and energy price risk instruments have been estimated using December 31, 1995 and 1994 closing market rates. These fair values represent an estimate of the amount that the Company would receive or pay if the instruments were closed out at these dates. The fair values of the Company's long-term debt, non-recourse debt of joint ventures, convertible debentures and preferred shares were determined using market prices for the same or similar issues.

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

Foreign Operations - U.S. Dollar Net Asset Hedges

At December 31, 1995, the Company had net assets denominated in U.S. dollars, after deduction of the U.S. dollar subordinated debentures, of approximately US$549.0 million (December 31, 1994 - US$421.6 million), which creates an exposure to changes in the U.S./Canadian dollar exchange rate. The Company enters into cross-currency swaps, forward foreign exchange contracts and range forward 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.

December 31 (millions of dollars)	1995 Carrying Amount Asset/(Liability)	Notional Principal	Principal	Fair Value Asset/(Liability)
Foreign exchange risk				
Cross-currency swaps	**(10.7)**	**–**	**US 600.0**	**(5.9)**
Forward foreign exchange contracts	**11.4**	**–**	**US 250.0**	**13.7**
Interest rate risk				
Interest rate swaps				
in Canadian dollars	**0.1**	**217.5**	**–**	**5.6**
in U.S. dollars	**0.1**	**US 150.0**	**–**	**(0.8)**
Forward rate agreement	**–**	**US 125.0**	**–**	**(0.1)**

December 31 (millions of dollars)	1994 Carrying Amount Asset/(Liability)	Notional Principal	Principal	Fair Value Asset/(Liability)
Foreign exchange risk				
Cross-currency swaps	(30.6)	–	US 200.0	(30.6)
Forward foreign exchange contracts	(0.3)	–	US 10.0	(0.4)
Range forward contracts	(0.8)	US 30.0	–	(0.8)
Interest rate risk				
Interest rate swaps				
in Canadian dollars	0.1	217.5	–	(9.2)
in U.S. dollars	0.2	US 100.0	–	0.9

U.S. Dollar Transaction Hedges

The Company's energy marketing business purchases and sells natural gas, crude oil, refined products and natural gas liquids in U.S. and Canadian dollars. To reduce risk and protect margins when purchases and sales 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.

December 31 (millions of dollars)	1995 Carrying Amount Asset/(Liability)	Principal	Fair Value Asset/(Liability)
Forward foreign exchange contracts			
Purchases	**0.1**	**US 0.9**	**(0.1)**
Sales	**11.8**	**US 374.6**	**17.8**

December 31 (millions of dollars)	1994 Carrying Amount Asset/(Liability)	Principal	Fair Value Asset/(Liability)
Forward foreign exchange contracts			
Purchases	0.1	US 9.6	0.1
Sales	(0.4)	US 54.7	(0.4)

Short-Term Debt Interest Rate Management

The Company uses interest rate swaps, forward rate agreements and cross-currency interest rate swaps to reduce the cash flow risks associated with changes in floating interest rates on average outstanding commercial paper. Canadian dollar interest rate swaps convert the interest cost on commercial paper from a six-month floating rate to a one-month Bankers' Acceptance rate. Forward rate agreements convert the interest cost on commercial paper from a one-month Bankers' Acceptance rate to a fixed rate. Certain other U.S. dollar commercial paper has been converted through cross-currency swaps into Canadian dollars, with corresponding fixed-rate Canadian dollar interest obligations.

	1995			
December 31 (millions of dollars)	**Carrying Amount** *Asset/(Liability)*	**Notional Principal**	**Principal**	**Fair Value** *Asset/(Liability)*
Interest rate swaps	**0.1**	**50.0**	**–**	**0.1**
Forward rate agreement	**–**	**25.0**	**–**	**–**

	1994			
December 31 (millions of dollars)	Carrying Amount *Asset/(Liability)*	Notional Principal	Principal	Fair Value *Asset/(Liability)*
Interest rate swaps	0.1	45.9	–	0.1
Cross-currency swaps	1.6	–	US 30.0	2.0

Long-Term Debt Hedges

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.

	1995		
December 31 (millions of dollars)	**Carrying Amount** *Asset/(Liability)*	**Notional Principal**	**Fair Value** *Asset/(Liability)*
Interest rate swap	**(0.1)**	**US 50.0**	**0.2**

	1994		
December 31 (millions of dollars)	Carrying Amount *Asset/(Liability)*	Notional Principal	Fair Value *Asset/(Liability)*
Interest rate swap	0.1	US 50.0	(11.3)

Debt denominated in Swiss francs, which matured in 1995, was converted through swap agreements, which also matured in 1995, into Canadian dollars with corresponding fixed-rate Canadian dollar interest obligations. The fair values of the cross-currency swaps were offset by the foreign exchange loss on the Swiss franc debt.

	1994		
December 31 (millions of dollars)	Carrying Amount *Asset/(Liability)*	Principal	Fair Value *Asset/(Liability)*
Cross-currency swaps	33.1	SFr 119.5	33.1

Energy Price Risk Management

The Company purchases and sells financial instruments to manage the price risk associated with sales, purchases and inventories of natural gas, crude oil and refined products. Futures contracts, which require the Company to buy or sell energy commodities at fixed prices, are used to reduce the risk associated with the portion of unmatched fixed price commitments. Price 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. Basis swaps are used to reduce the risk associated with changes in prices at delivery and receipt points. 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 one month to five years.

	1995			
December 31	**Carrying Amount** *Asset/(Liability) (millions of dollars)*	**Notional Volume** *(Bcf)*	**Notional Volume** *(MMBbls)*	**Fair Value** *Asset/(Liability) (millions of dollars)*
Natural gas				
Futures contracts	**(1.8)**	**11.6**	**–**	**(1.8)**
Swaps	**–**	**419.8**	**–**	**32.2**
Crude oil and refined products				
Futures contracts	**0.1**	**–**	**1.7**	**0.1**
Swaps	**–**	**–**	**2.2**	**(0.2)**
Options	**(0.1)**	**–**	**1.1**	**(0.1)**

	1994			
December 31	Carrying Amount *Asset/(Liability) (millions of dollars)*	Notional Volume *(Bcf)*	Notional Volume *(MMBbls)*	Fair Value *Asset/(Liability) (millions of dollars)*
Natural gas				
Futures contracts	0.1	16.3	–	(1.4)
Swaps	–	210.9	–	18.8
Options	0.1	1.4	–	0.5
Crude oil and refined products				
Futures contracts	0.1	–	5.2	0.7

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.

	1995		
December 31 (millions of dollars)	**Carrying Amount** *Asset/(Liability)*	**Notional Principal**	**Fair Value** *Asset/(Liability)*
Interest rate swaps	**2.7**	**US 195.0**	**(14.8)**

	1994		
December 31 (millions of dollars)	Carrying Amount *Asset/(Liability)*	Notional Principal	Fair Value *Asset/(Liability)*
Interest rate swaps	2.7	US 222.6	5.7

Other Financial Instruments

The fair values below are provided solely for information purposes and are not reflected in the Company's accounts.

	1995		1994	
December 31 (millions of dollars)	**Carrying Amount** *Asset/(Liability)*	**Fair Value** *Asset/(Liability)*	Carrying Amount *Asset/(Liability)*	Fair Value *Asset/(Liability)*
Cash and short-term investments	**219.0**	**219.0**	113.3	113.3
Long-term debt				
Canadian mainline	**(4,334.0)**	**(4,984.6)**	(4,250.6)	(4,464.2)
Other	**(520.0)**	**(597.8)**	(395.6)	(436.1)
Non-recourse debt of joint ventures	**(1,015.9)**	**(1,045.1)**	(1,006.9)	(1,010.4)
Convertible debentures	**(150.0)**	**(150.0)**	(150.0)	(157.5)
Preferred shares (redeemable)	**(662.6)**	**(677.9)**	(612.6)	(615.4)

NOTE 6. Cash and Short-Term Investments and Notes Payable

(a) Cash and Short-Term Investments

	1995		1994	
	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
Cash and short-term investments				
in Canadian dollar accounts	**5.6**	**5.0%**	6.9	5.0%
in U.S. dollar accounts	**148.8**	**5.8%**	51.5	6.1%
Cash and short-term investments of joint ventures				
in Canadian dollar accounts	**0.3**	**4.6%**	0.1	7.7%
in U.S. dollar accounts	**64.3**	**5.5%**	54.8	5.7%
	219.0		113.3	

(b) Notes Payable

	1995		1994	
	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	**48.4**	**6.5%**	128.3	5.8%
in U.S. dollars	**0.1**	**9.5%**	40.6	6.3%
Notes payable of joint ventures				
in Canadian dollars	**11.4**	**7.2%**	3.9	6.8%
in U.S. dollars	**–**	**–**	1.6	5.6%
	59.9		174.4	

The Company had unused lines of credit of $842.0 million at December 31, 1995 (December 31, 1994 - $967.2 million), of which $600.0 million (December 31, 1994 - $600.0 million) supported the Company's commercial paper program and the balance secured product purchases and was available for general corporate purposes. These borrowing arrangements are available to the Company 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 was approximately $0.8 million for the year ended December 31, 1995 (December 31, 1994 - $0.8 million). At December 31, 1995, the Company had outstanding letters of credit of $23.0 million to secure energy commodity purchases in 1996.

NOTE 7. Long-Term Debt

	Maturity Dates	1995 Outstanding December 31 *(1)*	1995 Weighted Average Interest Rate *(2)*	1994 Outstanding December 31 *(1)*	1994 Weighted Average Interest Rate *(2)*
CANADIAN MAINLINE					
First Mortgage Pipe Line Bonds					
Denominated in U.S. dollars					
(1995 - US$193.9; 1994 - US$223.3)	1996 and 1997	**264.7**	**16.2%**	313.2	16.2%
Denominated in Pounds Sterling					
(1995 and 1994 - £25.0)	2007	**53.0**	**16.5%**	54.9	16.5%
Debentures					
Denominated in Canadian dollars	1996 to 2020	**1,779.7**	**10.9%**	1,779.8	10.9%
Denominated in U.S. dollars					
(1995 and 1994 - US$800.0)	2012 to 2023	**1,092.2**	**9.2%**	1,122.2	9.2%
Notes					
Denominated in Canadian dollars	1996 to 2022	**1,144.4**	**8.8%**	980.5	8.8%
		4,334.0		4,250.6	
Foreign exchange differential recoverable through the tollmaking process		**(143.2)**		(205.6)	
Total		**4,190.8**		4,045.0	
OTHER					
Subordinated Debentures					
Denominated in U.S. dollars					
(1995 and 1994 - US$200.0)	2006	**273.0**	**8.4%**	280.5	8.4%
Notes					
Denominated in Canadian dollars	1998 to 2005	**247.0**	**9.5%**	20.0	9.5%
Denominated in Swiss francs					
(1995 - Nil; 1994 - SFr119.5)		**–**	**–**	95.1	9.1%
Total		**520.0**		395.6	
Total Long-Term Debt		**4,710.8**		4,440.6	
Less: Long-Term Debt Due Within One Year		**358.7**		188.3	
		4,352.1		4,252.3	

(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 and include, where applicable, effective interest rates resulting from swap agreements.

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 on the Company's assets 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. The bonds denominated in U.S. dollars are subject to mandatory sinking fund provisions which require the Company to retire prescribed amounts of each series annually prior to maturity.

Notes

In 1995, the Company continued its Canadian Medium-Term Note Program by filing a shelf prospectus that allows for the issuance of notes with a wide range of maturities at varying interest rates. At December 31, 1995, $789.1 million was available to be issued under this program. In addition, the Company may issue up to US$500 million of debentures or Medium-Term Notes under a shelf registration statement filed in the United States during 1995.

Mandatory Retirements

In addition to purchase fund requirements which are applicable in certain circumstances, mandatory retirements of all long-term debt of the Company, as a result of maturities and sinking fund obligations, approximate: 1996 - $358.7 million; 1997 - $267.8 million; 1998 - $277.0 million; 1999 - $200.1 million; and 2000 - $175.9 million.

NOTE 8. Non-Recourse Debt of Joint Ventures

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 pro-rata share of the debt of joint ventures is as follows.

	Maturity Dates	1995 Outstanding December 31 *(1)*	1995 Weighted Average Interest Rate *(2)*	1994 Outstanding December 31 *(1)*	1994 Weighted Average Interest Rate *(2)*
Great Lakes System					
Senior Unsecured Notes					
(1995 - US$246.9; 1994 - US$250.0)	1996 to 2021	**337.0**	**9.2%**	350.7	9.2%
Northern Border Pipeline					
Senior Secured Notes					
(1995 and 1994 - US$75.0)	2003	**102.4**	**8.4%**	105.2	8.4%
Bank Loan					
(1995 - US$48.0; 1994 - US$58.5)	1999	**65.5**	**7.4%**	82.1	7.3%
Iroquois System					
Bank Loan					
(1995 - US$131.8; 1994 - US$137.2)	2006 to 2008	**179.9**	**8.7%**	192.5	8.6%
Tuscarora Pipeline					
Senior Unsecured Notes					
(1995 - US$45.9; 1994 - Nil)	2010	**62.7**	**7.1%**	–	–
Foothills Pipe Lines (Sask.)					
Note	2001	**70.8**	**8.5%**	72.8	7.7%
Trans Québec & Maritimes Pipeline					
First Mortgage Bonds	1998 to 2005	**101.0**	**10.0%**	36.0	13.2%
Term Loan		**–**	**–**	65.0	7.5%
Ocean State Power Plant					
Senior Secured Notes					
(1995 - US$70.7; 1994 - US$72.8)	2002 to 2011	**96.6**	**7.6%**	102.6	7.6%
Total Non-Recourse Debt of Joint Ventures		**1,015.9**		1,006.9	
Less: Non-Recourse Debt of Joint Ventures Due Within One Year		**42.8**		99.0	
		973.1		907.9	

(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 and include, where applicable, effective interest rates resulting from swap agreements.

Distributions by certain of the joint ventures are restricted by the terms of the debt. Under the most restrictive covenants approximately $181.6 million and $84.0 million cannot be distributed to TransCanada by the Great Lakes System and Northern Border Pipeline, respectively, at December 31, 1995. Terms of the debt of other joint ventures did not restrict their ability to make distributions at December 31, 1995.

The Company's pro-rata share of mandatory retirements of the non-recourse joint venture debt, as a result of maturities and sinking fund obligations, approximates: 1996 - $42.8 million; 1997 - $58.1 million; 1998 - $69.3 million; 1999 - $68.8 million; and 2000 - $89.4 million.

NOTE 9. Financial Charges

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Financial Charges			
Interest on long-term debt	**503.1**	474.2	466.3
Amortization of forward foreign exchange contract premiums	**(10.5)**	(3.4)	(7.6)
Interest on long-term debt *(net)*	**492.6**	470.8	458.7
Regulatory deferrals and amortizations	**6.7**	(3.7)	(5.8)
Non-regulatory foreign exchange	**0.5**	(1.8)	(0.9)
Short-term interest and other financial charges	**11.9**	9.3	12.0
Interest capitalized	**(2.9)**	(0.3)	–
	16.2	3.5	5.3
	508.8	474.3	464.0
Financial Charges of Joint Ventures			
Interest on long-term non-recourse debt	**87.2**	91.2	89.8
Other	**2.1**	1.7	1.8
	89.3	92.9	91.6

The Company made interest payments of $512.3 million, $482.9 million and $496.3 million for the years ended December 31, 1995, 1994 and 1993, respectively. The Company's pro-rata share of interest payments made by its joint ventures was $76.3 million, $92.1 million and $89.9 million for the years ended December 31, 1995, 1994 and 1993, respectively.

NOTE 10. Convertible Debentures

The convertible subordinated debentures, which mature in 2001, bear interest at 10.426 per cent. The debentures are convertible, at the holder's option, into common shares at a price of $23.041 and are redeemable by the Company, under certain circumstances, after June 20, 1995. The Company may elect to pay interest when due, and principal on redemption or at maturity, in common or preferred shares of the Company subject to the debenture holder's right to receive a cash payment.

NOTE 11. Income Taxes

(a) The geographic components of income before income taxes are summarized below.

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Canada	**407.3**	373.5	332.4
Foreign	**133.1**	100.6	108.9
	540.4	474.1	441.3

(b) The provision for income taxes is summarized as follows.

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Current			
Canada	**142.5**	109.1	111.3
Foreign	**38.1**	20.1	13.0
	180.6	129.2	124.3
Deferred			
Canada	**(37.0)**	(21.8)	(51.7)
Foreign	**(0.7)**	8.1	13.1
	(37.7)	(13.7)	(38.6)
	142.9	115.5	85.7

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

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Capital cost allowance in excess of depreciation	**1.0**	8.0	9.6
Deferred amounts	**(14.8)**	5.5	(23.1)
Amortization of Canadian mainline deferred income taxes *(f)*	**(25.3)**	(25.3)	(25.3)
Other	**1.4**	(1.9)	0.2
	(37.7)	(13.7)	(38.6)

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

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Income before income taxes	**540.4**	474.1	441.3
Less income not subject to tax currently *(f)*	**(144.4)**	(147.5)	(168.2)
	396.0	326.6	273.1
Federal and provincial statutory tax rate	**43.7%**	43.7%	43.8%
Expected income tax expense	**173.1**	142.7	119.6
Amortization of Canadian mainline deferred income taxes *(f)*	**(25.3)**	(25.3)	(25.3)
Non-deductible capital losses	**4.4**	5.8	5.4
Net difference between the federal and provincial statutory tax rate and rates of state and foreign authorities	**(14.2)**	(8.6)	(14.4)
Utilization of prior years' operating losses	**(11.6)**	(13.9)	(13.7)
Large corporations tax	**14.3**	14.3	13.8
Other	**2.2**	0.5	0.3
Actual income tax expense	**142.9**	115.5	85.7

(e) At December 31, 1995, the Company's United States subsidiaries had net operating losses carried forward for tax purposes of US$135.9 million resulting from timing differences as described in (c) above. The benefit of these losses has been recognized for accounting purposes. The net operating losses can be carried forward and, subject to certain limitations, applied to reduce future taxable income of these subsidiaries. To the extent not used, these tax losses expire as follows: 2000 - US$22.1 million; 2001 - US$63.7 million; 2002 - US$37.5 million; and 2005 - US$12.6 million.

(f) During the period from August 1978 to July 1982, the Company was directed by the NEB to follow the deferral method of accounting for income taxes for the Canadian mainline operations. As a result, the Company recovered deferred income tax expense of $75.9 million in tolls during that period. In 1993, the NEB directed the Company to amortize this amount over a three-year period which ended in 1995.

Prior to 1978 and subsequent to 1982, the Company was directed by the NEB to follow 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 $744.9 million to December 31, 1995 (December 31, 1994 - $680.7 million) would have been recorded and recovered in tolls to date through the tollmaking process.

(g) Income taxes have not been provided on 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 $14.0 million at December 31, 1995 (December 31, 1994 - $12.0 million).

(h) Income tax payments of $136.4 million, $165.1 million and $66.4 million were made during the years ended December 31, 1995, 1994 and 1993, respectively.

NOTE 12. Preferred Shares (redeemable)

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

December 31	Dividend Rate Per Share	Redemption Price Per Share	**1995** ***(millions of dollars)***	1994 *(millions of dollars)*
FIRST PREFERRED SHARES				
Cumulative redeemable				
$2.80 Series *(1995 and 1994 - 552,968)*	$2.80	$50.50	**27.6**	27.6
Series O *(1995 and 1994 - 3,000,000)*	$3.95	$52.00-$50.00	**150.0**	150.0
Series P *(1995 and 1994 - 2,600,000)*	$3.875	$52.00-$50.00	**130.0**	130.0
Cumulative redeemable retractable				
Series N *(1995 and 1994 - 1,500,000)*	$4.50	$50.00	**75.0**	75.0
Series Q *(1995 and 1994 - 2,100,000)*	$3.275	$50.00	**105.0**	105.0
Series R *(1995 - 2,000,000; 1994 - Nil)*	$2.975	$50.00	**100.0**	–
Cumulative redeemable perpetual				
Series L *(1995 - Nil; 1994 - 100)*	$40,625	$500,000	–	50.0
Series M *(1995 and 1994 - 150)*	$42,750	$500,000	**75.0**	75.0
			662.6	612.6

The $2.80 Series shares may be redeemed at any time at the option of the Company. The Company has announced its intention to redeem the Series N shares on February 1, 1996. 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.

The dividend rate per share on the Series M shares will be redetermined as of May 1, 1996, by one of: direct negotiation between the Company and the holders of the Series M shares; bids solicited from investment dealers; or an auction procedure. The Series M shares may be redeemed at the option of the Company after April 30, 1996.

NOTE 13. Common Shares

The Company is authorized to issue an unlimited number of common shares of no par value. In 1992, the Company issued 12,500,000 Cumulative Equity Second Preferred Shares, Series B (Equity Preferred Shares). During 1995, all the Equity Preferred Shares, which provided a cumulative annual dividend of $1.25 per share, were converted into 12,500,000 common shares of the Company. Changes in the Company's common shares outstanding are as follows.

	Number of Shares *(thousands)*	Amount *(millions of dollars)*
Outstanding at January 1, 1993	176,012	791.0
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	3,905	71.4
Exercise of options	101	1.6
Cancellation of common shares	(8)	(0.1)
Outstanding at December 31, 1993	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**

Net Income Per Share

The Equity Preferred Shares, which were converted to common shares in 1995, were considered to be the equivalent of common shares for purposes of net income per share calculations. Net income per share is calculated by deducting from net income dividends applicable to preferred shares (redeemable) which amounted to $47.4 million, $46.6 million and $46.6 million for the years ended December 31, 1995, 1994 and 1993, respectively. The result is divided by the weighted average number of Equity Preferred Shares and common shares outstanding. The weighted average number of shares, in millions, for the years ended December 31, 1995, 1994 and 1993, is 200.1, 195.0 and 190.7, respectively. Fully diluted earnings per share have not been presented as the effect of potential dilution of convertible debentures, preferred shares Series O, P, Q and R and options is not material.

Employee Stock Incentive Plan

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 was 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 12.3 million shares under KESIP. Prior to 1995, KESIP also had a share purchase feature. No shares have been sold to any key employee under this feature since 1987. Details of the Company's KESIP options outstanding are as follows.

	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**

Shareholder Rights Plan

In 1995, shareholders of the Company ratified a Shareholder Rights Plan (Rights Plan) designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Among other provisions, the rights issued under the Rights Plan become exercisable when a person (and any related parties) acquires 20 per cent or more of the Company's outstanding common shares without complying with certain provisions set out in the Rights Plan or without approval of the Board of Directors of the Company. Should such an acquisition occur, each right upon exercise entitles a rights holder, other than the acquiring person and related parties, to purchase common shares of the Company at 50 per cent of the then market price. In such circumstances, each common share is entitled to one right.

Restriction on Dividends

Certain terms under the Company's preferred share provisions and debt instruments could potentially restrict the Company's ability to declare dividends on preferred and common shares. At December 31, 1995, such terms did not restrict or alter the Company's ability to declare dividends.

NOTE 14. Deferred Amounts

December 31 (millions of dollars)	1995	1994
Canadian mainline	**37.4**	64.9
Deferred amounts related to financial instruments	**(9.9)**	(37.9)
Capitalized project costs	**-**	37.4
Other	**79.1**	74.6
Deferred amounts of joint ventures	**11.9**	12.3
	118.5	151.3

The deferred amounts of the Canadian mainline are recovered or refunded in future periods through the regulatory process.

NOTE 15. Pension Plans

The Company has a non-contributory pension plan and a Supplemental Retirement Plan (SRP). The non-contributory pension plan covers substantially all employees who have completed one year of service and provides a defined benefit pension based on length of service and the employee's final average earnings. The SRP provides a supplemental pension benefit to executives upon retirement.

The Company's net pension expense was $12.0 million, $11.0 million, and $10.6 million for the years ended December 31, 1995, 1994 and 1993, respectively.

The actuarial present value of current accumulated pension benefits, substantially all of which are vested, amounted to $262.6 million at December 31, 1995 (December 31, 1994 - $244.6 million). At December 31, 1995, the pension plan assets amounted to $256.8 million (December 31, 1994 - $230.8 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 8.0 per cent per annum.

In determining the actuarial present value of the projected pension benefit obligation, the discount rate used was 8.0 per cent and the rate of projected increase in future compensation levels used ranged from 3.0 to 5.0 per cent.

NOTE 16. Decrease/(Increase) in Operating Working Capital

The following table sets forth the changes in the components of operating working capital.

Year ended December 31 (millions of dollars)	1995	1994	1993
(Increase)/decrease in accounts receivable	**(36.6)**	28.4	68.4
Decrease/(increase) in storage inventory	**8.1**	(18.8)	(1.9)
Decrease in other current assets	**0.1**	12.1	14.5
Decrease in accounts payable	**(22.6)**	(42.6)	(5.3)
Increase/(decrease) in income taxes payable	**68.7**	(42.5)	50.1
Increase/(decrease) in interest accrued	**0.6**	1.2	(17.3)
	18.3	(62.2)	108.5

NOTE 17. Contingencies

The Company is subject to various legal proceedings and other investigations as part of ongoing business operations.

(a) Canada

In 1993, the Company was charged under the Fisheries Act of Canada, the Ontario Water Resources Act and the Environmental Protection Act of Ontario. These charges alleged that, during the construction of new pipeline in Ontario, the Company discharged sediment into water.

Prior to commencement of trial, the Ontario Provincial Court dismissed all Fisheries Act charges and all charges against corporate officers. The trial concluded in November 1995. During the trial, further charges were dismissed by the Court and others were withdrawn by the Crown. Before hearing all the evidence, the Court dismissed all remaining charges at the invitation of the Crown.

(b) United States

(i) A United States subsidiary of the Company holds a 29 per cent general partnership interest in the Iroquois Gas Transmission System L.P. (Iroquois). Another United States subsidiary of the Company operates the Iroquois pipeline system on behalf of Iroquois. Iroquois is the subject of a civil investigation by the U.S. Attorney's Offices for the Northern, Southern and Eastern Districts of New York to determine whether civil environmental violations were committed during construction of the Iroquois pipeline. Iroquois has denied that such violations occurred and has asserted that it has fully responded to all concerns raised by governmental authorities during construction. No proceedings in connection with this civil investigation have been commenced by the U.S. federal government against Iroquois. The Federal Energy Regulatory Commission, the Army Corps of Engineers and other federal and state agencies have also requested information regarding construction of certain of Iroquois' facilities.

In addition, a criminal investigation has been initiated against Iroquois and its environmental consultant by the U.S. Attorney's Office for the Northern District of New York in conjunction with the United States Environmental Protection Agency and the Federal Bureau of Investigation (FBI). According to a press release issued by the FBI in July 1992, areas under investigation include possible environment violations, wire fraud, mail fraud and providing false information or concealment of information from federal agencies in conjunction with the construction of the base pipeline. No criminal charges have been filed in connection with this matter. Iroquois management believes that the pipeline construction and right-of-way activities were conducted in a responsible manner. Nevertheless, in the absence of a negotiated resolution, Iroquois believes it is probable that the U.S. Attorney will seek indictments including fines and other sanctions.

Iroquois has been negotiating with the relevant governmental agencies towards reaching a global resolution of the federal civil and criminal investigations. Such resolution would involve fines and other monetary sanctions that would likely be material to the financial results of operations and the financial condition of Iroquois. Although no agreements have been reached regarding the disposition of these matters, Iroquois has notified TransCanada that for its fiscal year ended December 31, 1995, it intends to make provision in its financial statements for a dollar liability associated with these proceedings to reflect its evolving understanding of the probable outcome. TransCanada has recorded $7.9 million in its financial statements, representing its pro-rata share of this provision. The ultimate resolution of this matter could result in a dollar liability different from the provision recorded.

(ii) A U.S. subsidiary of the Company is the subject of an action in Montana alleging anti-trust conspiracy and violations and claiming treble damages. The Company is unable to determine at this time what effect the resolution of this matter will have on its financial position and no provision has been made with respect to this action.

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

The Company's consolidated financial statements are prepared in accordance with Canadian GAAP, which differ in some respects from U.S. GAAP.

(a) The reconciliation of the differences between net income in accordance with Canadian GAAP and net income in accordance with U.S. GAAP are as follows.

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Net income as reported in accordance with Canadian GAAP	**397.5**	358.6	355.6
U.S. GAAP adjustments			
Foreign currency translation *(1)*	**1.1**	3.4	8.3
Income taxes *(2)*	**(3.2)**	(13.5)	(9.6)
Income before cumulative effect of the application of SFAS 109	**395.4**	348.5	354.3
Cumulative effect of the application of SFAS 109 *(2)*	**–**	–	10.0
Net income in accordance with U.S. GAAP	**395.4**	348.5	364.3

Net income per share in accordance with U.S. GAAP is presented below.

Year ended December 31	**1995**	1994	1993
Income per share before cumulative effect of the application of SFAS 109	**$1.74**	$1.55	$1.61
Cumulative effect of the application of SFAS 109 *(2)*	**–**	–	0.05
Net income per share in accordance with U.S. GAAP	**$1.74**	$1.55	$1.66

(1) Under Canadian GAAP, the Company defers unrealized foreign exchange gains and losses with respect to its borrowings in foreign currencies and amortizes them over the remaining life of the borrowings. Under U.S. GAAP, such gains and losses are recognized in income immediately.

(2) Statement of Financial Accounting Standards No. 109 (SFAS 109) "Accounting for Income Taxes" was adopted effective January 1, 1993. SFAS 109 requires that the liability method be used to calculate deferred income taxes and that deferred income tax expense is calculated as the net change in the deferred income tax liability during the year. Refer to (c).

(b) Condensed Statements of Consolidated Income for TransCanada prepared in accordance with U.S. GAAP using the equity method of accounting for joint ventures are as follows.

Year ended December 31 (millions of dollars)	**1995**	1994	1993
Revenues	**6,667.3**	4,901.3	4,242.1
Cost of sales	**4,719.2**	3,117.3	2,548.2
Other costs and expenses	**851.6**	793.1	763.8
Depreciation	**233.4**	220.9	205.7
	5,804.2	4,131.3	3,517.7
Operating income	**863.1**	770.0	724.4
Other (income)/expense			
Income from equity investments	**(166.0)**	(165.5)	(149.4)
Other expenses	**487.6**	458.0	424.2
Income taxes	**146.1**	129.0	95.3
	467.7	421.5	370.1
Income before cumulative effect of the application of SFAS 109	**395.4**	348.5	354.3
Cumulative effect of the application of SFAS 109	**–**	–	10.0
Net income in accordance with U.S. GAAP	**395.4**	348.5	364.3

Condensed Statements of Consolidated Financial Position for TransCanada prepared in accordance with U.S. GAAP using the equity method of accounting for joint ventures are as follows.

December 31 (millions of dollars)	**1995**	1994
Current assets	**836.9**	734.2
Equity investments	**1,113.7**	1,054.0
Plant, property and equipment	**7,114.6**	6,829.3
Regulatory asset	**1,212.7**	1,087.5
Deferred amounts	**106.6**	137.9
	10,384.5	9,842.9
Current liabilities	**1,219.4**	1,173.3
Long-term debt	**4,352.1**	4,252.3
Deferred income taxes	**1,269.8**	1,154.5
Convertible debentures	**150.0**	150.0
Preferred shares (redeemable)	**662.6**	612.6
Equity preferred shares and common shareholders' equity	**2,730.6**	2,500.2
	10,384.5	9,842.9

(c) SFAS 109 requires that a deferred income tax liability be recorded for cost-of-service regulated utilities even if the taxes payable method is used for tollmaking purposes. As deferred income taxes of such utilities are recoverable through future revenues, a corresponding regulatory asset has been recorded for U.S. GAAP purposes. These 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)	**1995**	1994
Deferred tax liabilities		
Accelerated tax depreciation on plant and equipment	**780.8**	728.8
Taxes on future revenue requirement	**416.7**	375.3
Undistributed earnings of subsidiaries and joint ventures	**119.7**	160.7
Other	**58.6**	10.3
	1,375.8	1,275.1
Deferred tax assets		
Net operating and capital loss carryforwards	**133.4**	135.3
Cost of investments in subsidiaries and joint ventures	**38.8**	39.6
Other	**55.1**	21.6
	227.3	196.5
Less valuation allowance	**(121.3)**	(75.9)
	106.0	120.6
Net deferred tax liability	**1,269.8**	1,154.5

The valuation allowance was increased by $45.4 million in 1995, primarily to offset increased capital losses carried forward arising from debt retired during the year. The valuation allowance was reduced in 1994 by $10.6 million due to the utilization of operating loss carryforwards.

(d) Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions", effective January 1, 1995, requires accrual of the expected costs of providing postretirement benefits during the period in which employees render services. The provisions of this standard do not have a material effect on the Company's results of operations or financial position.

(e) The Financial Accounting Standards Board has issued a new standard, Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", effective January 1, 1996. The Company does not expect the provisions of this standard will affect its results of operations or financial position.

Selected Quarterly Consolidated Financial Data

The following sets forth selected quarterly financial data for the four quarters of 1995 and 1994 in millions of dollars except for per share amounts.

Three months ended (unaudited)	March 31	June 30	September 30	December 31
1995				
Revenues	**1,697.5**	**1,814.8**	**1,665.2**	**1,828.1**
Net income	**97.1**	**100.2**	**99.4**	**100.8**
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**
1994				
Revenues	1,317.8	1,165.5	1,133.7	1,601.5
Net income	94.7	85.5	88.0	90.4
Net income per share	$0.43	$0.38	$0.39	$0.40
Dividends declared per common share	$0.23	$0.23	$0.23	$0.25

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	**1995**	1994	1993	1992	1991	1990
Ratio of earnings to fixed charges *(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 United States generally accepted accounting principles.

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

Differences are described in Note 18, "Significant Differences Between Canadian and U.S. GAAP", to the Company's consolidated financial statements.

Six-Year Financial and Operating Highlights

Financial

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

Operating

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

Directors
(December 31, 1995)

J.V. Raymond Cyr, O.C.
Chairman of the Board
Bell Canada
Montréal

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

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

Harry G. Schaefer
Chairman of the Board
TransAlta Corporation
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 Holdings Ltd.
Edmonton

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

Margaret K. Witte
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 supervision of the business and affairs of the company. Day to day management of the company is the responsibility of the chief executive officer (the CEO) and other senior management of the company.

The board of directors 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 broad 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. In addition to nine scheduled meetings each year, unscheduled meetings are held from time to time as required.

There were 11 meetings of the board of directors in 1995.

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 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 by the company of the quarterly and annual financial results;
- meet with the outside auditors; with the director, Internal Audit; and the director, Environmental Affairs, in each case independently of other management;
- ensure that management has established an effective system of internal control and security;
- ensure that policies are in place establishing standards of conduct with respect to environmental matters; and
- review issues relating to legal and regulatory responsibilities to ensure compliance.

The committee met five times in 1995.

Chair:
H.G. Schaefer

Members:
R.E. Dineen, Jr.
W. Dobson
T.E. Kierans
J.D. Thompson
M.K. Witte

Governance Committee

The mandate of the governance committee is to:

- recommend to the board candidates for nomination as directors of the company;
- annually review credentials of nominees for re-election;
- review the performance of directors and the board;
- review and recommend compensation for board and committee service;
- develop and recommend policies and procedures of the board regarding governance issues; and
- monitor the quality of the relationship between management and the board and recommend improvements if necessary or desirable.

The committee met twice in 1995.

Chair:
J.V.R. Cyr

Members:
W. Dobson
L.Y. Fortier
D.S. Macdonald
G.J. Maier
A.R. Taylor

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 to report on these matters to the full board as required;
- 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
- oversee the administration of the company's stock option plan and approve stock option grants in accordance with the terms of the plan.

The committee met five times in 1995.

Chair:
A.R. Taylor

Members:
J.V.R. Cyr
T.E. Kierans
H.G. Schaefer

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 review significant policy issues, business plans, budgets, acquisitions and divestitures.

The committee met three times in 1995.

Chair:
G.J. Maier

Members:
J.V.R. Cyr
L.Y. Fortier
D.S. Macdonald
G.W. Watson

Further information with respect to TransCanada's principles of corporate governance is contained in the Management Proxy Circular dated March 5, 1996.

Executive Officers
(December 31, 1995)

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. Letwin
President, Petroleum Group TransCanada Energy Management Limited

Robert J.C. Reid
Senior Vice-President

Ray T. Smith
Vice-President and Controller

G. Lawrence Spackman
President, Gas Marketing Group TransCanada Energy Management Limited

Robert A.M. Young
Senior Vice-President, Law

Officers
(December 31, 1995)

H. Frederick Button
Vice-President Project Development

Doron J. Cohen
Vice-President Information Systems and Telecommunications

Robert B. Cohen
Vice-President Government and Public Affairs

Marcel R. Coutu
Vice-President Finance

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 Transportation Services

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 Power Generation and Projects

Lawrence W. Sloan
Assistant Secretary

John W. Stinson
Vice-President Human Resources

John G. Walker
Vice-President Operations

Bruce A. Westell
Treasurer

Paul R. Wigle
Vice-President Transportation Planning

Corporate Offices

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Telephone: (403) 262-6800

George W. Watson
Chief Executive Officer

Stephen J. Letwin
President
Petroleum Group

G. Lawrence Spackman
President
Gas Marketing Group

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President

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Telephone: (403) 267-6100

A. Jake Epp
President

H. Frederick Button
Senior Vice-President
Project Development

D. G. Waddingham
Senior Vice-President
Investments

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Robert D. Hale
President and Chief Operating Officer

Trans Québec & Maritimes Pipeline Inc.
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Telephone: (514) 874-8800

Robert Turgeon
President

Alberta Natural Gas Company Ltd
2900,
240 - Fourth Avenue S.W.
Calgary, Alberta
T2P 4L7
Telephone: (403) 691-7777

Wayne Lunt
President and Chief Executive Officer

Great Lakes Gas Transmission Limited Partnership
1 Woodward Avenue,
Suite 1600
Detroit, Michigan 48226
Telephone: (313) 596-4400

Derek Henwood
President

Iroquois Pipeline Operating Company
One Corporate Drive,
Suite 606
Shelton, Connecticut 06484
Telephone: (203) 925-7200

Craig R. Frew
President

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; Series R: TRP.PR.R.

Important Dates
Scheduled dividend payment dates in 1996 are January 31, April 30, July 31 and October 31.

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 dividends and by making optional cash payments without incurring brokerage or administrative fees. Participants in the plan may make optional cash payments to buy additional shares of up to $5,000 per quarter.

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

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

Common Shares
Transfer agents and registrars for TransCanada's common shares are:
Montreal Trust Company (Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver) and Bank of Montreal Trust Company (New York).

Preferred Shares
Transfer agent and registrar Montreal Trust Company (Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver) for these preferred shares: $2.80 cumulative redeemable first preferred shares; Cumulative redeemable first preferred shares, Series O and Series P; Cumulative redeemable retractable first preferred shares, Series N, Series Q and Series R. Cumulative redeemable perpetual first preferred shares, Series M are transferable at TransCanada.

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% and $16\frac{3}{4}$% – Bankers Trust Company, New York, N.Y.
Co-registrar and paying agent U.K. Series, $16\frac{1}{2}$% – Royal Bank of Scotland plc, London, England.

Debentures
Trustee and registrar, Canadian series, Montreal Trust Company (Montréal, Toronto, Winnipeg, Calgary and Vancouver) for these debentures:
11.40% series J
10.45% series K
10.80% series L
10.55% series M
11.10% series N
10.50% series O
10.50% series P
10.625% series Q
11.85% series R
11.90% series S
11.65% series T
11.80% series U
9.80% series V
9.45% series W

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

Convertible Subordinated Debentures

Trustee and registrar, Canadian series 10.426%, Montreal Trust Company, Calgary.

Subordinated Debentures

Trustee and registrar, 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).

Annual Information Form

TransCanada's 1995 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 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 and Bond Transfer Department
600, 530-8th Avenue S.W.
Calgary, Alberta, Canada
T2P 3S8
Telephone: (403) 267-6555

Common Share Price Range

Toronto Stock Exchange

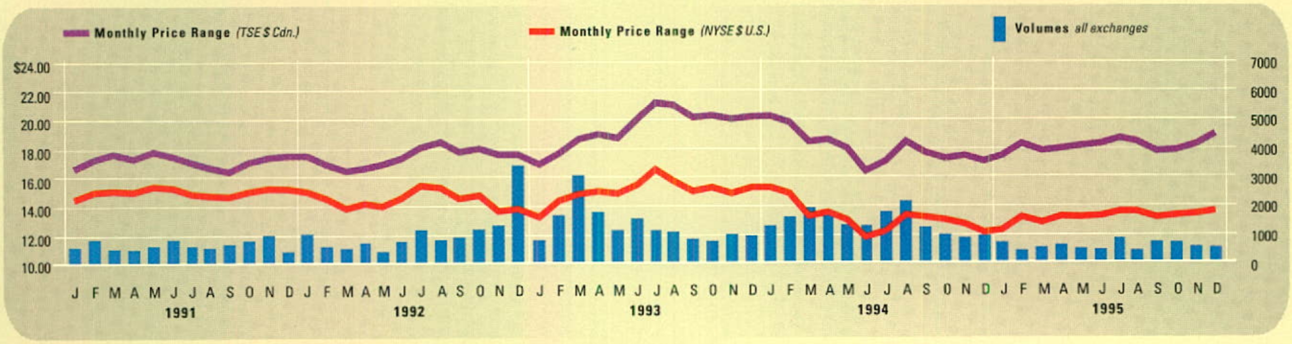
	High	Low
Fiscal 1994	$20.88	$16.00
First Quarter 1995	$18.75	$16.50
Second Quarter 1995	$18.88	$17.50
Third Quarter 1995	$18.75	$17.50
Fourth Quarter 1995	**$19.00**	**$17.00**

New York Stock Exchange

(US dollars)	High	Low
Fiscal 1994	$15.88	$11.63
First Quarter 1995	$13.38	$11.63
Second Quarter 1995	$13.63	$12.63
Third Quarter 1995	$13.88	$12.88
Fourth Quarter 1995	**$14.00**	**$12.50**

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.
Investor fax line (403) 267-8538

Common Share Performance



Simplified Corporate Structure

TransCanada

North American Pipeline System

Canadian Mainline 100%

Foothills Pipe Lines (Sask.) Ltd. 44%

Trans Québec & Maritimes Pipeline Inc. 50%

Great Lakes Gas Transmission Company 50%

Northern Border Pipeline Company 30%

Iroquois Gas Transmission System, Inc. 29%

Tuscarora Gas Transmission Company 50%

Development Project:

Portland Natural Gas Transmission System 20%

Energy Management

TransCanada Energy Management 100%

TransCanada Gas Services 100%

Northridge Petroleum Marketing 100%

Nipigon Power Plant 100%

Kapuskasing Power Plant 100%

North Bay Power Plant 100%

Ocean State Power Plant 40%

Alberta Natural Gas Company Ltd 49.5%

CrossAlta Gas Storage & Services Ltd. 40%

Empress II Extraction Plant 50%

Cancarb Limited 100%

NrG Information Services 25%

Development Projects:

Hermiston Power Partnership 33.3%

Express Pipeline Ltd. (Oil Pipeline) 50%

Global Opportunities

Oleoducto Central S.A. Colombia (Oil Pipeline) 17.5%

TransGas de Occidente S.A. Colombia (Gas Pipeline) 34%

Development Projects:

Tanzania Gas to Electricity Project

Gulf South Asia Project 25%

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Parallel Strategies Inc.

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TransCanada

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Arturo Botero
Chris Thomas
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TransCanada

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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. Investor fax line (403) 267-8538

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