TRANSCANADA PIPELINES LIMITED 1994 ANNUAL REPORT

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CORPORATE PROFILE

TransCanada PipeLines, a major Canadian company with assets in excess of $9 billion, is one of North America's leading transporters and marketers of natural gas. Its 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 in North America. Globally, TransCanada pursues, evaluates and invests in energy-related opportunities that expand the scope of its current activities.

OUR MISSION

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 1995 Annual and Special Meeting of Shareholders is scheduled for Thursday, April 27, 1995, at 10:30 a.m., in the Royal York Hotel, Toronto, Ontario.

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GOALS

To preserve and enhance the profit base of our North American pipeline system, keeping existing facilities safe, efficient and cost-effective.

To increase substantially the scope and profitability of our energy management operations in North America.

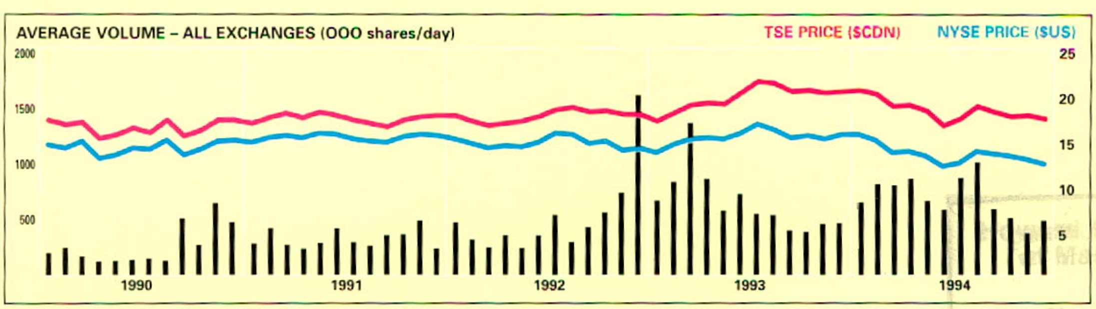
To provide for long-term, sustainable, incremental growth through the development of North American infrastructure and global assets.

SIMPLIFIED CORPORATE STRUCTURE

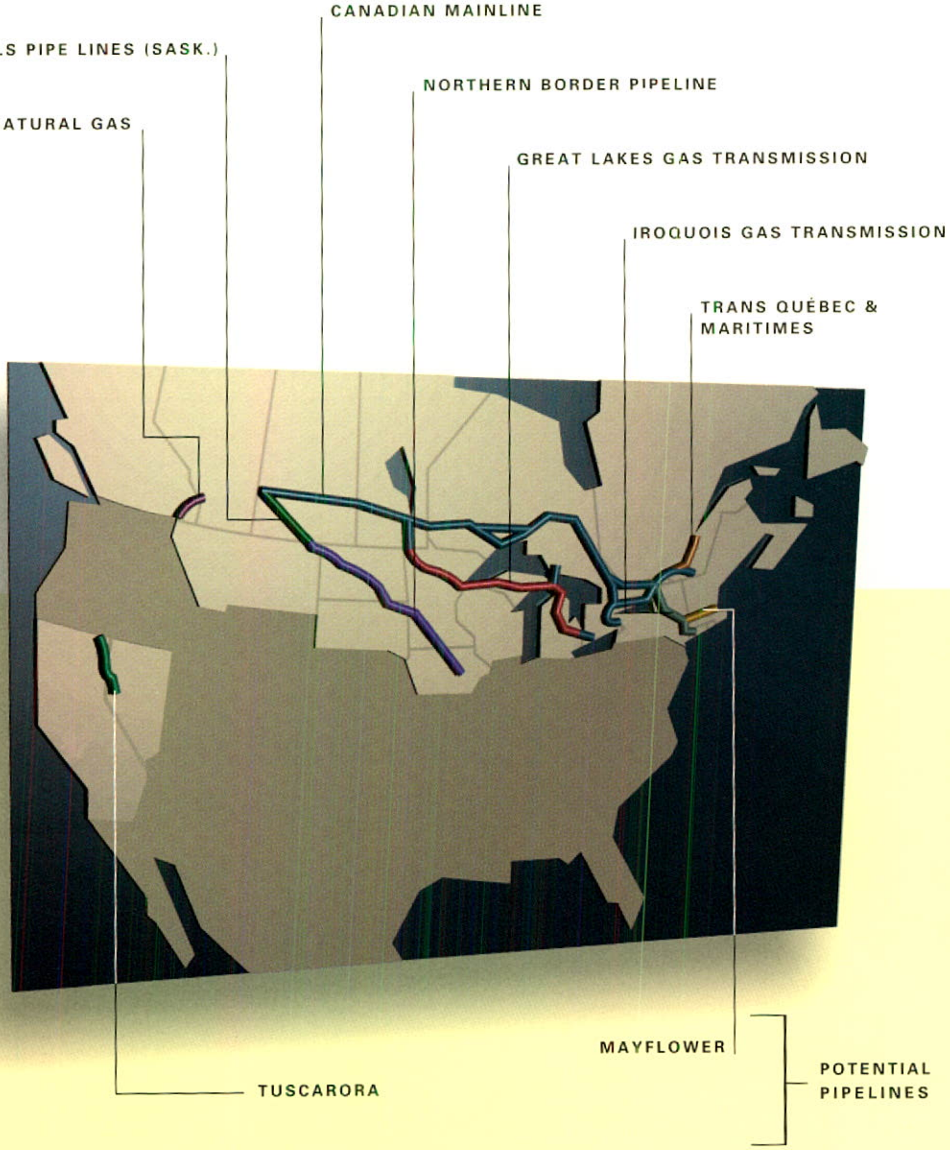
TRANSCANADA PIPELINES LIMITED

PIPELINES	ENERGY MANAGEMENT		OPPORTUNITIES UNDER DEVELOPMENT — NORTH AMERICAN	OPPORTUNITIES UNDER DEVELOPMENT — GLOBAL
CANADIAN MAINLINE 100%	WESTERN GAS MARKETING 100%	ANG LIQUIDS EXTRACTION 49.9%	TUSCARORA GAS PIPELINE 50%	COLOMBIA OIL PIPELINE 17.5%
FOOTHILLS (SASK.) 44%	NORTHRIDGE 100%	EMPRESS II 50%	MAYFLOWER GAS PIPELINE 45%	COLOMBIA GAS PIPELINE 34%
TRANS QUÉBEC & MARITIMES 50%	NIPIGON POWER GENERATION 100%	CANCARB 100%	WASHINGTON 10 GAS STORAGE 40%	GULF-SOUTH ASIA GAS PIPELINE 25%
ALBERTA NATURAL GAS 49.9%	KAPUSKASING POWER GENERATION 100%	ANG SPECIALTY CHEMICALS 49.9%	HERMISTON POWER GENERATION 33.3%	TANZANIA PIPELINE AND POWER GENERATION 70%
GREAT LAKES GAS TRANSMISSION 50%	NORTH BAY POWER GENERATION 100%	NrG INFORMATION SERVICES 25%		
NORTHERN BORDER 30%	OCEAN STATE POWER GENERATION 40%			
IROQUOIS GAS TRANSMISSION 29%	CROSSALTA GAS STORAGE 40%			

COMMON SHARE PERFORMANCE

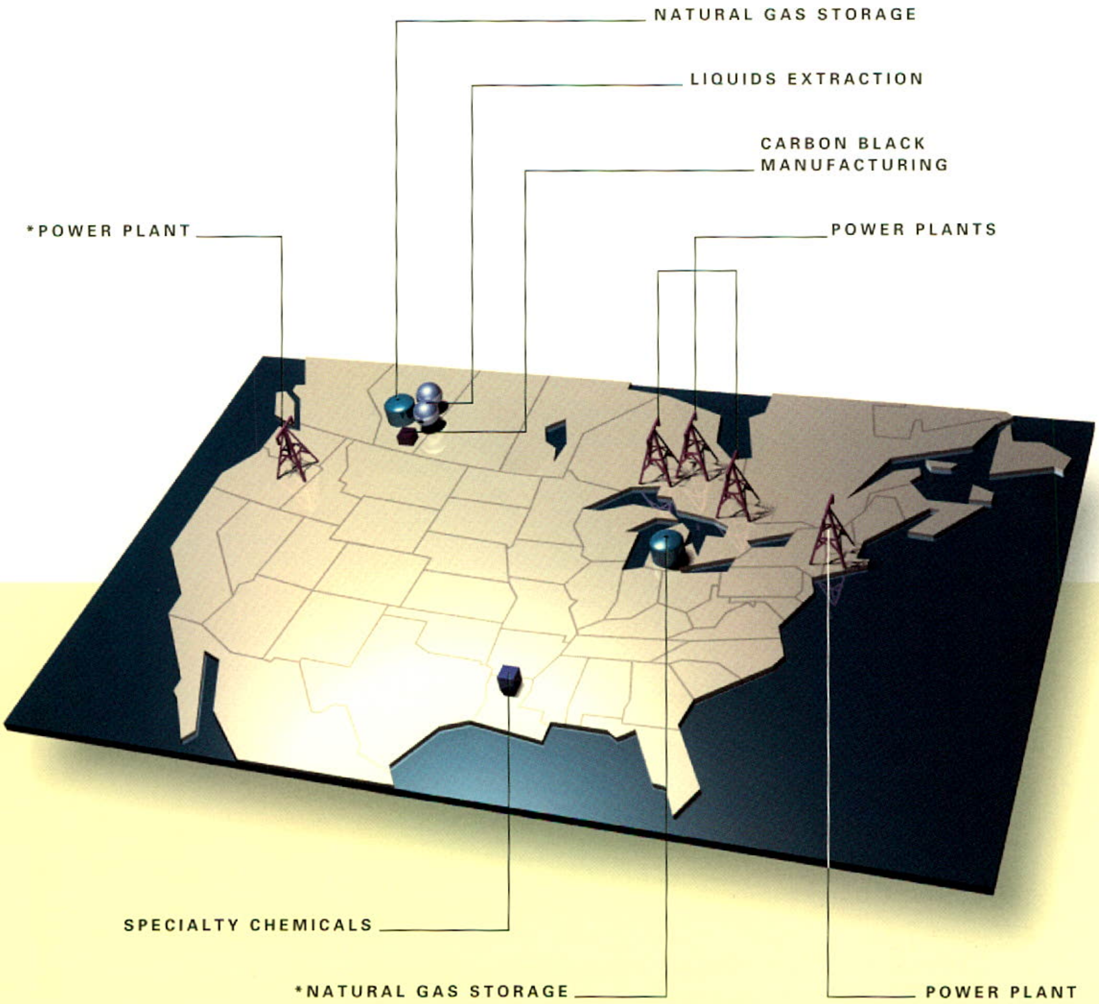


TransCanada's North American pipeline system includes its Canadian mainline and investments in six affiliated pipelines. The system positions TransCanada to benefit from the ongoing evolution of a continental commodity market for natural gas. In 1994, the mainline transported a record 2,220 billion cubic feet (Bcf) of natural gas, an increase of 4.3 per cent over 1993. Domestic volumes were 1,203 Bcf compared with 1,205 Bcf in 1993, while export deliveries reached 1,017 Bcf, up 10.2 per cent over the same period. Average daily deliveries were 6.1 Bcf, compared with 5.8 Bcf in 1993.



	Ownership (per cent)	Length (kilometres)	Compression (megawatts)
CANADIAN MAINLINE	100	13 843	1,766
FOOTHILLS PIPE LINES (SASK.)	44	259	117
TRANS QUÉBEC & MARITIMES PIPELINE	50	342	-
ALBERTA NATURAL GAS PIPELINE	49.9	177	123
GREAT LAKES PIPELINE	50	3 203	358
NORTHERN BORDER PIPELINE	30	1 560	104
IROQUOIS PIPELINE	29	604	13

TransCanada's energy management activities include energy marketing, power generation, gas storage, liquids extraction, carbon black manufacturing, chemicals and participation in NrG Highway. These businesses and technologies promote the sale and use of energy throughout North America and position TransCanada to meet the energy needs of its customers.



Operations: Collectively, WESTERN GAS and NORTHRIDGE market natural gas, crude oil, refined products and natural gas liquids. NIPIGON POWER PLANT and OCEAN STATE POWER PLANT produce electrical power from waste heat and Canadian gas; CANCARB manufactures and markets medium thermal carbon black made from gas; GAS STORAGE investments provide more flexibility to pipeline customers; NATURAL GAS LIQUIDS EXTRACTION facilities separate gas liquids from gas; Through ANG, TransCanada participates in specialty chemicals manufacturing; NrG HIGHWAY is an electronic bulletin board that facilitates gas transportation in North America.
Under construction: KAPUSKASING POWER PLANT Ownership, 100 per cent; rated at 40 megawatts of electricity; NORTH BAY POWER PLANT Ownership, 100 per cent; rated at 40 megawatts of electricity.
***Under development:** HERMISTON POWER PLANT Ownership, 33.3 per cent; rated at 460 megawatts of electricity; WASHINGTON 10 GAS STORAGE Ownership, 40 per cent.

While North America continues to be TransCanada's primary area of operations, TransCanada also intends to enhance shareholder value and corporate earnings through participation in global energy opportunities. These activities are a logical extension of TransCanada's energy-related experience and expertise. During 1994, significant progress was made on projects in South America and Africa. TransCanada continues to pursue opportunities in the Middle East and other areas.

COLOMBIA

Gas Pipeline

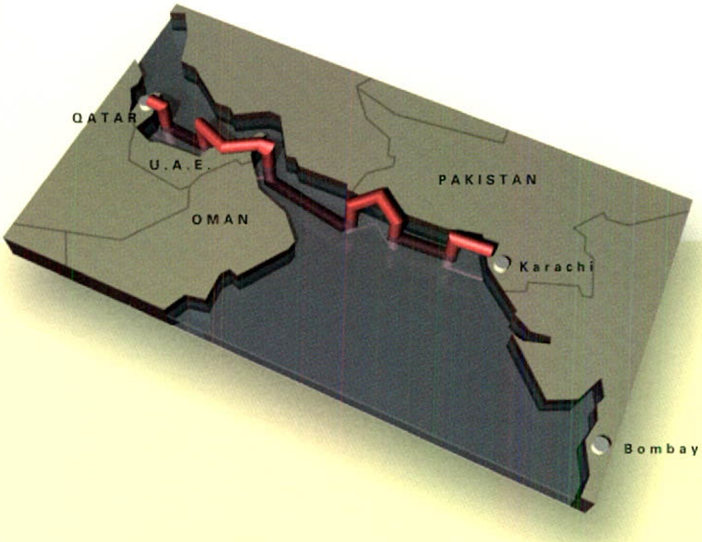
344-kilometre gas pipeline, plus 420 kilometres of laterals.

Total project cost: US$310 million

Oil Pipeline

800-kilometre crude oil pipeline with ultimate capacity of 500,000 barrels per day, plus upgrade/expand port facilities.

Total project cost: US$2 billion



GULF-SOUTH ASIA GAS PIPELINE

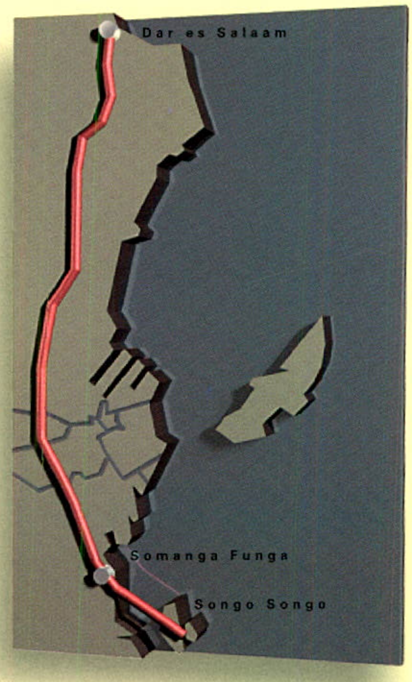
1 600-kilometre gas pipeline from Qatar to Pakistan, mostly subsea. Will connect one of the world's largest gas fields to growing markets.

Total project cost: US$4 billion

TANZANIA

Offshore and onshore gas pipeline from Songo Songo to Dar es Salaam, plus gas plant and power generation plant.

Total project cost: US$200 million



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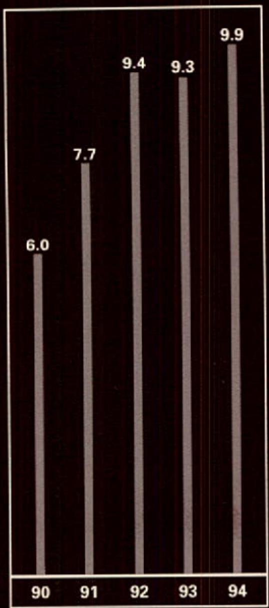
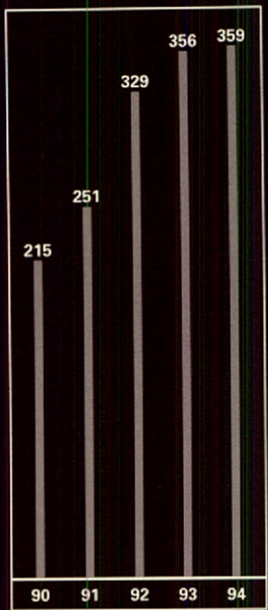
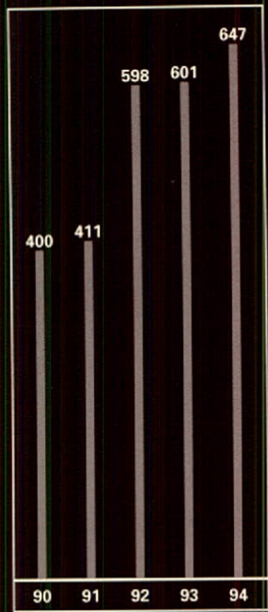


TOTAL ASSETS
(billions of dollars)

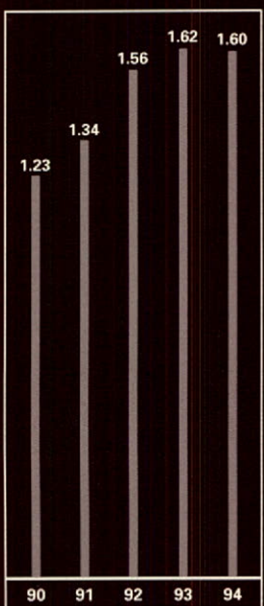


NET INCOME
(millions of dollars)

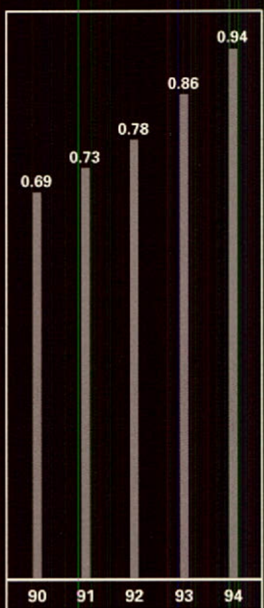


FUNDS GENERATED
(millions of dollars)

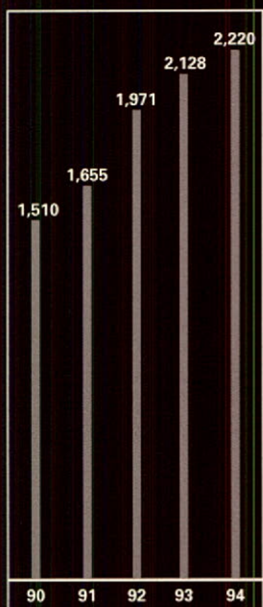
RETURN ON AVERAGE
COMMON EQUITY
(per cent)



NET INCOME
PER SHARE
(dollars per share)



DIVIDENDS DECLARED
PER COMMON SHARE
(dollars per share)



GAS TRANSMISSION
Canadian mainline
(billions of cubic feet)

NATURAL
GAS SALES
(billions of cubic feet)

In 1994, transition within TransCanada continued to unfold as we completed the final phases of a major, multi-year pipeline construction program in North America, and also advanced toward our objective of enhancing shareholder value by extending our conventional business interests to other countries and placing more emphasis on growth of non-regulated businesses.

Our overall objective in 1994 was to carefully balance our North American operations and international opportunities. We achieved that goal in a year marked by strong operational performance from existing businesses and the establishment of global operations integral to future growth and prosperity.

Among TransCanada's notable achievements:

- We delivered a record 2,220 Bcf of gas, up four per cent from 1993, through TransCanada's Canadian mainline.
- We were successful in our efforts related to three global energy development projects — two in Colombia and one in Tanzania. We are also in the process of examining and analysing many other global business opportunities that will result in additional projects in future years.
- Western Gas increased its financial contribution by improving operating efficiencies.

Gerry Maier, chairman, and George Watson, president and chief executive officer

- The acquisition of the marketing businesses of Northridge Canada Inc. late in 1994 is a step forward in our long-range plan to increase financial returns from non-regulated businesses. As a result, we expanded our major presence in natural gas marketing to include other forms of energy such as crude oil and electric power.
- We continued to strengthen our position in North America's independent power industry with the commencement of construction of two new power generation plants at North Bay and Kapuskasing, Ontario.

Financial Performance

TransCanada's financial performance in 1994, while disappointing, was not unexpected as a consequence of the less than favourable rate of return on equity set by the National Energy Board (NEB) in February 1994. Net income was $358.6 million, up a marginal $3 million over 1993. The main factor affecting net income is the return on deemed common equity for the Canadian mainline, which provides approximately 70 per cent of TransCanada's income. The return for this regulated business is set annually by the NEB. In 1994, the return was reduced to 11.25 per cent from 12.25 per cent.

On a positive note, dividends per common share rose in 1994 for the sixth consecutive year, up 8.7 per cent over 1993. Also, we maintained our "A" credit rating, which is very important to TransCanada and its security holders. We have held this rating since 1991 and plan to continue to do so.

Strategic Direction

TransCanada continued to refine and implement its long-term business strategy in 1994. We are focused on providing shareholders with attractive returns and customers with cost-effective, flexible and competitive services.

We also maintain a high priority on our ongoing efforts to make operations safe, environmentally responsible and technologically advanced. We enhanced and protected our substantial base of assets in North America — currently $9.9 billion — and we successfully sought new projects around the world that mesh logically with our domestic business strengths and can be properly accommodated by our human and financial resources.

Our North American pipeline network expanded rapidly in recent years to meet throughput capacity needs of customers. The pace of expansion slowed in 1994, but some growth will continue at lower levels for the short to medium term. We do not expect growth in demand for natural gas to continue at the rates experienced in recent years, despite the availability of supply. Moreover, we believe the basic pipeline infrastructure required to serve the overall market is largely in place.

As a consequence of deregulation and other changes in the gas industry, fewer customers are prepared to commit to long-term capacity arrangements required to support major pipeline expansions, or major new pipelines. There will be opportunities in North America for smaller, "niche" pipelines that meet specific needs in certain areas. TransCanada will continue to pursue development of these projects as we preserve and enhance the profit potential of our North American pipeline system.

In this year's annual report, we have grouped a number of our businesses, other than the pipeline network, under the heading *Energy Management*. Included in this group are: energy marketing, electric power generation, gas storage, liquids extraction, carbon black manufacturing, chemicals and electronic commerce services such as NrG Highway, all of which promote the sale and use of energy throughout North America. This grouping reflects our intent to create a stronger team approach and use the skills and expertise of the people in these components to efficiently, but profitably, meet the energy needs of our customers. This will then lead to additional growth opportunities and increase substantially the scope and profitability of our energy management operations in North America.

Globally, our goal is to provide for long-term, sustainable, incremental growth. In 1994, we were successful in negotiating participation in a major oil pipeline expansion project in Colombia. In January 1995, we learned that our bid was accepted for a natural gas pipeline, also in Colombia. In Tanzania, we have been selected to manage a power generation project as a first phase of a pipeline/power plant project.

All of these projects are a natural extension of our current business activities. They represent an opportunity, in the longer term, to earn financial returns for shareholders that are well above the levels of our regulated business.

In 1995, we will continue to develop our global presence. We are focused primarily on opportunities in South America, the Middle East and Southeast Asia.

Shareholder Rights Plan

A shareholder rights plan was adopted by the board of directors in December 1994. This plan benefits all shareholders by providing adequate time to properly assess a takeover bid without undue pressure and to allow competing bids to emerge.

Our plan is similar to plans adopted recently by several Canadian companies. If presented with an unsolicited takeover bid, the rights plan gives the board of directors additional time to explore a range of alternatives that could enhance shareholder value. Without the plan, a bid may be completed in a period as short as 21 days under existing takeover bid rules in Canada.

Full details of the plan will be provided to shareholders prior to TransCanada's annual and special meeting, to be held on April 27, 1995, and shareholders will be asked to confirm the plan at that meeting.

Board and Management

Board members Robert H. Jones and Robert Stollery, having reached the age of limitation, will not stand for re-election at the annual meeting in April 1995. Messrs. Jones and Stollery joined the board in 1978 and 1990, respectively. Both gentlemen have served TransCanada's shareholders extremely well and they will be greatly missed. We thank them for their contribution and dedication.

At TransCanada's annual meeting in April 1994, George Watson, president, was appointed to the additional position of chief executive officer. Gerald Maier, who retired as chief executive officer at that time, continues to serve the shareholders as chairman of the board of directors.

Conclusion

As we reflect on the significant business achievements of 1994 and look forward to challenging and exciting opportunities in 1995, we recognize that none of TransCanada's past or future success would be possible without the hard work, dedication, skill and expertise of our employees.

The time is right to harness our human and financial resources for continued profitable growth. Our greatest challenges in 1995 and beyond are threefold:

First, to maintain and strengthen our valuable North American pipeline system as the natural gas industry evolves towards a true commodity business;

Second, to improve and build upon our significant energy marketing skills to create a successful, total energy management enterprise;

And third, to continue to develop global business opportunities that provide the right balance between risk and reward to the shareholders of our unique and indeed, world-class, company.

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

George W. Watson
President and chief executive officer

North American Pipeline System

TransCanada's North American pipeline system is expanded as required to meet customer needs for service. Total mainline deliveries reached a record high of 2,220 Bcf in 1994, compared with 2,128 Bcf in 1993.

TransCanada is well-placed

TransCanada's North American natural gas pipeline system places TransCanada in a strong position to benefit from the ongoing evolution of a continental commodity market for natural gas. It includes the Canadian mainline and investments in six affiliated pipelines.

This system provides a reliable transportation link between substantial gas supply in the Western Canadian Sedimentary Basin and markets throughout Canada and the United States. Consistent with the regulatory regimes in both countries, these pipelines do not own the gas. They provide a broad range of transportation services for shippers. The pipelines earn a regulated return on their investment.

In Canada, TransCanada's pipeline system is regulated by the National Energy Board (NEB) under the terms of the National Energy Board Act (Canada). The NEB regulates construction of facilities, sets tolls, approves tariffs and approves the import and export of natural gas. In the United States, TransCanada's affiliated pipelines are regulated by the Federal Energy Regulatory Commission.

TransCanada is also a partner in projects to develop new pipelines in the United States that would extend its market coverage.

Canadian Mainline

The mainline, 100 per cent owned, is the foundation of the North American pipeline network, providing about 70 per cent of TransCanada's income.

The mainline began operating in 1957 and at the end of 1994, comprised 13 843 kilometres of pipe, 1,766 megawatts of compression, 57 compressor stations and 201 meter stations, making it one of the largest natural gas transmission systems in the world. The mainline begins at the Alberta-Saskatchewan border, crosses Saskatchewan, Manitoba and Ontario, and ends at the Québec-Vermont border. It is connected with other pipelines in Canada and the United States to extend market coverage.

The system is designed for maximum daily service of approximately 7.3 Bcf. About 50 per cent of contracted service is held by local distribution companies in major market areas. Remaining service is held by gas marketers, producers and industrial customers.

Gas deliveries to Canadian markets remained stable in 1994; overall growth was driven largely by continued expansion of deliveries under contracts to serve U.S. markets. Total mainline deliveries in 1994 reached a record high of 2,220 Bcf, a 4.3 per cent increase over record volumes of 2,128 Bcf in 1993. Domestic volumes were 1,203 Bcf, compared with 1,205 Bcf, and export deliveries were 1,017 Bcf, up 10.2 per cent from 923 Bcf. Average daily deliveries were 6.1 Bcf compared with 5.8 Bcf in 1993.

The mainline is expanded as required to meet customer needs for service. Between 1989 and 1993, higher demand in both Canada and the United States resulted in significant expansion to increase capacity. In 1994, TransCanada installed 156 kilometres of pipe and 139 megawatts of compression. The $455 million expansion program allowed an increase in contracted firm service volumes of about 430 million cubic feet (MMcf) per day.

to profit from ongoing
development of a continental
natural gas market in North America

For 1995, TransCanada's total mainline capital expenditure program is estimated at $374 million.

In June 1994, the NEB approved mainline tolls for the year, based on an 11.25 per cent rate of return on a 30 per cent common equity ratio. The NEB also approved a revenue requirement of $1.6 billion.

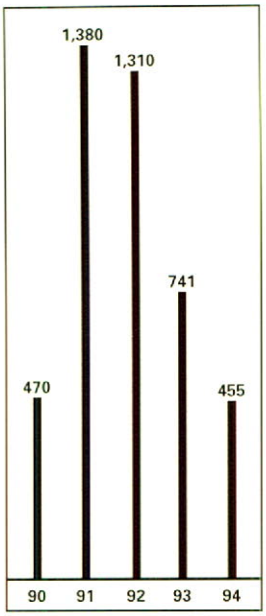
Historically, the NEB has determined the common equity ratio and the allowed rate of return on the common equity portion of TransCanada's capital structure at its individual toll proceedings. In 1994, the process was changed to a multi-pipeline proceeding and the NEB held one hearing to consider rates of return and common equity ratios for the eight largest oil and gas transmission companies under its jurisdiction, including TransCanada. The hearing concluded in December 1994. The NEB decision is expected to determine, among other things, TransCanada's allowed 1995 rate of return and common equity ratio.

Excluding rate of return on common equity and the common equity ratio itself, TransCanada reached agreement with its major stakeholders outside the hearing process on its 1995 cost of service and various tariff issues. A brief hearing with regard to a few outstanding toll design and tariff issues was held by the NEB in early January 1995.

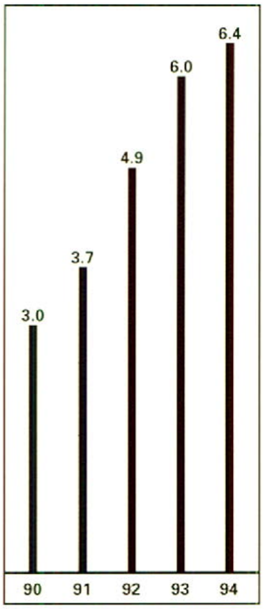
Until these decisions are issued, interim tolls remain in effect at the 1994 level.

Foothills Pipe Lines (Sask.) Ltd.

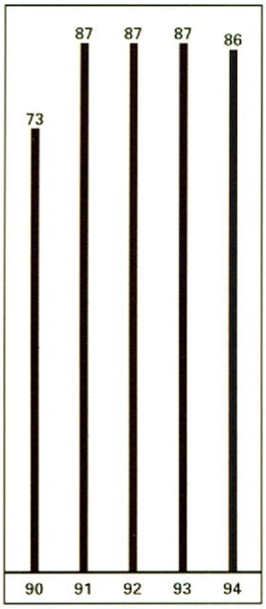
This leg of the Foothills system, 44 per cent owned by TransCanada, carries gas from Alberta's eastern border to the Northern Border pipeline system. It is operated by TransCanada. In 1994, Foothills shipped 525 Bcf, compared with 485 Bcf in 1993. A new compressor station was added in 1994; no major expansion is planned for 1995.



CAPITAL EXPENDITURES (NET)
Canadian mainline
(millions of dollars)



AVERAGE RATE BASE
Canadian mainline
(billions of dollars)



AUTHORIZED TOLL TO EASTERN CANADA
Canadian mainline
(cents per gigajoule)

Trans Québec & Maritimes Pipeline

The TQM pipeline, 50 per cent owned by TransCanada, is linked to the mainline and extends TransCanada's market coverage from Montréal eastward to Québec City. In 1994, TQM delivered 106 Bcf, compared with 113 Bcf in 1993. In November 1994, the NEB approved TQM's proposal to extend the pipeline under the St. Lawrence River and connect to markets on the south shore. The $27.3 million project is expected to be in service by the end of 1995.

Alberta Natural Gas Company Ltd

ANG, 49.9 per cent owned by TransCanada, carries gas to the British Columbia-United States border from Alberta's western border. In 1994, ANG delivered 720 Bcf, compared with 519 Bcf in 1993. The increase in volume results primarily from a major expansion of the ANG system in 1993; no major expansion is planned for 1995.

Great Lakes Gas Transmission System

Great Lakes, 50 per cent owned by TransCanada, is connected to the mainline at Emerson, Manitoba. It carries gas to markets in Canada and the eastern and midwest United States regions. In 1994, Great Lakes delivered a record 897 Bcf of gas, compared with 854 Bcf in 1993. Capital expenditures were US$87.9 million; no major expansion is planned for 1995.

Northern Border Pipeline Company

Northern Border, 30 per cent owned by TransCanada, is connected to the Foothills pipeline near Monchy, Saskatchewan. It carries gas to markets in the U.S. midwest region. In 1994, Northern Border delivered 635 Bcf, compared with 579 Bcf in 1993. In February 1995, Northern Border filed an application for a US$370 million expansion and extension of its system; the proposed in-service date is late 1997.

Iroquois Gas Transmission System

Iroquois, 29 per cent owned by TransCanada, is connected to the mainline at Iroquois, Ontario. It carries gas across the St. Lawrence River and through the states of New York and Connecticut for customers in the U.S. northeast region. TransCanada operates the pipeline through a wholly owned subsidiary. In 1994, Iroquois delivered 268 Bcf, compared with 236 Bcf in 1993. It added a second compressor station and three meter stations to its system in 1994, increasing capacity by about 55 MMcf per day; no major expansion is planned for 1995.

PROPOSED PIPELINES

Tuscarora

TransCanada has a 50 per cent interest in the US$125-million Tuscarora project, a 369-kilometre pipeline to serve markets in northeastern California and Nevada. Pending final approval on all federal regulatory and environmental applications early in 1995, construction is expected to begin in May, with the pipeline becoming operational by November 1995. Initial capacity will be 113 MMcf per day.

Mayflower

TransCanada has a 45 per cent interest in the US$500-million Mayflower project. This 380-kilometre system would connect with the Iroquois pipeline in upstate New York and extend east to the Boston, Massachusetts area. Current work is related to targeted marketing activities and right-of-way requirements; no in-service date has been set.

SunShine

In May 1993, TransCanada and two other companies formed a partnership for the development of the SunShine pipeline project, a proposed gas pipeline to extend 1 102 kilometres from Mississippi through Alabama and into Florida. One of the partners withdrew from the project in 1994. Due to market conditions, the SunShine pipeline project is unlikely to proceed in the near future.

TransCanada's energy management activities include energy marketing, power generation, natural gas storage, liquids extraction, carbon black manufacturing, chemicals and participation in NrG Highway, an electronic bulletin board that facilitates natural gas transportation in North America. These businesses and technologies promote the sale and use of energy throughout North America and position TransCanada to meet the energy needs of its customers.

Energy Marketing

These activities are conducted by Western Gas Marketing Limited, Northridge and their subsidiaries, all 100 per cent owned by TransCanada. As agent for TransCanada, Western Gas administers the purchase and sale of gas acquired from a pool of about 700 Alberta-based gas producers under more than 2,000 contracts. It also purchases and sells gas on its own behalf and provides transportation and storage services. At December 31, 1994, remaining reserves under contract to Western Gas are estimated at 13,100 Bcf.

In 1994, Western Gas sold a total of 1,151 Bcf of gas, compared with 1,179 Bcf in 1993. Domestic sales volumes were 607 Bcf, compared with 600 Bcf, and the remaining 544 Bcf, compared with 579 Bcf, was sold to customers in the United States.

In response to changing market conditions, Western Gas began an intensive contract restructuring process with producers. Following widespread consultation, changes were introduced that improved efficiency, marketing and operating flexibility for these customers. In addition, new pricing agreements for the year were negotiated successfully with distribution customers on the other end of the gas marketing chain.

Late in 1994, TransCanada completed the acquisition of the energy marketing businesses owned by Northridge Canada Inc. The acquisition expanded TransCanada's North American marketing base to include crude oil, gas liquids and other associated products. It also provided additional gas marketing opportunities that complement the activities of Western Gas. Northridge management and staff continue to operate these businesses for TransCanada under the Northridge name. On an annual basis, Northridge markets approximately 300 MMcf per day of gas and 245,000 barrels per day of crude oil, refined products and gas liquids.

In 1995, Northridge will continue to improve its strategic position and extend its reach to offer crude oil, refined products, natural gas liquids, electricity and energy-related services to customers throughout North America.

TransCanada's energy management

Energy Management

Natural gas traders at Western Gas, wholly owned by TransCanada, administer the purchase and sale of gas acquired from a pool and provide customers with transportation and storage services.

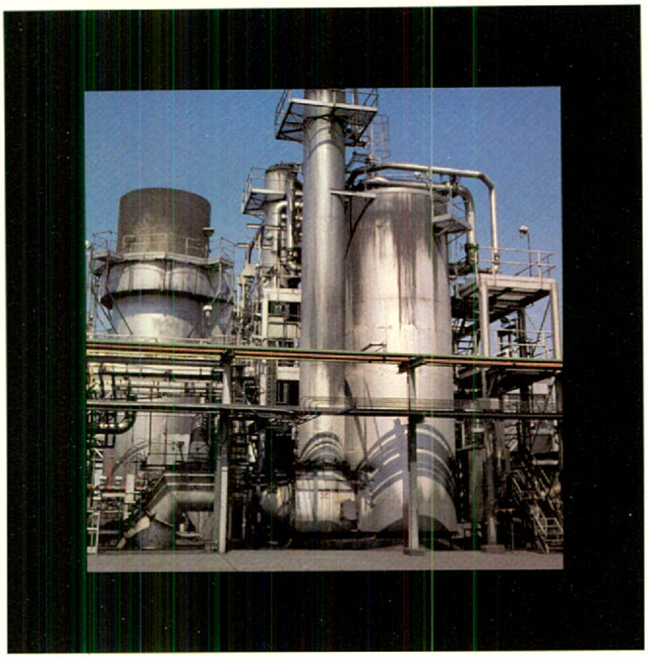
usinesses and technologies position TransCanada to meet the energy needs of its customers

Power Generation

TransCanada is a pioneer of independent power production, primarily through its investment in the Ocean State power plant located in Rhode Island. Ocean State, rated at 500 megawatts, was the first independent power plant to be built in North America. It is fuelled by Canadian gas.

In addition, TransCanada owns and operates a power plant at Nipigon, Ontario. Nipigon, rated at 36 megawatts, uses energy derived from natural gas and waste heat from the adjacent compressor station on TransCanada's mainline. During 1994, TransCanada began work on two new, wholly owned power projects in Ontario — at Kapuskasing and North Bay. Both rated at 40 megawatts, the plants are similar to Nipigon. They will be placed in service late in 1996.

TransCanada continued development work in 1994 on a proposed power project at Hermiston, Oregon, rated at 460 megawatts. TransCanada holds a 33.3 per cent interest in this project, which has been selected as one of three energy options by a federal power authority in the United States. The receipt of all regulatory approvals and environmental permits is expected in 1995. Construction could begin late in the year if this option is selected by the power authority.



Cancarb, wholly owned by TransCanada, manufactures medium thermal carbon black from natural gas at this facility in Medicine Hat, Alberta. Cancarb had record sales in 1994 to its customers around the world.

Gas Storage

In 1994, TransCanada acquired a 40 per cent interest in the Crossfield East underground natural gas storage facility located in Alberta. The project received regulatory approval and began commercial operations with initial storage capacity of 40 Bcf and potential to expand to 80 Bcf. Services are marketed through a new company, CrossAlta Gas Storage & Services Ltd. TransCanada also holds a 40 per cent interest in the proposed Washington 10 gas storage project in southeast Michigan, with initial capacity of about 42 Bcf. TransCanada will proceed with the project if firm storage contracts can be obtained.

Liquids Extraction

TransCanada maintains a 50 per cent interest in the Empress II natural gas liquids extraction plant on the Alberta/Saskatchewan border. The plant was built and put into service in 1983. In addition, TransCanada has an interest in another gas liquids extraction plant at Cochrane, Alberta, through its 49.9 per cent ownership of ANG. In 1994, the plant processed an average of 1.5 Bcf of gas per day, producing approximately 64,000 barrels per day of gas liquids. Processing design capacity at Cochrane was expanded in November 1994 to approximately 2.2 Bcf per day.

Carbon Black Manufacturing

Cancarb Limited, 100 per cent owned by TransCanada, manufactures medium thermal carbon black from natural gas and markets its product, Thermax, around the world. Thermax is used in the manufacturing of rubber products, cables, metal carbides and plastics. Cancarb had record sales in 1994 with a 17 per cent increase over 1993 and 16 per cent over the previous record year of 1992. Strong growth continued in Asia, where Cancarb sales grew by 22 per cent. Cancarb was awarded several testimonials by its customers in 1994 in recognition of its continuing commitment to quality and service. In addition, Cancarb's ISO-9002 certification was renewed in 1994 by the International Organization for Standardization. This certification is highly regarded and it strengthens Cancarb's international marketing position.

Chemicals

Through its investment in ANG, TransCanada participates in the specialty chemicals business of ANGUS Chemical Company. Products manufactured in the United States and Europe are marketed worldwide. ANGUS is wholly owned by ANG.

NrG Highway

NrG Information Services Inc., jointly owned by TransCanada, NOVA Corporation and Westcoast Energy Inc., operates a natural gas transportation electronic commerce service called the NrG Highway, which began operations in December 1994. The non-proprietary bulletin board allows customers to make seamless contractual and operational arrangements for moving gas on participating pipelines through one electronic window. It will become the first continental service as a result of final negotiations now under way to incorporate U.S.-based Tenneco Gas Pipeline Company as a fourth partner.

Global Opportunities

TransCanada is a partner in a project to expand and operate this oil pipeline in Colombia, South America. Global energy projects complement existing activities and add to long-term growth.

Global asset development to

While North America continues to be TransCanada's primary area of operations, TransCanada also intends to enhance shareholder value and corporate earnings through participation in global energy opportunities. These activities are a logical extension of TransCanada's energy-related experience and expertise. The primary areas of focus are South America, the Middle East and Southeast Asia.

TransCanada believes global pipeline and power generation opportunities that complement current technological, financial and managerial capabilities will add to long-term growth. Potential projects in various stages of approval, examination and negotiation are located in Colombia, Mexico, Qatar, Pakistan, China and Tanzania, among other countries.

Colombia

In 1994, TransCanada joined a consortium to invest in and operate the US$2 billion Cusiana oil pipeline project in Colombia, South America. In the fourth quarter, a joint stock company, Oleoducto Central S.A., was created by the consortium to commence construction and arrange the financing of the pipeline.

TransCanada has a 17.5 per cent interest and joint operating responsibility for the project. Other major agreements, including an operating agreement and a transportation agreement, are required before the project goes ahead. It is expected these agreements will be in place in March 1995.

The project will carry crude oil from the Cusiana and Cupiagua oil fields in the interior of Colombia to the port of Coveñas on Colombia's Caribbean coast. It consists of approximately 800 kilometres of pipe, some of which already exists, and the upgrading of existing port storage and loading facilities at Coveñas.

In addition to the project team in Calgary, two TransCanada employees have relocated to Colombia to work on the oil pipeline project and several others will be assigned to it in 1995.

increase shareholder value
is a logical extension of
TransCanada's existing businesses

In January 1995, TransCanada also won a bid to build a 344-kilometre natural gas pipeline in Colombia from Mariquita to Cali. The main 20-inch pipeline will supply a power generation project in Cali. As well, 47 communities along the route will be served by 420 kilometres of small-diameter laterals.

The facilities, scheduled to be operational by the end of 1996, will cost about US$310 million. TransCanada has a 34 per cent interest in the project and is principal project manager and operator.

Mexico

In 1994, TransCanada signed a letter of understanding with Corporación Gutsa, one of Mexico's leading construction companies, for joint efforts in a variety of projects. Primary areas of interest in Mexico are power generation facilities and the supply, transportation and commercialization of natural gas.

Gulf-South Asia Project

In April 1994, TransCanada announced its participation in the Gulf-South Asia project, a major international project to transport gas from the state of Qatar to Pakistan. The 1 600-kilometre pipeline, mostly subsea, will connect one of the world's largest gas fields to growing markets. Total cost of the pipeline is estimated at US$4 billion. TransCanada agreed to participate in development of the project and to acquire a minimum 25 per cent interest. This project is in a preliminary stage. Work in 1994 focused on proposed route surveys, gathering of environmental data and ongoing discussions of project terms and conditions; the development process will continue through 1995.

Tanzania

In Tanzania, TransCanada, in its joint venture with Ocelot Energy Inc., has been selected to manage the installation of a 60-megawatt power plant in 1995. This is the first phase of a larger project that also includes a proposed offshore/onshore natural gas pipeline from Songo Songo to Dar es Salaam, plus an associated gas plant. Cost of the entire project is estimated at US$200 million; TransCanada has a 70 per cent interest in the joint venture partnership. Assuming the successful completion of negotiations with the Tanzanian government and financing arrangements with the World Bank, the entire project is expected to be in service in 1996.

Corporate Programs

TransCanada builds and operates its facilities with strict attention to environmental issues. TransCanada is committed to maintaining and protecting the environment in all aspects of its business.

TransCanada has established corporate programs to address issues that affect its operations and relationships with the public in the communities in which business is conducted. These programs include initiatives in environmental management, safety performance, education and training.

Environmental Management

TransCanada is committed to maintaining and protecting the environment in all aspects of its business. Responsible environmental management is a key corporate objective. It is reflected throughout all organizational levels of TransCanada.

In 1994, TransCanada placed emphasis on continued improvement of its environment management system through improved training, employee awareness and communications programs.

A new operations training program was introduced to ensure employee familiarity with ever-changing environmental practices and procedures and to heighten awareness of environmental matters. Other programs were developed to address waste management and construction practices. In addition, existing training programs were enhanced and expanded.

A three-year program to conduct formal environmental audits at all of TransCanada's facilities was completed in 1994. These audits assessed facilities against some 200 criteria in seven categories, including chemical storage, spill prevention and waste and hazardous materials management. In addition, audits were completed in 1994 at the Cancarb facility in Medicine Hat, Alberta and the Ocean State power plant in Rhode Island. Overall, audit results indicate TransCanada and its affiliates continue to operate facilities at high standards of environmental management.

Environmental initiatives related to mainline construction and maintenance programs, including fulfillment of various permit conditions, were conducted in 1994. The environmental group also monitors mitigation and restorative techniques used after pipeline construction for two complete growing seasons and files reports with the National Energy Board. No significant environmental issues were identified during the 1994 monitoring program.

Safety Performance

Safety considerations are integral to TransCanada's planning, development, construction and operating activities. Under the guidance of a corporate safety policy committee, all employees work toward zero-incident safety performance.

TransCanada continued to fund and direct research aimed at development of models and technologies to enhance current strategies for safe operation of the mainline system. As a result of these models and technologies, TransCanada is better equipped to direct its pipeline maintenance program activities to areas that provide the highest level of system integrity and lead to safe operations.

Focus on environmental and

TransCanada is on track to reach a five-year goal set in 1990 to become the best safety performer among North American gas companies by 1995. From 1989-1994, total injuries were reduced by 44 per cent and lost-time injuries by 65 per cent.

One safety indicator — one million hours worked without lost-time accidents — has been reached three times to date, with the most recent achievement attained between August 6, 1994 and December 13, 1994. Cancarb, wholly owned by TransCanada, also achieved one million hours worked without a lost-time injury in 1994.

Education and Training

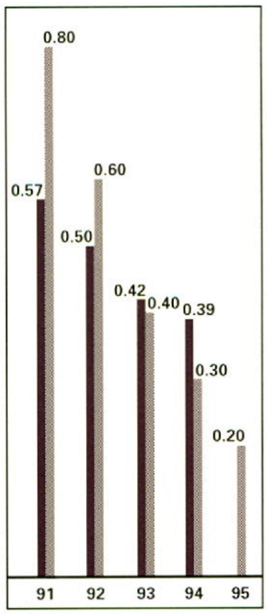
TransCanada is committed to maintaining a well-trained, productive and technologically innovative employee workforce. A wide range of internal and external training is made available to employees to ensure TransCanada's position on the leading edge of staff development and competitiveness.

In 1994, approximately $2.4 million was invested in education and training. Internal courses provided training in operations, construction inspection, administration, supervisory and management skills.

TransCanada has developed a policy that defines objectives and priorities in funding educational institutions and activities. About 40 per cent of the annual corporate donations budget is earmarked for educational programs, including capital campaigns and endowments at universities.

Emerging business/education partnerships are supported at the secondary school level across Canada, including specific-school partnerships and participation in national endeavours. For example, TransCanada sponsors an innovative employability skills portfolio project in Calgary that is designed to assist high school students to plan their future. This program, created collaboratively by educators, students, parents and businesses, helps participants identify and develop skills needed to be successful in the competitive world of business.

Another way to support and promote excellence in the workplace is through cooperative education programs. In 1994, TransCanada hired 394 students from Canadian high schools, colleges and universities for work-terms related to their scholastic studies.



LOST-TIME INJURY FREQUENCY
Injuries per 200,000 hours worked

Actual
Objective

safety considerations, education and training strengthens TransCanada's competitive position

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 directors who are not officers of the Company 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. 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 38 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, 1995

The following discussion has been prepared by Management and is a review of the financial results of TransCanada PipeLines Limited (the Company or TransCanada) based on Canadian generally accepted accounting principles. Its focus is primarily a comparison of TransCanada's financial performance in 1994 and 1993 and should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1993 and 1992 are highlighted. Note 19 to the consolidated financial statements describes significant differences between Canadian and United States generally accepted accounting principles.

To provide a better understanding of the Company's regulated operations and use of financial instruments in the non-regulated operations, definitions of certain terms follow this discussion.

Results of Operations

TransCanada reports its operations in three business segments - Canadian Mainline and Interconnected Pipelines, Energy Marketing, and Power Generation and Other. Net income for the Company in 1994 was $358.6 million, or $1.60 per share, compared to $355.6 million, or $1.62 per share for 1993. In 1992, net income was $328.7 million or $1.56 per share. While expansion continued within the Canadian mainline and results of interconnected pipelines continued to improve, these increases in net income were offset by a lower allowed rate of return on common equity for the Canadian mainline in both 1994 and 1993.

Proportionate Consolidation

In 1994, TransCanada retroactively adopted the proportionate consolidation method of accounting for its investments in joint venture operations, in accordance with new requirements of the Canadian Institute of Chartered Accountants (CICA). Under this method, the Company has recorded its pro-rata share of joint venture assets, liabilities, revenues, expenses and cash flows on a line-by-line basis. The new requirements define a joint venture as an economic activity which is subject to joint control by two or more venturers. All of TransCanada's associated operations, with the exception of Alberta Natural Gas Company Ltd (ANG), meet this definition and have been accounted for by the proportionate consolidation method. ANG continues to be accounted for by the equity method.

The proportionate consolidation method does not result in any change to the Company's net income or shareholders' equity from that reported using the equity method, however, all assets, liabilities, revenues, expenses and most cash flow items are increased when compared to the amounts that would be presented under the equity method of accounting, which was previously applied. Of particular significance is TransCanada's share of long-term debt of its joint ventures. This 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. The debt has been separately identified as "Non-Recourse Debt of Joint Ventures". Note 4 to the consolidated financial statements identifies the assets, liabilities, revenues, expenses and cash flows related to joint venture investments. While TransCanada has applied the new CICA requirements in 1994, Management believes that financial statements prepared under the equity method would be more meaningful because they would avoid co-mingling assets and liabilities subject to direct control with assets and liabilities that are in joint ventures and therefore not controlled directly.

Canadian Mainline and Interconnected Pipelines

This segment includes the operations of the Canadian mainline, which is regulated by the National Energy Board (NEB). This segment also includes the Company's investments in interconnected pipelines, accounted for using the proportionate consolidation method noted above. These pipelines integrate the Company's Canadian mainline into a North American network of natural gas pipelines. The Company's affiliation with these pipelines allows it to serve markets in Québec and the northeast and midwest regions of the United States.

The NEB sets tolls for the Canadian mainline which permit the opportunity to recover projected costs of transporting natural gas and provide a fair and reasonable return on the Company's investment in rate base. Factors considered in setting approved tolls include estimating the level of the Canadian mainline rate base, as well as operating and financing costs. New facilities must be 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 operating and financing costs of the Canadian mainline are fixed and are recovered monthly from shippers.

During 1994, the Company added to the Canadian mainline rate base by constructing $455 million of additional pipeline and compression facilities, compared to $740 million in 1993 and $1.3 billion in 1992. Actual average rate base for 1994, 1993 and 1992 amounted to approximately $6.4 billion, $6 billion and $4.9 billion, respectively. In addition, the NEB allows the Company 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.

The NEB approved rates of return on common equity for the Canadian mainline at 11.25 per cent, 12.25 per cent and 13.25 per cent for the years 1994, 1993 and 1992, respectively. The deemed common equity component in all three years was 30 per cent. The approved rate of return on rate base was 10.60 per cent for 1994, 10.95 per cent for 1993 and 11.56 per cent for 1992, reflecting year-over-year changes in the rate of return on common equity, noted above, and the reduced cost of financing arranged by the Company.

Canadian mainline revenues in 1994 increased by 4.4 per cent over 1993. Total deliveries increased by 4.3 per cent, resulting from the addition of facilities built to provide additional services to customers. Revenues for 1993 increased by more than seven per cent from 1992, which primarily resulted from a 7.9 per cent increase in total deliveries compared to 1992. In 1994, export deliveries represented 46 per cent of total deliveries, compared to 43 per cent in 1993 and 42 per cent in 1992.

The interconnected pipelines included in this segment are: the Great Lakes Gas Transmission System, Northern Border Pipeline Company, Foothills Pipe Lines (Sask.) Ltd., Trans Québec & Maritimes Pipeline and the Iroquois System. These pipelines are also subject to the authority of certain regulatory bodies. Combined revenues from these pipelines increased 8.2 per cent in 1994 compared to 1993. Contributing to this increase is the significant strengthening of the U.S. dollar relative to the Canadian dollar during 1994. In 1993, revenues increased 15 per cent from 1992. The Iroquois system was not fully operational until November 1992, meaning that results in 1993 reflected the first full year of operations. A stronger U.S. dollar also contributed to this increase.

Through its investment in ANG, the Company connects to the Pacific Gas Transmission system to serve northern California and the Pacific northwest region. Equity income from ANG is included under the caption, "Interest and Other Income", on the consolidated statement of income.

Energy Marketing

The Energy Marketing segment includes the financial results of the Western Gas Marketing subsidiaries (Western Gas) and the Northridge marketing subsidiaries (Northridge). TransCanada completed the acquisition of all the outstanding shares of the Northridge companies on October 28, 1994, and has included results of Northridge in its consolidated financial statements for the two-month period subsequent to the purchase. Northridge is a diversified energy marketing company which has short-term contracts for the purchase and sale of crude oil, refined products, natural gas and natural gas liquids.

Western Gas generates almost 90 per cent of its natural gas marketing revenues from sales of natural gas, including marketing fees earned, under a netback agreement with Alberta producers and marketers. The netback agreement provides for the purchase of natural gas in Alberta and its subsequent sale in Canada and the United States. The marketing fees earned from netback sales are based on both volumes sold and prices obtained for natural gas. The principal risk to the Company with respect to netback sales is the level of its marketing fee in relation to its operating costs.

Other volumes of natural gas, as well as crude oil, refined products and natural gas liquids, are purchased and sold primarily under short-term contracts with producers, customers and marketers in Canada and the United States. Various forms of financial instruments are used to manage market risk related to these purchases and sales. These are described in the section, "Financial and Commodity Price Risk Management" below and in Note 5 to the consolidated financial statements.

Gas marketing revenues are dependent upon a number of factors including weather, pipeline operations, pipeline tariff structures and general supply and demand. The following table shows volumes and revenues for sales made under the netback agreement and sales of all other purchases of natural gas by Western Gas and Northridge. Revenues from the sale of other products by Northridge are included in "other revenues".

Natural Gas Marketing Volumes Sold *(billions of cubic feet)*	**1994**	1993	1992
Canadian			
Netback	**495.1**	576.5	514.5
Non-netback	**127.7**	23.8	67.5
	622.8	600.3	582.0
United States			
Netback	**519.2**	491.3	443.7
Non-netback	**29.3**	87.4	165.2
	548.5	578.7	608.9
Total	**1,171.3**	1,179.0	1,190.9

Energy Marketing Revenues *(millions of dollars)*	**1994**	1993	1992
Canadian natural gas revenues			
Netback	**1,114.7**	1,037.2	855.3
Non-netback	**276.0**	67.6	115.9
	1,390.7	1,104.8	971.2
United States natural gas revenues			
Netback	**1,162.2**	1,165.5	857.6
Non-netback	**86.3**	261.6	342.4
	1,248.5	1,427.1	1,200.0
Other revenues	**523.9**	49.5	41.6
Total	**3,163.1**	2,581.4	2,212.8

Total natural gas volumes sold by Western Gas during 1994 were 1,151.4 billion cubic feet (Bcf), a decrease of 27.6 Bcf, or 2.3 per cent from 1993 volumes sold. The remaining 1994 natural gas volumes relate to Northridge during the period it was owned by TransCanada. Total revenues increased over 1993 levels by $581.7 million, or 22.5 per cent. This increase is mainly due to the Northridge acquisition, and from Western Gas, where 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 for Western Gas in 1994. The increase in non-netback revenues was due to the Northridge acquisition. Non-netback revenues from Western Gas remained relatively constant in 1994 related to 1993, but due to a larger focus on Canadian operations, the related revenues increased, offset by a corresponding decrease in revenues from the United States.

Other revenues include sales by Northridge of crude oil, refined products and natural gas liquids for the two-month period ended December 31, 1994, which account for the increase from 1993 to 1994.

In 1993, total natural gas volumes decreased and total revenues increased compared to 1992. This was due to increased netback volumes and prices and was partially offset by a decrease in other revenues due to increased competition, particularly in the spot market.

Power Generation and Other

This segment includes the Company's operations related to the generation of electrical power, including its joint venture investment in the Ocean State Power Plant. Other operations included in this segment are the manufacturing and sale of thermal carbon black, the extraction of gas liquids from natural gas and the storage of natural gas.

The contribution from these operations remained relatively constant in 1994 compared to both 1993 and 1992. Costs associated with investigating and developing new business opportunities in North America and globally are also recorded in this segment. These costs increased in 1994 primarily due to the Company's increased focus on developing global opportunities. Costs of $13 million related to the SunShine project in Florida were expensed as the project is unlikely to proceed in the near future.

Other Expense/(Income)

Financial charges in 1994 were $474.3 million, up $10.3 million from 1993. This increase resulted from higher interest rates in 1994 on short-term floating rate debt and the issuance of additional medium-term notes to finance the 1994 Canadian mainline expansion program and for other corporate purposes. This increase was partially offset by reduced interest costs due to the retirement of debt outside the Canadian mainline operations. The 1993 amount of $464 million represented an increase of $20.8 million from 1992. This was mainly due to increases in long-term debt resulting from the Canadian mainline expansion which was partially offset by debt retirements.

Total AFUDC in 1994 was $12.5 million, of which $8.7 million was related to the Canadian mainline and the remainder to the Company's joint venture operations. AFUDC from the Canadian mainline continues to decline as the expansion program slows, with the 1994 amount representing a decrease of $9.4 million from $18.1 million recorded in 1993. AFUDC for the Canadian mainline in 1993 was $24.7 million less than 1992, when the Company recorded AFUDC of $42.8 million.

Interest and other income includes equity income from the Company's investment in ANG and earnings on invested cash. Although interest rates were higher on average during 1994 compared to 1993, interest income decreased due to a lower average level of cash available for short-term investments. Interest income also decreased in 1993 compared to 1992 as cash was used to repay long-term debt.

Income Taxes

In 1994, income taxes increased to $115.5 million from $85.7 million in 1993. This resulted from higher taxable income and different sources of this taxable income from various jurisdictions, resulting in higher overall tax rates. Income taxes decreased by $44.5 million in 1993 compared to 1992, due in part to the return to tollpayers of the previously collected deferred income tax expense related to the Canadian mainline and to reduced income taxes payable.

Income tax expense is the same under the proportionate consolidation method and the equity method of accounting for joint venture investments. These investments are in the form of partnerships, and the Company includes its share of pre-tax income in the determination of its own income tax expense.

Liquidity and Capital Resources

The Company generated cash from operations of $567.7 million in 1994. This compares to $709.2 million in 1993 and $363.2 million in 1992. If the equity method of accounting had been used, cash flow from operations would have been $424.4 million, $589.7 million and $284.2 million for 1994, 1993 and 1992, respectively. These latter amounts represent the cash flow from operations over which the Company has direct control.

In 1994, the Company generated cash of $543.8 million from new financings. This cash, combined with the cash generated from operations, was used to fund capital expenditures and investments, retire debt and pay dividends on preferred, equity preferred and common shares.

In 1994, the Company issued notes payable of $109.7 million, medium-term notes of $248.3 million, preferred shares of $103 million and common equity of $82.8 million. The Company's pro-rata share of non-recourse long-term debt of joint ventures decreased by $40.6 million in 1994. In 1993, the Company issued common equity, medium-term notes and debentures totaling $439.7 million, and again experienced a reduction in its pro-rata share of non-recourse debt of $32.9 million.

In each of the last three years, the Company declared an increase in the fourth quarter of two cents per share in the quarterly dividend on common shares. In 1992, this increase raised the quarterly dividend to 21 cents per share, while in 1993 and 1994 the fourth-quarter increase brought quarterly dividends per common share to 23 cents and 25 cents, respectively.

Capital expenditures for 1995 have been budgeted at approximately $670 million, including Canadian mainline expansion of $374 million. The remainder relates to investments in new projects. The Company expects to use internally generated funds and external financings to meet these requirements. At December 31, 1994, lines of credit of $600 million were available to support the Company's commercial paper programs and $291.8 million was available to be issued under the Canadian Medium Term Note Program.

In the early 1980s, the Company concluded arrangements, referred to as the Topgas Programs, with syndicates of banks and substantially all of its producers which supplied gas under long-term purchase contracts to finance its payments for prepaid gas. The Company had given the Alberta corporations controlled by the banking syndicates indemnities against losses arising due to the inability or failure of a producer to deliver prepaid gas. These indemnities terminated in 1994 as all prepaid gas was recovered.

Financial and Commodity Price Risk Management

The Company is exposed to fluctuations in foreign exchange rates, interest rates and commodity prices in some of its non-regulated operations. Foreign exchange rate and interest rate fluctuations within the operations of the Canadian mainline are dealt with through the regulatory process. To manage the effects of exposures in non-regulated operations, offsetting positions are created through the use of financial instruments. By offsetting, or hedging these exposures, the Company seeks to reduce risk.

In the Company's non-regulated operations, the foreign exchange risk related to net assets denominated in United States dollars, after deduction of U.S. dollar debt, of US$421.6 million at December 31, 1994, has been partially hedged.

The Company's energy marketing business manages its energy commodity positions by netting sales against purchases. Both the physical flow of commodities, as well as fluctuations in prices, are managed. Physical positions are matched by entering into contracts which offset commodity purchases with commodity sales and establish the prices of both. Exposures to fluctuating prices, resulting from different pricing indices for purchases and sales or from differing delivery points, are offset through the use of various financial instruments. To a limited extent, the marketing business takes unmatched physical positions or financial instrument positions associated with energy commodities to benefit from market movements and such positions are subject to strict controls, including financial controls which are intended to limit any potential loss to an amount that is not significant. Senior management monitors all positions and approves related transactions depending upon size or scope.

Environment

The Company 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. Company standards are designed to meet current government and corporate standards. Where there is a demonstrated benefit, having due regard to the economic and technical viability, the Company strives to exceed these standards. Note 18 to the Company's consolidated financial statements provides information on environmental legal proceedings related to the Company and one of its joint ventures.

Outlook

In 1994, the NEB changed the process for determining allowed rates of return and common equity ratios. The NEB commenced a public hearing (the Multi-Pipeline Cost of Capital Hearing) in October 1994 to consider the cost of capital that can be included in tolls effective January 1, 1995, for the eight largest oil and natural gas transmission companies under its jurisdiction, including TransCanada. As such, for periods commencing January 1, 1995, the expectation is that the mechanism which will be used by the NEB is a multi-year determination of capital structure and rate of return on common equity. The decision arising out of the Multi-Pipeline Cost of Capital Hearing will likely also deal with a predetermined adjustment mechanism to the rate of return on common equity that will apply within the multi-year period. In late 1994, TransCanada reached agreement, through a settlement process, with its major stakeholders on the 1995 mainline cost of service, excluding return on rate base and various tariff issues. A hearing was held before the NEB in early January 1995 to deal with the remainder of the toll design and tariff issues and a decision is pending. Until these decisions are issued, interim tolls remain in effect at the 1994 level.

The Company is unable to predict the outcome of these hearings. Based on past decisions, the NEB may set the allowed rate of return or deemed common equity component at a level below that which the Company has requested. For 1995, the requested rate of return is 13 per cent on a deemed common equity component of 30 per cent. A change in the rate of return on common equity of 0.25 per cent would impact expected 1995 net income by approximately $5 million, or 2.5 cents per share, and a change of one per cent in the deemed common equity component would impact expected net income by approximately $8 million, or four cents per share. These estimates are based on the Company's 1995 forecasted rate base of $6.7 billion. Further, the Company's current "A" credit rating could be adversely affected if the NEB were to reduce the deemed common equity component below 30 per cent.

The Company plans to expand the Canadian mainline further, but at a much slower rate in the immediate future than has been the case in the last few years. Although the capacity of the Canadian mainline was not increased in 1994 to the same extent as in recent years, the Company endeavours to ensure that the system has sufficient capacity to meet the needs of existing firm service shippers. The Company must seek the NEB's approval for system expansion based on its existing transportation contracts and precedent agreements with potential new shippers, and must demonstrate the economic feasibility of expansion by determining the likelihood of demand charge payments and of a reasonable level of use of facilities over their economic life. Where it is determined that additional facilities are required to meet projected aggregate requirements of prospective new shippers, the Company requires a minimum transportation contract term of 10 years. The NEB approved the facilities application for most of the 1995 construction program in September 1994. The Company expects to spend approximately $374 million related to the Canadian mainline in 1995.

In its 1994 NEB tolls application, TransCanada had requested changes to its tariff to provide an incentive to increase the term and renewal period for transportation contracts. This request was made in light of increased competition and the large portion of transportation service underpinned by short-term contracts. The NEB denied this request.

The capacity of other pipeline systems connected to the Western Canadian Sedimentary Basin, including some of the Company's interconnected pipelines, has expanded during the last three years and further expansion is anticipated. This expansion provides shippers with additional flexibility to use other pipeline systems to access markets which are served by the Canadian mainline. The ability of the Canadian mainline to service existing and prospective shippers will depend on the Company's ability to provide a portfolio of reliable, cost effective and high quality transportation services.

While the Canadian mainline represents the most significant portion of TransCanada's operations, the Company continues to investigate and develop other business opportunities. The Company has directed efforts towards expanding its business to encompass sources of energy other than natural gas, and 1994 activities reflect these efforts. The acquisition of Northridge will provide an opportunity to expand TransCanada's North American marketing base to include crude oil, refined products, natural gas liquids and electric power. The acquisition also provides an incremental opportunity in natural gas marketing to complement the activities of Western Gas.

The Company is also expanding into energy opportunities outside North America. In September 1994, TransCanada became part of a consortium to invest in and operate existing and new oil transportation systems in Colombia, South America, estimated to cost US$2 billion. TransCanada has a 17.5 per cent interest in the project, which will proceed when operating and transportation agreements are in place, likely by March 1995. Construction of part of the system has been completed, with the remainder expected to be in service in 1997. Also in Colombia, TransCanada will construct a natural gas pipeline, estimated to cost US$310 million, in which it has a 34 per cent interest.

TransCanada is also a partner in a project to develop a natural gas pipeline from offshore Qatar to Pakistan. The project, in which TransCanada will have a minimum 25 per cent interest, is expected to cost a total of US$4 billion. In Tanzania, TransCanada will manage the installation of a power plant in 1995 and is negotiating for the construction of an offshore/onshore natural gas pipeline. The Company has a 70 per cent interest in the project, for which total cost is expected to be US$200 million.

With respect to North American natural gas projects, TransCanada is pursuing its 50 per cent interest in the Tuscarora pipeline project, which will serve markets in California and Nevada. The total cost is estimated to be US$125 million. The feasibility of the Mayflower project for markets in New York state and Massachusetts is currently being evaluated. The total cost of this pipeline, in which TransCanada has a 45 per cent interest, is expected to be US$500 million.

Power generation presents another area for growth and development opportunities. Construction of power generation plants at Kapuskasing and North Bay, Ontario will begin in early 1995 with commercial operation scheduled for 1996. The total estimated cost for both plants is $60 million. The Company continues to investigate other power generation opportunities in North America and globally.

TransCanada's efforts towards developing new opportunities do not always result in projects proceeding. The Company has an extensive process for evaluating and approving proposed ventures and does not proceed unless feasibility has been proven and the projected benefits to the Company are within established guidelines.

The development of new projects results in associated costs. Expenditures are monitored carefully to ensure they are prudently incurred and all costs are expensed until there is sufficient assurance that a project will proceed successfully. Management believes this practice is appropriate even though it may have a short-term negative impact on earnings.

Activity within the natural gas industry in 1994 has created a temporary supply and demand imbalance. Natural gas prices could remain relatively low compared to recent years. The Company believes this is a temporary situation as the long-term outlook for natural gas is positive. Improved technology has led to lower finding and development costs, and the low Canadian dollar benefits Canadian producers of natural gas. Natural gas prices do not by themselves have an impact on the results of operations of the Canadian mainline. Increased storage capacity has the potential to moderate supply and price fluctuations and could result in greater efficiency in responding to natural gas demand. However, natural gas from all sectors of North America will have to compete in the marketplace with all available forms of energy, including natural gas from other parts of the continent.

The Company intends to explore new pipeline and power generation opportunities in North America and globally. Management believes that TransCanada is also well-positioned to take advantage of opportunities in other areas of energy management.

Definitions

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

Regulated Operations

Rate Base

Is the sum of the cost, after 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

AFUDC 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 Rate Base

This rate is the blended cost of capital dedicated to regulated operations. When applied to average rate base, it establishes the amount that will be received to pay the cost of its debt, preferred shares and to provide a return on common equity.

Rate of Return on Common Equity

Expressed as a percentage, this 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

Also referred to as the common equity ratio, this percentage is the amount of common equity dedicated to finance rate base.

Financial and Commodity 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.

CONSOLIDATED INCOME

TRANSCANADA PIPELINES LIMITED

Year ended December 31 (millions of dollars except per share amounts)	**1994**	1993	1992
Revenues	**5,204.2**	4,519.2	3,978.4
Cost of Sales	**3,100.3**	2,529.3	2,164.7
Other Costs and Expenses	**788.4**	757.6	676.4
Depreciation	**307.0**	283.4	254.3
	4,195.7	3,570.3	3,095.4
Operating Income	**1,008.5**	948.9	883.0
Other Expense/(Income)			
Financial charges *(note 9)*	**474.3**	464.0	443.2
Financial charges of joint ventures *(note 9)*	**92.9**	91.6	80.2
Allowance for funds used during construction	**(12.5)**	(21.1)	(45.9)
Interest and other income *(note 16)*	**(20.3)**	(26.9)	(53.4)
	534.4	507.6	424.1
Income before Income Taxes	**474.1**	441.3	458.9
Income Taxes *(note 11)*	**115.5**	85.7	130.2
Net Income for the Year	**358.6**	355.6	328.7
Net Income Per Share for the Year *(note 13)*	**$1.60**	$1.62	$1.56

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

Year ended December 31 (millions of dollars)	1994	1993	1992
Cash Generated From Operations			
Net income for the year	358.6	355.6	328.7
Depreciation	307.0	283.4	254.3
Deferred income taxes	(13.7)	(38.6)	26.7
Allowance for equity funds used during construction	(5.4)	(8.9)	(18.8)
Other	0.8	9.2	6.6
Funds generated from operations	647.3	600.7	597.5
(Increase)/decrease in operating working capital *(note 17)*	(79.6)	108.5	(234.3)
	567.7	709.2	363.2
Investment Activities			
Capital expenditures *(note 2)*	(623.0)	(833.1)	(1,426.2)
Alberta Natural Gas Company Ltd	–	–	(146.9)
Deferred amounts and other	(11.7)	65.7	6.6
	(634.7)	(767.4)	(1,566.5)
Dividends Paid	(229.1)	(211.3)	(184.9)
Financing Activities			
Increase/(decrease) in notes payable	109.7	(99.0)	164.0
Long-term debt issued	248.3	366.8	1,112.0
Reduction of long-term debt	(108.6)	(577.8)	(172.3)
(Decrease)/increase in non-recourse debt of joint ventures	(40.6)	(32.9)	51.7
Preferred shares issued	103.0	–	129.1
Preferred shares redeemed or repurchased	(75.2)	(5.5)	(80.7)
Equity preferred shares issued	–	–	197.0
Common shares issued	82.8	72.9	80.3
	319.4	(275.5)	1,481.1
Increase/(Decrease) in Cash and Short-Term Investments	23.3	(545.0)	92.9
Cash and Short-Term Investments – at beginning of year	90.0	635.0	542.1
Cash and Short-Term Investments – at end of year	113.3	90.0	635.0

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

CONSOLIDATED FINANCIAL POSITION
TRANSCANADA PIPELINES LIMITED

December 31 (millions of dollars)	**1994**	1993
ASSETS		
Current Assets		
Cash and short-term investments *(note 6)*	**113.3**	90.0
Accounts receivable *(note 16)*	**641.9**	507.1
Storage inventory	**92.6**	47.8
Other current assets	**13.2**	25.2
Total current assets	**861.0**	670.1
Investment in Alberta Natural Gas Company Ltd *(note 16)*	**153.9**	149.6
Plant, Property and Equipment *(notes 3, 7 and 8)*	**8,760.2**	8,376.1
Deferred Amounts *(note 14)*	**151.3**	117.0
	9,926.4	9,312.8

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable *(note 6)*	**191.8**	68.1
Accounts payable	**616.9**	488.2
Income taxes payable	**6.5**	50.1
Interest accrued	**156.1**	154.2
Dividends payable	**62.0**	57.0
Long-term debt due within one year *(note 7)*	**188.3**	107.5
Non-recourse debt of joint ventures due within one year *(note 8)*	**99.0**	110.8
Total current liabilities	**1,320.6**	1,035.9
Long-Term Debt *(note 7)*	**4,252.3**	4,170.0
Non-Recourse Debt of Joint Ventures *(note 8)*	**907.9**	889.1
Deferred Income Taxes	**146.6**	170.7
Convertible Debentures *(note 10)*	**150.0**	150.0
Preferred Shares (redeemable) *(note 12)*	**612.6**	582.8
Equity Preferred Shares and Common Shareholders' Equity		
Equity preferred shares	**197.0**	197.0
Common shares *(note 13)*	**946.7**	863.9
Contributed surplus	**266.8**	266.8
Retained earnings	**1,089.7**	965.2
Foreign exchange adjustment	**36.2**	21.4
	2,536.4	2,314.3
Contingencies *(note 18)*		
	9,926.4	9,312.8

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

On behalf of the Board:

HG Schaefer

Harry G. Shaefer
Director

George W. Watson
Director

CONSOLIDATED CONTRIBUTED SURPLUS AND RETAINED EARNINGS
TRANSCANADA PIPELINES LIMITED

Year ended December 31 (millions of dollars except per share amounts)	**1994**	1993	1992
Contributed Surplus			
Balance at beginning of year	**266.8**	269.6	269.6
Share issue expenses	**–**	(2.8)	–
Balance at end of year	**266.8**	266.8	269.6
Retained Earnings			
Balance at beginning of year	**965.2**	825.7	692.1
Net income for the year	**358.6**	355.6	328.7
	1,323.8	1,181.3	1,020.8
Dividends declared			
Preferred (redeemable) *(note 12)*	**46.6**	46.6	48.5
Equity preferred and common	**187.5**	169.5	146.6
	234.1	216.1	195.1
Balance at end of year	**1,089.7**	965.2	825.7
Dividends declared per common share	**$0.94**	$0.86	$0.78

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, 1994 and December 31, 1993 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, 1994. 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, 1994 and December 31, 1993 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, 1994 in accordance with Canadian generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
January 19, 1995

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 significant differences are described in Note 19, "Significant Differences between Canadian and United States GAAP". Amounts are stated in Canadian dollars unless otherwise indicated. 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 (the Company or TransCanada) and its proportionate share of the accounts of its joint ventures. The Company uses the equity method of accounting for its investment in Alberta Natural Gas Company Ltd (ANG).

The Company has adopted the new requirements of the Canadian Institute of Chartered Accountants with respect to the proportionate consolidation method of accounting for its investments in joint ventures. Using this method, the Company has retroactively recorded its pro-rata share of joint venture assets, liabilities, revenues, expenses and cash flows on a line-by-line basis. This method does not result in any change to net income or shareholders' equity from that previously reported using the equity method.

Costs of other investments and projects which are in the development stage are capitalized. Investment and project costs incurred prior to the development stage are expensed.

Regulation

The Company is 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 in Canada. A number of the joint ventures in which the Company has investments are also subject to the authority of certain regulatory bodies, including the Federal Energy Regulatory Commission (FERC) in the United States. 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 various 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 considered hedges are deferred and recognized in income in the same period and in the same financial statement category as the income or expense arising from the corresponding hedged positions. Any premiums paid or received with respect to financial instruments are deferred and amortized to income over the lives of the contracts.

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 from two to five per cent and metering and other fixed assets at various rates. Removal and site restoration costs are provided for when reasonably determinable 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.

Power Generation and Other

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

Foreign Currency Translation

The Company's foreign operations are self-sustaining and are translated into Canadian dollars using the current rate method. Certain debt denominated in U.S. dollars is a partial hedge of the Company's net investment in U.S. dollars. Translation adjustments are reflected in the foreign exchange adjustment in Shareholders' Equity. Exchange gains and losses on foreign debt related to the Canadian mainline are included in income when they are dealt with in the tollmaking process.

Income Taxes

The taxes payable method of accounting is used for income taxes related to the gas transmission operations in Canada. This method is prescribed by the NEB 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 being followed for accounting purposes. The deferral method of tax allocation accounting is used for other 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 INFORMATION

The Company operates in three business segments:

(i) *Canadian Mainline and Interconnected Pipelines*

The Company owns and operates a natural gas transmission system (the Canadian mainline) which extends from Alberta into Québec. The Canadian mainline transports natural gas to regional natural gas distribution and transmission companies in Canada and the United States.

This segment also includes the Company's joint venture investments in the following interconnected pipelines in Canada and the United States: the Great Lakes System, Northern Border Pipeline Company, Foothills Pipe Lines (Sask.) Ltd., Trans Québec & Maritimes Pipeline and the Iroquois System.

(ii) *Energy Marketing*

The Company's energy marketing operations, carried on by the Western Gas Marketing subsidiaries (Western Gas) and the Northridge Marketing subsidiaries (Northridge), are included in this segment. The Company's purchase of Northridge 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 the year, revenues would have increased by $2,632.4 million for 1994 (1993 – $2,737.3 million). The effect of the acquisition on net income and net income per share would not have been material for 1994 or 1993.

Western Gas, 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. In addition, Western Gas and Northridge enter into contracts for the purchase and sale of natural gas. Northridge also enters into short-term contracts for the purchase and sale of crude oil, refined products and natural gas liquids.

(iii) *Power Generation and Other*

This segment includes the Company's operations related to the generation of electrical power, including the Company's joint venture investment in the Ocean State Power Plant, the manufacturing and sale of thermal carbon black, the extraction of gas liquids from natural gas and the storage of natural gas. This segment also includes corporate and other costs associated with investigating and developing new business opportunities in North America and internationally.

Year ended December 31 (millions of dollars)	**1994**	1993	1992
Operations			
Canadian Mainline and Interconnected Pipelines			
Revenues			
Canada – domestic deliveries	**880.5**	883.1	877.3
Canada – export deliveries	**780.4**	708.7	606.6
United States	**193.3**	170.1	113.8
Other revenues	**11.8**	11.3	11.6
	1,866.0	1,773.2	1,609.3
Costs and expenses	**603.9**	586.0	534.2
Depreciation	**281.4**	261.6	233.4
	885.3	847.6	767.6
Operating income	**980.7**	925.6	841.7
Energy Marketing			
Revenues			
Canada – domestic sales	**1,508.9**	1,104.8	971.2
Canada – export sales	**1,053.5**	992.3	731.2
United States	**550.2**	434.8	468.8
Other revenues	**50.5**	49.5	41.6
	3,163.1	2,581.4	2,212.8
Cost of sales	**3,100.3**	2,529.3	2,164.7
Other costs and expenses	**38.1**	39.1	35.9
Depreciation	**3.2**	1.8	2.0
	3,141.6	2,570.2	2,202.6
Operating income	**21.5**	11.2	10.2
Power Generation and Other			
Revenues			
Canada – domestic sales	**43.8**	37.8	31.6
Canada – export sales	**23.3**	19.9	20.2
United States	**108.0**	106.9	104.5
	175.1	164.6	156.3
Costs and expenses	**124.3**	113.1	104.6
Depreciation	**22.4**	20.0	18.9
	146.7	133.1	123.5
	28.4	31.5	32.8
Project development costs – North America	**15.5**	17.8	1.5
– International	**6.6**	1.6	0.2
	22.1	19.4	1.7
Operating income	**6.3**	12.1	31.1
Operating Income by Geographic Segment			
Canada	**823.7**	774.9	722.2
United States	**184.8**	174.0	160.8
	1,008.5	948.9	883.0

Year ended December 31 (millions of dollars)	1994	1993	1992
Capital Expenditures			
Canadian Mainline and Interconnected Pipelines	555.4	831.8	1,429.7
Less allowance for equity funds used during construction	5.4	8.9	18.8
	550.0	822.9	1,410.9
Power Generation and Other	73.0	10.2	15.3
	623.0	833.1	1,426.2
Assets			
Canadian Mainline and Interconnected Pipelines			
Canada	7,164.6	6,903.6	6,419.9
United States	1,564.3	1,449.2	1,380.2
	8,728.9	8,352.8	7,800.1
Energy Marketing (primarily current assets)			
Canada	460.3	334.7	342.1
United States	118.2	64.7	118.9
	578.5	399.4	461.0
Power Generation and Other			
Canada	308.4	267.0	250.4
United States and International	244.8	224.2	220.0
	553.2	491.2	470.4
Corporate Assets	65.8	69.4	667.2
	9,926.4	9,312.8	9,398.7

NOTE 3. PLANT, PROPERTY AND EQUIPMENT

December 31 (millions of dollars)	1994			1993
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Canadian Mainline				
Pipeline	6,633.3	1,491.0	5,142.3	5,084.4
Compression	1,729.1	428.9	1,300.2	1,146.6
Metering and other	221.0	62.1	158.9	160.5
	8,583.4	1,982.0	6,601.4	6,391.5
Gas plant under construction	76.2	–	76.2	39.0
	8,659.6	1,982.0	6,677.6	6,430.5
Interconnected Pipelines				
Pipeline	1,898.6	552.4	1,346.2	1,303.2
Compression	382.9	98.4	284.5	210.1
Metering and other	158.6	62.8	95.8	102.3
	2,440.1	713.6	1,726.5	1,615.6
Gas plant under construction	16.6	–	16.6	29.3
	2,456.7	713.6	1,743.1	1,644.9
Total Canadian Mainline and Interconnected Pipelines	11,116.3	2,695.6	8,420.7	8,075.4
Power Generation and Other	466.7	127.2	339.5	300.7
	11,583.0	2,822.8	8,760.2	8,376.1

NOTE 4. JOINT VENTURES

The Company has joint venture interests in interconnected pipelines and in the Ocean State Power Plant.

INTERCONNECTED PIPELINES

Great Lakes System
TransCanada owns 50 per cent of Great Lakes Gas Transmission Company which operates a pipeline system beginning at the Canada/United States border near Emerson, Manitoba and extending through the states of Minnesota, Wisconsin and Michigan to Sarnia, Ontario.

Northern Border Pipeline Company
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.

Foothills Pipe Lines (Sask.) Ltd.
TransCanada is the operator 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 the Company has a 50 per cent interest.

Iroquois System
TransCanada is the operator and has a 29 per cent interest in Iroquois Gas Transmission System L.P. 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.

POWER GENERATION

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

The Company's share of the net assets and income before income tax of these joint ventures is as follows:

December 31 (millions of dollars)	**1994** TransCanada's Share of Net Assets	**1994** TransCanada's Share of Income Before Income Tax	1993 TransCanada's Share of Net Assets	1993 TransCanada's Share of Income Before Income Tax	1992 TransCanada's Share of Net Assets	1992 TransCanada's Share of Income Before Income Tax
INTERCONNECTED PIPELINES						
Great Lakes System	**396.0**	**71.9**	325.2	58.4	261.9	54.1
Northern Border Pipeline Company	**242.0**	**31.8**	232.3	29.2	229.0	24.7
Foothills Pipe Lines (Sask.) Ltd.	**28.5**	**5.2**	29.7	5.2	23.4	6.4
Trans Québec & Maritimes Pipeline	**52.9**	**9.8**	37.9	10.2	39.4	11.3
Iroquois System	**72.4**	**12.4**	62.8	12.5	69.2	5.9
POWER GENERATION						
Ocean State Power Plant	**108.3**	**20.1**	107.8	21.4	108.7	23.2
	900.1	**151.2**	795.7	136.9	731.6	125.6

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)	**1994**	1993
Current Assets	**152.0**	118.7
Plant, Property and Equipment	**1,930.9**	1,831.8
Deferred Amounts	**12.4**	14.7
Current Liabilities	**(178.5)**	(181.0)
Non-Recourse Debt	**(907.9)**	(889.1)
Deferred Income Taxes	**(108.8)**	(99.4)
Proportionate Share of Net Assets of Joint Ventures	**900.1**	795.7

Year ended December 31 (millions of dollars)	**1994**	1993	1992
Revenues	**481.1**	451.8	404.5
Costs and Expenses	**(157.1)**	(149.6)	(137.0)
Depreciation	**(85.5)**	(77.7)	(66.6)
Financial Charges and Other	**(87.3)**	(87.6)	(75.3)
Proportionate Share of Income before Income Tax of Joint Ventures	**151.2**	136.9	125.6

Year ended December 31 (millions of dollars)	**1994**	1993	1992
Cash Flow from Operations	**224.4**	201.9	150.6
Cash Flow from Investing Activities	**(172.1)**	(164.4)	(190.3)
Cash Flow from Financing Activities	**(25.6)**	(28.0)	54.2
Proportionate Share of Changes in Cash and Short-Term Investments of Joint Ventures	**26.7**	9.5	14.5

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, which result in exposures to fluctuations in foreign currency exchange rates, interest rates and energy prices. Interest and foreign exchange exposures related to the gas transmission operations in Canada are dealt with through the regulatory process. The Company manages the other exposures by creating offsetting positions through the use of financial instruments.

The credit exposure associated with financial instruments arises from the possibility that a counterparty to an instrument in which the Company has an unrealized gain fails to perform according to the terms of a contract. Credit exposure is minimized by dealing only with creditworthy counterparties in accordance with established credit approval practices. At December 31, 1994, this credit exposure amounted to $37.6 million for foreign currency and interest rate management instruments and $59.4 million for energy price risk management instruments. The Company's pro-rata share of the credit exposure of its joint ventures was $5.7 million. The largest credit exposure to a single institution was $17.5 million.

The tables that follow provide information only on the Company's financial instruments and 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. Foreign currency transactions hedged by foreign exchange contracts are recorded at the contract rate. Swiss franc debt hedged by cross-currency swaps is carried at the swapped amount. Carrying amounts for interest rate swaps represent the accrued interest from the last payment date to the reporting date.

Fair values of the Company's financial instruments have been determined in various ways. Cash and short-term investments are valued at their carrying amounts due to the short period to maturity of the instruments. The fair values of interest rate and cross-currency swaps, foreign exchange contracts, range forward contracts and energy price risk management instruments have been estimated using December 31, 1994, and 1993 closing market rates. These fair values represent an estimate of the amount that the Company would receive or pay if these 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 are determined using quoted 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 are therefore not a measure of the Company's exposure with respect to its use of financial instruments. The notional amounts are used as the basis for determining payments under instruments such as the Company's swap arrangements.

Foreign Operations – U.S. Dollar Net Asset Hedges

At December 31, 1994, the Company had net assets denominated in U.S. dollars, after deduction of certain U.S. dollar debt, of approximately US$421.6 million (December 31, 1993 – US$393.6 million), which creates an exposure to changes in the United States/Canadian dollar exchange rate. The Company has entered into forward foreign exchange contracts, range forward contracts and cross-currency swaps to partially offset this exposure. The cross-currency swaps include a floating interest component which the Company has partially hedged by entering into interest rate swaps or forward rate agreements. The fair value liabilities shown in the table below for foreign exchange risk have been offset by related foreign exchange gains in the foreign exchange adjustment in Shareholders' Equity. Details of the instruments used to hedge these exposures are as follows:

December 31	1994 Carrying Amount *Asset/(Liability)* *(Cdn.$millions)*	Notional Principal *($millions)*	Principal *($millions)*	Fair Value *Asset/(Liability)* *(Cdn.$millions)*
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**	**Cdn. 217.5**	**–**	**(9.2)**
in United States dollars	**0.2**	**US 100.0**	**–**	**0.9**

December 31	1993 Carrying Amount *Asset/(Liability)* *(Cdn.$millions)*	Notional Principal *($millions)*	Principal *($millions)*	Fair Value *Asset/(Liability)* *(Cdn.$millions)*
Foreign exchange risk				
Cross-currency swaps	(14.8)	–	US 200.0	(14.8)
Forward foreign exchange contracts	(1.5)	–	US 75.0	(1.5)
Interest rate risk				
Interest rate swaps				
in Canadian dollars	0.1	Cdn. 62.5	–	4.4
in United States dollars	0.1	US 200.0	–	(1.6)
Forward rate agreements	–	Cdn. 250.0	–	0.9

U.S. Dollar Transaction Hedges

The Company's energy marketing segment purchases and sells natural gas, crude oil, natural gas liquids and refined products in U.S. and Canadian dollars. To manage risk and protect margins when purchases and sales are denominated in different currencies, the Company enters into forward foreign exchange contracts, committing to purchase and sell U.S. dollars for Canadian dollars. This establishes the foreign exchange rate for the cash flows from these purchase and sale transactions. Details of these contracts are as follows:

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

Similar foreign exchange contracts were not outstanding as at December 31, 1993.

Short-Term Debt Interest Rate Management

The Company uses interest rate swaps and cross-currency interest rate swaps to manage the exposure to changes in floating interest rates on outstanding commercial paper. Canadian dollar swaps convert the interest cost on commercial paper from a six-month floating rate to a one-month Bankers' Acceptance rate. U.S. dollar interest rate swaps convert the interest cost on other commercial paper from a floating 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 interest obligations. Details of these instruments are as follows:

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

	1993			
December 31	Carrying Amount *Asset/(Liability) (Cdn.$millions)*	Notional Principal *($millions)*	Principal *($millions)*	Fair Value *Asset/(Liability) (Cdn.$millions)*
Interest rate swaps	0.1	Cdn. 24.6	–	0.1
Cross-currency swaps	(0.2)	–	US 20.0	(0.3)

Long-Term Debt Hedges

Debt denominated in Swiss francs, described in Note 7, "Long-Term Debt", has been converted through swap agreements into Canadian dollars, with corresponding fixed-rate Canadian interest obligations. The Swiss franc debt and the cross-currency swap mature in 1995. The fair values of the cross-currency swaps in the table are offset by the foreign exchange loss on the Swiss franc debt. Details of the instruments are as follows:

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

	1993		
December 31	Carrying Amount *Asset/(Liability) (Cdn.$millions)*	Principal *(SFr.millions)*	Fair Value *Asset/(Liability) (Cdn.$millions)*
Cross-currency swaps	10.2	207.5	10.2

In 1994, the Company entered into an interest rate swap to convert the interest cost on a portion of the United States subordinated debentures, described in Note 7, "Long-Term Debt", from a fixed to a floating rate. The subordinated debentures and the interest rate swap mature in 2006. Details of the interest rate swap are as follows:

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

Energy Price Risk Management

The Company purchases and sells futures contracts to hedge sales, purchases and inventories held of natural gas, crude oil and refined products. The Company also enters into price swap agreements which call for the Company to make payments to or receive payments from counterparties based on the differential between fixed and variable prices for natural gas as specified in contracts. Basis swap agreements are used to reduce the risk associated with changes in prices at delivery and receipt points. The various instruments used hedge future firm commitments for periods ranging from one month to five years. The Company also used put options to manage the selling price of certain natural gas purchased during the year for delivery in 1995. Details of these instruments are as follows:

	1994			
December 31	**Carrying Amount** *Asset/(Liability) (Cdn.$millions)*	**Notional Volumes** *(Bcf)*	**Notional Volumes** *(MMBbl)*	**Fair Value** *Asset/(Liability) (Cdn.$millions)*
Natural gas				
Futures contracts	**0.1**	**16.3**	**–**	**(1.4)**
Price swaps	**–**	**180.0**	**–**	**19.1**
Basis swaps	**–**	**30.9**	**–**	**(0.3)**
Options	**0.1**	**1.4**	**–**	**0.5**
Crude oil and refined products				
Futures contracts	**0.1**	**–**	**5.2**	**0.7**

	1993		
December 31	Carrying Amount *Asset/(Liability) (Cdn.$millions)*	Notional Volumes *(Bcf)*	Fair Value *Asset/(Liability) (Cdn.$millions)*
Natural gas			
Futures contracts	–	0.1	0.1
Price swaps	–	4.5	0.4
Basis swaps	–	10.8	0.1

Hedging Activities of Joint Ventures

Certain of the Company's joint ventures had entered into interest rate swaps to convert floating rate debt to a fixed rate. Details of the Company's pro-rata share of these interest rate swaps are as follows:

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

	1993		
December 31	Carrying Amount *Asset/(Liability) (Cdn.$millions)*	Notional Principal *($millions)*	Fair Value *Asset/(Liability) (Cdn.$millions)*
Interest rate swaps	2.6	US 216.8	(29.7)

Other Financial Instruments

The Company has estimated the fair values of its other financial instruments as follows:

	1994	
December 31 (millions of Cdn. dollars)	**Carrying Amount**	**Fair Value**
Cash and short-term investments	**113.3**	**113.3**
Long-term debt		
Canadian mainline	**4,045.0**	**4,464.2**
Other	**395.6**	**436.1**
Non-recourse debt of joint ventures	**1,006.9**	**1,010.4**
Convertible debentures	**150.0**	**157.5**
Preferred shares (redeemable)	**612.6**	**615.4**

	1993	
December 31 (millions of Cdn. dollars)	Carrying Amount	Fair Value
Cash and short-term investments	90.0	90.0
Long-term debt		
Canadian mainline	3,824.3	4,924.6
Other	453.2	516.6
Non-recourse debt of joint ventures	999.9	1,049.7
Convertible debentures	150.0	191.8
Preferred shares (redeemable)	582.8	599.5

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

NOTE 6. CASH AND SHORT-TERM INVESTMENTS AND NOTES PAYABLE

The following summarizes the Company's position with respect to cash and short-term investments and notes payable as at December 31, 1994, and 1993:

(a) Cash and Short-Term Investments

	Balance at End of Year *(millions of dollars)*	Weighted Average Interest Rate Per Annum at End of Year	Average Amount Outstanding During the Year *(millions of dollars)*	Weighted Average Interest Rate Per Annum During the Year
1994				
Cash and short-term investments				
in Canadian dollar accounts	**6.9**	**5.0%**	**25.5**	**4.9%**
in United States dollar accounts	**51.5**	**6.1%**	**49.7**	**4.0%**
Cash and short-term investments of joint ventures				
in Canadian dollar accounts	**0.1**	**7.7%**	**1.1**	**6.1%**
in United States dollar accounts	**54.8**	**5.7%**	**74.1**	**4.2%**
	113.3			
1993				
Cash and short-term investments				
in Canadian dollar accounts	7.0	4.4%	145.2	5.3%
in United States dollar accounts	37.4	3.2%	131.4	3.2%
Cash and short-term investments of joint ventures				
in Canadian dollar accounts	-	5.5%	0.4	3.7%
in United States dollar accounts	45.6	3.1%	54.6	3.1%
	90.0			

(b) Notes Payable

	Balance at End of Year *(millions of dollars)*	Weighted Average Interest Rate Per Annum at End of Year	Average Amount Outstanding During the Year *(millions of dollars)*	Weighted Average Interest Rate Per Annum During the Year
1994				
Bank loans	**–**	**–**	**1.5**	**6.8%**
Commercial paper				
in Canadian dollars	**128.3**	**5.8%**	**140.9**	**5.1%**
in United States dollars	**58.0**	**6.4%**	**46.1**	**4.4%**
Notes payable of joint ventures				
in Canadian dollars	**3.9**	**6.8%**	**1.1**	**6.7%**
in United States dollars	**1.6**	**5.6%**	**0.1**	**5.6%**
	191.8			
1993				
Bank loans	–	–	39.0	7.2%
Commercial paper				
in Canadian dollars	37.6	4.4%	185.5	5.0%
in United States dollars	26.7	3.3%	17.6	3.2%
Notes payable of joint ventures				
in Canadian dollars	3.8	6.0%	0.9	6.2%
	68.1			

The Company had unused lines of credit of $967.2 million at December 31, 1994 (December 31, 1993 - $825.0 million), of which $600.0 million (December 31, 1993 - $600.0 million) supported the Company's commercial paper program and the balance secured product purchases and was for general corporate purposes. These borrowing arrangements are available to the Company at prime rates of Canadian chartered banks and at other negotiated financial bases. The cost to maintain the unused portion of the lines of credit of the Company was approximately $0.8 million for the year ended December 31, 1994 (December 31, 1993 - $0.7 million). At December 31, 1994, the Company has outstanding letters of credit of $37.1 million to secure product purchases in 1995.

NOTE 7. LONG-TERM DEBT

	Maturity Dates	1994 Outstanding December 31 *(1)*	1994 Average Interest Rate *(2)*	1993 Outstanding December 31 *(1)*	1993 Average Interest Rate *(2)*
CANADIAN MAINLINE					
First Mortgage Pipe Line Bonds					
Denominated in United States dollars					
(1994 – US$223.3; 1993 – US$252.7)	1996 and 1997	**313.2**	**16.2%**	334.6	16.2%
Denominated in Pounds Sterling					
(1994 and 1993 – £25.0)	2007	**54.9**	**16.5%**	48.9	16.5%
Debentures					
Denominated in Canadian dollars	1996 to 2020	**1,779.8**	**10.9%**	1,779.8	10.9%
Denominated in United States dollars					
(1994 and 1993 – US$800.0)	2012 to 2023	**1,122.2**	**9.2%**	1,059.2	9.2%
Notes					
Denominated in Canadian dollars	1995 to 2022	**980.5**	**8.8%**	726.3	8.6%
		4,250.6		3,948.8	
Foreign exchange differential recoverable					
through the tollmaking process		**(205.6)**		(124.5)	
Total		**4,045.0**		3,824.3	
OTHER					
Subordinated Debentures					
Denominated in United States dollars					
(1994 and 1993 – US$200.0)	2006	**280.5**	**8.4%**	264.8	8.5%
Notes					
Denominated in Canadian dollars	2000	**20.0**	**9.5%**	24.8	8.5%
Denominated in Swiss francs					
(1994 – SFr.119.5; 1993 – SFr.207.5)	1995	**95.1**	**9.1%**	163.6	8.6%
Total		**395.6**		453.2	
Total Long-Term Debt		**4,440.6**		4,277.5	
Less: Long-Term Debt Due Within One Year		**188.3**		107.5	
		4,252.3		4,170.0	

(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 pipeline system 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 United States dollars are subject to mandatory sinking fund provisions which require the Company to retire prescribed amounts of each series annually prior to maturity.

Notes

The Company's Canadian Medium Term Note Program, filed under a shelf prospectus, allows for the issuance of notes with a wide range of maturities at varying interest rates. At December 31, 1994, $291.8 million was available to be issued under this program.

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: 1995 – $188.3 million; 1996 – $364.3 million; 1997 – $269.5 million; 1998 – $208.0 million; and 1999 – $132.6 million.

NOTE 8. NON-RECOURSE DEBT OF JOINT VENTURES

All of the debt of joint ventures is non-recourse to TransCanada. The debt is secured by the rights and assets of the joint ventures, except for the senior unsecured notes of the Great Lakes System. Joint venture debt holders have no claim against the rights and assets of TransCanada, except to the extent of TransCanada's investment in the joint ventures. Details of the Company's pro-rata share of the debt of joint ventures are as follows:

		1994		1993	
	Maturity Dates	**Outstanding December 31** *(1)*	**Average Interest Rate** *(2)*	Outstanding December 31 *(1)*	Average Interest Rate *(2)*
Great Lakes System					
Senior Unsecured Notes					
(1994 and 1993 – US$250.0)	1995 to 2021	**350.7**	**9.2%**	331.0	9.2%
Northern Border Pipeline Company					
Senior Secured Notes					
(1994 and 1993 – US$75.0)	2003	**105.2**	**8.4%**	99.3	8.4%
Bank Loan					
(1994 – US$58.5; 1993 – US$66.0)	1999	**82.1**	**8.5%**	87.4	8.1%
Foothills Pipe Lines (Sask.) Ltd.					
Note	2001	**72.8**	**7.7%**	63.3	6.8%
Trans Québec & Maritimes Pipeline					
First Mortgage Bonds	2004	**36.0**	**13.2%**	115.5	12.9%
Term Loan	1995	**65.0**	**7.5%**	6.7	5.0%
Iroquois System					
Bank Loan					
(1994 – US$137.2; 1993 – US$146.8)	2006 and 2007	**192.5**	**8.6%**	194.4	8.6%
Ocean State Power Plant					
Senior Secured Notes					
(1994 – US$72.8; 1993 – US$77.3)	2002 to 2011	**102.6**	**7.6%**	102.3	7.5%
Total Non-Recourse Debt of Joint Ventures		**1,006.9**		999.9	
Less: Non-Recourse Debt of Joint Ventures					
Due Within One Year		**99.0**		110.8	
		907.9		889.1	

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

Certain distributions to the joint venture investors are restricted by the terms of the debt. Under the most restrictive covenants at December 31, 1994, approximately $189.4 million and $93.7 million cannot be distributed to TransCanada by the Great Lakes System and Northern Border Pipeline Company, respectively. Terms of the debt of other joint ventures did not restrict their ability to make distributions at December 31, 1994.

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: 1995 – $99.0 million; 1996 – $49.3 million; 1997 – $58.4 million; 1998 – $64.2 million; and 1999 – $64.2 million.

NOTE 9. FINANCIAL CHARGES

Year ended December 31 (millions of dollars)	**1994**	1993	1992
Financial Charges			
Interest on long-term debt	**474.2**	466.3	446.6
Amortization of foreign exchange contract premiums	**(3.4)**	(7.6)	(17.2)
Interest on long-term debt *(net)*	**470.8**	458.7	429.4
Regulatory deferrals and amortizations	**(3.7)**	(5.8)	(12.9)
Non-regulatory foreign exchange (gains)/losses	**(1.8)**	(0.9)	14.6
Short-term interest and other financial charges	**9.3**	12.0	13.4
Interest capitalized	**(0.3)**	–	(1.3)
	3.5	5.3	13.8
	474.3	464.0	443.2
Financial Charges of Joint Ventures			
Interest on long-term debt	**91.2**	89.8	77.3
Other	**1.7**	1.8	2.9
	92.9	91.6	80.2

The Company made interest payments of $482.9 million, $496.3 million and $448.7 million for the years ended December 31, 1994, 1993 and 1992, respectively. The Company's pro-rata share of interest payments made by its joint ventures was $92.1 million, $89.9 million and $73.2 million for the years ended December 31, 1994, 1993 and 1992, respectively.

NOTE 10. CONVERTIBLE DEBENTURES

The Company has $150 million of ten-year convertible subordinated debentures outstanding at an interest rate of 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)	**1994**	1993	1992
Canada	**373.5**	332.4	335.1
Foreign	**100.6**	108.9	123.8
	474.1	441.3	458.9

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

Year ended December 31 (millions of dollars)	**1994**	1993	1992
Current			
Canada	**109.1**	111.3	93.7
Foreign	**20.1**	13.0	9.8
	129.2	124.3	103.5
Deferred			
Canada	**(21.8)**	(51.7)	12.7
Foreign	**8.1**	13.1	14.0
	(13.7)	(38.6)	26.7
	115.5	85.7	130.2

(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)	**1994**	1993	1992
Capital cost allowance in excess of depreciation	**8.0**	9.6	7.7
Deferred amounts	**5.5**	(23.1)	10.9
Amortization of Canadian mainline deferred income taxes *(f)*	**(25.3)**	(25.3)	–
Other	**(1.9)**	0.2	8.1
	(13.7)	(38.6)	26.7

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

Year ended December 31 (millions of dollars)	**1994**	1993	1992
Income before income taxes	**474.1**	441.3	458.9
Less income not subject to tax currently *(f)*	**(147.5)**	(168.2)	(118.5)
	326.6	273.1	340.4
Federal statutory tax rate	**38.8%**	38.8%	38.8%
Expected income tax expense	**126.7**	106.0	132.1
Amortization of Canadian mainline deferred income taxes *(f)*	**(25.3)**	(25.3)	–
Non-deductible capital losses	**5.8**	5.4	4.9
Net difference between the federal statutory tax rate and rates of provincial, state and foreign authorities	**7.4**	(0.8)	(8.6)
Utilization of prior years' operating losses	**(13.9)**	(13.7)	(11.7)
Large corporations tax	**14.3**	13.8	12.4
Other	**0.5**	0.3	1.1
Actual income tax expense	**115.5**	85.7	130.2

(e) At December 31, 1994, the Company's United States subsidiaries had net operating losses carried forward for accounting purposes of approximately US$24.1 million for which the future tax benefits have not been recorded. The net operating losses carried forward for tax purposes of US$154.7 million differ from the accounting losses primarily because of timing differences as described in (c) above. The accumulated tax 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$40.9 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 tax allocation accounting for income taxes for the Canadian mainline operations. As a result, the Company recovered deferred income tax expense of approximately $76 million in tolls during that period. Commencing in 1993, the NEB directed the Company to amortize this amount over a three-year period and the Company has reduced its revenue requirement in each year accordingly.

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 tax allocation 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 $680.7 million to December 31, 1994 (December 31, 1993 – $615.3 million) would have been recorded and recovered in tolls to date through the tollmaking process.

(g) Income tax payments of $165.1 million, $66.4 million and $162.4 million were made during the years ended December 31, 1994, 1993 and 1992, 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:

December 31 (millions of dollars)	**1994**	1993	1992
FIRST PREFERRED SHARES *(1)*			
Cumulative redeemable shares			
$2.80 Series *(1994 – 552,968; 1993 – 555,868; 1992 – 557,168)*	**27.6**	27.8	27.9
Series O *(1994, 1993 and 1992 – 3,000,000)*	**150.0**	150.0	150.0
Series P *(1994, 1993 and 1992 – 2,600,000)*	**130.0**	130.0	130.0
Cumulative redeemable retractable shares			
Series H *(1994 and 1993 – Nil; 1992 – 39,791)*	**–**	–	2.0
Series I *(1994 and 1993 – Nil; 1992 – 68,820)*	**–**	–	3.4
Series N *(1994, 1993 and 1992 – 1,500,000)*	**75.0**	75.0	75.0
Series Q *(1994 – 2,100,000; 1993 and 1992 – Nil) (2)*	**105.0**	–	–
Cumulative redeemable perpetual shares			
Series K *(1994 – Nil; 1993 and 1992 – 150) (3)*	**–**	75.0	75.0
Series L *(1994, 1993 and 1992 – 100)*	**50.0**	50.0	50.0
Series M *(1994, 1993 and 1992 – 150)*	**75.0**	75.0	75.0
	612.6	582.8	588.3

(1) During 1994, 1993 and 1992, 2,900, 1,300 and 14,900 shares, respectively, were purchased by the Company for cancellation.

(2) During 1994, the Company issued 2,100,000 Cumulative Redeemable Retractable First Preferred Shares Series Q at a price of $50 per share.

(3) During 1994, the Company redeemed the outstanding Cumulative Redeemable Perpetual First Preferred Shares Series K.

Additional information pertaining to the Company's preferred shares outstanding as at December 31, 1994, is as follows:

First Preferred Share Issue	Stated Value Per Share	Dividend Rate Per Share	Redemption Dates and Prices
$2.80 Series	$50	$2.80	redeemable any time, at $50.50 per share
Series O	$50	$3.95	redeemable after October 31, 1998, at $52 per share to October 31, 1999, reducing to $50 after October 31, 2001
Series P	$50	$3.875	redeemable after April 30, 1999, at $52 per share to April 30, 2000, reducing to $50 after April 30, 2002
Series N	$50	$4.50	retractable February 1, 1996, and redeemable after January 31, 1996, at the stated value per share
Series Q	$50	$3.275	retractable December 15, 1999, and redeemable after December 14, 1999, at $50 per share
Series L	$500,000	$40,625	redeemable after December 1, 1995, at the stated value per share
Series M	$500,000	$42,750	redeemable after April 30, 1996, at the stated value per share

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.

After December 14, 1999, the Company may elect to convert the Series Q 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 L and Series M shares will be redetermined as of December 1, 1995, and May 1, 1996, respectively, by one of: direct negotiation between the Company and the holders of such First Preferred Shares; bids solicited from investment dealers; or an auction procedure.

NOTE 13. COMMON SHARES

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

	Number of Shares *(thousands)*	Amount *(millions of dollars)*
Outstanding at January 1, 1992	171,377	710.7
Issued for cash or cash equivalent		
Under private placement	2,000	34.7
Under the dividend reinvestment and share purchase plan	2,646	45.6
Exercise of options	31	0.5
Cancellation of common shares	(42)	(0.5)
Outstanding at December 31, 1992	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**

Net Income Per Share

The Company has 12,500,000 Cumulative Equity Second Preferred Shares, Series B (Equity Preferred Shares) outstanding. The Equity Preferred Shares provide a cumulative annual dividend of $1.25 per share and will be converted automatically into common shares of the Company on August 1, 1995. As a result of the automatic conversion feature, the Company has assumed the conversion of the Equity Preferred Shares took place at their issue date when calculating net income per share.

Net income per share for the respective years is calculated by deducting from net income dividends applicable to preferred shares (redeemable) which amounted to $46.6 million, $46.6 million and $46.7 million for the years ended December 31, 1994, 1993 and 1992, respectively. The result is divided by the weighted average number of equity preferred and common shares outstanding. The weighted average number of shares, in thousands, for the years ended December 31, 1994, 1993 and 1992, are 195,014, 190,726 and 181,116, respectively. Fully diluted earnings per share have not been presented as the effect of potential dilution of convertible debentures, preferred shares Series O, P and Q and options is not material.

Employee Stock Incentive Plan

Under the Company's current Key Employee Stock Incentive Plan (KESIP) no further options may be granted after December 1994. The Company proposes to make amendments to KESIP and to extend the plan, details of which will be set forth in the Company's Notice of 1995 Annual and Special Meeting of Shareholders and Management Proxy Circular.

KESIP permitted 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 which was 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. Details of the Company's options outstanding are:

	Number of Shares *(thousands)*	Exercise Prices	Options Exercisable *(thousands)*
Outstanding at January 1, 1993	1,608	$14.70 – $17.50	490
Granted	444	$20.10 – $20.85	
Exercised	(101)	$14.70 – $17.50	
Cancelled or expired	(18)	$17.125 – $17.50	
Outstanding at December 31, 1993	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**

KESIP also had a share purchase feature. No shares have been offered or sold to any key employee under this feature since 1987. In connection with the share purchase feature of KESIP, the Company, through a trustee, provided interest free loans to certain of its employees. These loans mature 10 years from the date of issue, are included in accounts receivable and are secured by the common shares issued under KESIP. The outstanding balance of these loans totaled $7 million, $9.3 million and $13.8 million at December 31, 1994, 1993 and 1992, respectively.

Common Shares Reserved

In addition to the shares set aside and reserved for outstanding options, 550,000 shares have been reserved for future issuance pursuant to the Company's Employee Savings Plan.

Shareholder Rights Plan

Subject to shareholder confirmation on April 27, 1995, the Company has established a Shareholder Rights Plan (the rights plan) designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Among other provisions of the rights plan, the rights issued under the plan become exercisable when a person, and any related parties, acquires or announces its intention to acquire 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 or announcement 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.

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, 1994, such terms did not restrict or alter the Company's ability to declare dividends.

NOTE 14. DEFERRED AMOUNTS

December 31 (millions of dollars)	**1994**	1993
Canadian mainline	**64.9**	67.1
Other	**74.0**	35.2
Joint ventures	**12.4**	14.7
	151.3	117.0

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 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 cost of pension benefits earned by employees is determined using the projected unit credit method pro-rated over the service life of the employee group. This cost is charged to operations as services are rendered and reflects Management's best estimate of expected plan investment performance, salary escalation, terminations and retirement ages of plan members. Adjustments arising from plan amendments, changes in assumptions and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the employee group.

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

Year ended December 31 (millions of dollars)	**1994**	1993	1992
Pension costs for benefits earned during the current period	**9.1**	8.4	10.3
Amortization of transition amount and other	**1.9**	2.2	1.6
Net pension expense	**11.0**	10.6	11.9

Contributions determined by the actuary are made annually to the non-contributory pension plan. These are intended to provide for benefits attributed to service to date. Obligations under the SRP are not pre-funded, but are paid directly to retired members of the plan.

The projected funded status of the Company's pension plans is as follows:

December 31 (millions of dollars)	**1994**	1993
Accumulated benefits based on service to date and current compensation		
Vested	**177.7**	161.4
Non-vested	**3.6**	4.9
Accumulated benefit obligation	**181.3**	166.3
Additional amounts related to projected salary increases	**63.3**	62.0
Actuarial present value of current accumulated pension benefits	**244.6**	228.3
Pension plan assets	**230.8**	213.1
Deficit	**13.8**	15.2

Pension plan assets are stated at average market value and include marketable equity securities and corporate and government debt securities.

The discount rate used in determining the actuarial present value of the projected pension benefit obligation was 8.0 per cent. The rate of return on pension plan assets was estimated to be 8.0 per cent per annum.

NOTE 16. RELATED PARTY TRANSACTIONS

At December 31, 1994, the Company held 49.9 per cent of the common shares of ANG. The quoted market value of the Company's investment in ANG's common shares was approximately $196 million at December 31, 1994 (December 31, 1993 – $211 million). Equity income from ANG of $14.3 million, $12.5 million and $2.8 million has been included in Interest and Other Income for the years ended December 31, 1994, 1993 and the six months ended December 31, 1992, respectively. TransCanada's consolidated retained earnings at December 31, 1994, include $8.3 million (December 31, 1993 – $2.7 million), which represents undistributed retained earnings from ANG.

Included in the Company's revenues are amounts billed to ANG of $46.6 million, $46.7 million and $18.1 million for the years ended December 31, 1994, 1993 and the six months ended December 31, 1992, respectively. Amounts receivable from ANG are $3.7 million at December 31, 1994 and 1993.

NOTE 17. (INCREASE)/DECREASE 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)	**1994**	1993	1992
Decrease/(increase) in accounts receivable	**28.4**	68.4	(104.9)
(Increase) in storage inventory	**(18.8)**	(1.9)	(12.6)
Decrease/(increase) in other current assets	**12.1**	14.5	(31.7)
(Decrease)/increase in accounts payable	**(60.0)**	(5.3)	5.3
(Decrease)/increase in income taxes payable	**(42.5)**	50.1	(105.7)
Increase/(decrease) in interest accrued	**1.2**	(17.3)	15.3
	(79.6)	108.5	(234.3)

The Company acquired $186.6 million of current assets offset by $180.1 million of current liabilities when Northridge was purchased in 1994.

NOTE 18. CONTINGENCIES

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

(i) Canada

The Company has been charged under the Fisheries Act of Canada, the Ontario Water Resources Act and the Environmental Protection Act of Ontario. These charges allege that, during the construction of new pipeline in Ontario, the Company discharged sediment into water. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on its consolidated financial position or on its results of operations and accordingly has made no provision in its accounts. The charges under the Fisheries Act of Canada have been dismissed.

(ii) United States

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 civil investigation by the U.S. Attorney's Office 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 all concerns raised by governmental authorities during construction had been fully responded to. No proceedings in connection with this civil investigation have been commenced by the U.S. federal government against Iroquois. The Federal Energy Regulatory Commission and the Army Corps of Engineers 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 June 1992, areas under investigation include possible environmental 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 believes that the pipeline construction and right-of-way activities were conducted in a responsible manner. Iroquois also believes it is probable that the U.S. Attorney will seek indictments including fines and other sanctions. The amount of such fines and sanctions cannot be estimated by Iroquois. No provision has been made in the accounts of Iroquois or of the Company with respect to these investigations.

NOTE 19. SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP

The Company's consolidated financial statements are prepared in accordance with Canadian GAAP, which differ in some respects from U.S. GAAP. The following sets forth the reconciliation of these differences:

(a) Under Canadian GAAP, the financial statements are prepared using the proportionate consolidation method of accounting for joint ventures. Under U.S. GAAP, these investments would be accounted for using the equity method. Note 4, "Joint Ventures", to the consolidated financial statements provides details of the impact of proportionate consolidation on the Company's consolidated financial statements.

(b) Net income in accordance with U.S. GAAP:

Year ended December 31 (millions of dollars except per share amounts)	**1994**	1993	1992
Net income for the year as reported	**358.6**	355.6	328.7
U.S. GAAP adjustments			
Foreign currency translation *(1)*	**3.4**	8.3	14.8
Income taxes *(2)*	**(13.5)**	(9.6)	(11.7)
Income before extraordinary item and cumulative effect of the application of SFAS 109	**348.5**	354.3	331.8
Cumulative effect of the application of SFAS 109	**–**	10.0	–
Extraordinary item – reduction of income taxes from the application of prior years' losses *(2)*	**–**	–	11.7
Net income for the year in accordance with U.S. GAAP	**348.5**	364.3	343.5
Per share data			
Income before extraordinary item and cumulative effect of the application of SFAS 109	**$1.55**	$1.61	$1.57
Cumulative effect of the application of SFAS 109	**–**	$0.05	–
Extraordinary item	**–**	–	$0.07
Net income	**$1.55**	$1.66	$1.64

(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 prospectively adopted effective January 1, 1993. SFAS 109 requires that the liability method be used to calculate deferred income taxes. Deferred income tax expense is, therefore, calculated as the net change in the deferred income tax asset or liability in the year. Prior to the adoption of SFAS 109, the reduction of income taxes arising from the application of prior years' losses was reported separately for U.S. GAAP purposes as an extraordinary item.

(c) As a result of the Canadian/U.S. GAAP reconciliation and additional disclosure requirements under U.S. GAAP, the Statement of Consolidated Financial Position balances are:

	Amount reported under Canadian GAAP		Amount as adjusted to conform with U.S. GAAP	
December 31 (millions of dollars)	**1994**	1993	**1994**	1993
Regulatory Asset	**–**	–	**1,087.5**	927.6
Deferred Amounts	**151.3**	117.0	**150.2**	112.5
Deferred Income Taxes	**146.6**	170.7	**1,263.3**	1,114.1
Equity Preferred Shares and Common Shareholders' Equity	**2,536.4**	2,314.3	**2,500.2**	2,286.3

SFAS 109 also 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 also been recorded under U.S. GAAP. 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 resulting in deferred tax balances are as follows:

December 31 (millions of dollars)	**1994**	1993
Deferred tax liabilities		
Accelerated tax depreciation on plant and equipment	**728.8**	682.9
Taxes on future revenue requirement	**375.3**	325.6
Undistributed earnings of subsidiaries and joint ventures	**160.7**	144.2
Other	**119.1**	105.0
	1,383.9	1,257.7
Deferred tax assets		
Net operating and capital loss carryforwards	**135.3**	131.2
Cost of investments in subsidiaries and joint ventures	**39.6**	54.0
Other	**21.6**	44.9
	196.5	230.1
Less valuation allowance	**75.9**	86.5
	120.6	143.6
Net deferred tax liability	**1,263.3**	1,114.1

The valuation allowance was reduced in 1994 by $10.6 million (1993 – $13.7 million) due to the utilization of operating loss carryforwards.

Under U.S. GAAP, Equity Preferred Shares and Common Shareholders' Equity has been reduced by the amounts receivable from employees in connection with KESIP.

(d) Additional information required under U.S. GAAP:

(i) The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106 (SFAS 106) "Employers' Accounting for Postretirement Benefits Other Than Pensions". SFAS 106 requires accrual of the expected costs of providing postretirement benefits during the period in which employees render services. While the Company is not required to reflect SFAS 106 for U.S. GAAP purposes until January 1, 1995, it estimates that had it reflected SFAS 106 effective January 1, 1994 the accumulated unrecorded postretirement benefit obligation would amount to approximately $24 million. Under SFAS 106, this could be amortized over the estimated average remaining service life of the employees or recognized immediately. The Company has not yet determined the method it will use to reflect SFAS 106.

(ii) The Financial Accounting Standards Board has approved the issuance of a new standard on impairment of long-lived assets, to be effective commencing January 1, 1996. The Company does not expect the provisions of this standard will affect its results of operations or financial position.

(iii) Consolidated retained earnings at December 31, 1994, includes $304.6 million (December 31, 1993 – $239.3 million) which represents undistributed earnings from joint ventures accounted for by the proportionate consolidation method under Canadian GAAP.

Selected Quarterly Consolidated Financial Data

The following sets forth selected quarterly financial data for the four quarters of 1994 and 1993 in millions of dollars except for per share amounts:

Three months ended (unaudited)	Mar. 31	June 30	Sept. 30	Dec. 31
1994				
Revenues	**1,314.2**	**1,161.7**	**1,130.2**	**1,598.1**
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**
1993				
Revenues	1,183.9	1,046.3	1,070.0	1,219.0
Net income	87.3	91.7	87.8	88.8
Net income per share	$0.40	$0.42	$0.40	$0.40
Dividends declared per common share	$0.21	$0.21	$0.21	$0.23

Price Range of Common Shares

The Company's common shares are listed on the Toronto, Montréal, Vancouver, Alberta, Winnipeg and New York stock exchanges. The Toronto Stock Exchange is the principal market on which the Company's common shares are traded. The following table sets forth the quarterly high and low sales prices of the Company's common shares as reported by The Toronto Stock Exchange and New York Stock Exchange, respectively:

	The Toronto Stock Exchange *(Cdn. dollars)*		New York Stock Exchange *(US dollars)*	
	High	Low	High	Low
1994				
First Quarter	**$20.88**	**$18.00**	**$15.88**	**$13.00**
Second Quarter	**$18.88**	**$16.00**	**$13.63**	**$11.63**
Third Quarter	**$18.63**	**$16.25**	**$13.50**	**$11.63**
Fourth Quarter	**$17.88**	**$16.88**	**$13.38**	**$12.13**
1993				
First Quarter	$19.25	$16.13	$15.50	$12.75
Second Quarter	$20.13	$18.13	$15.75	$14.50
Third Quarter	$21.88	$19.50	$16.63	$14.63
Fourth Quarter	$21.13	$19.00	$15.88	$14.50

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	**1994**	1993	1992	1991	1990
Ratio of earnings to fixed charges *(1)*	**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	**1994**	1993	1992	1991	1990
Ratio of earnings to fixed charges	**1.9**	2.0	2.0	1.9	1.9

Differences are described in Note 19, "Significant Differences between Canadian and United States GAAP", to the Company's consolidated financial statements.

FINANCIAL *(millions of dollars except where indicated)*	**1994**	1993	1992	1991	1990
Operating Results					
Revenues	**5,204.2**	4,519.2	3,978.4	3,236.2	3,106.5
Net income for the year	**358.6**	355.6	328.7	251.2	214.9
Assets					
Plant, property and equipment (net)					
Canadian mainline	**6,677.6**	6,430.5	5,876.1	4,727.0	3,469.5
Interconnected pipelines	**1,743.1**	1,644.9	1,577.1	1,417.9	960.9
Power generation and other	**339.5**	300.7	313.7	301.6	197.8
Total assets	**9,926.4**	9,312.8	9,398.7	7,650.2	5,967.1
Capitalization					
Long-term debt	**4,252.3**	4,170.0	3,894.8	3,369.6	2,859.3
Non-recourse debt of joint ventures	**907.9**	889.1	975.1	868.5	494.2
Preferred shares					
Subject to mandatory redemption	**180.0**	75.0	75.0	155.0	155.0
Not subject to mandatory redemption	**432.6**	507.8	513.3	384.0	234.3
Equity preferred shares and common shareholders' equity	**2,536.4**	2,314.3	2,098.2	1,659.3	1,280.4
Cash Flow Data					
Funds generated from operations	**647.3**	600.7	597.5	410.9	399.7
Capital expenditures	**623.0**	833.1	1,426.2	1,911.6	646.5
Share Statistics					
Net income per share for the year	**$1.60**	$1.62	$1.56	$1.34	$1.23
Dividends declared per common share	**$0.94**	$0.86	$0.78	$0.73	$0.69
Funds generated from operations per share	**$3.32**	$3.15	$3.30	$2.51	$2.60
Return on Average Common Equity	**12.78%**	13.92%	14.78%	14.77%	15.31%
Number of Common Shareholders, December 31	**17,748**	18,168	18,639	18,871	17,733
Number of Regular Employees, December 31	**1,848**	1,764	1,791	1,784	1,757
U.S. GAAP Information					
Net income for the year	**348.5**	364.3	343.5	266.5	225.9
Net income per share for the year	**$1.55**	$1.66	$1.64	$1.43	$1.31
Equity preferred shares and common shareholders' equity	**2,500.2**	2,286.3	2,072.4	1,615.2	1,214.4

OPERATING					
Canadian mainline gas transmission volumes delivered *(billions of cubic feet)*					
Annual	**2,219.8**	2,127.8	1,971.3	1,655.1	1,509.6
Maximum per day	**7.3**	7.1	5.7	5.5	5.1
Canadian mainline including loop line – kilometres of pipeline	**13 843**	13 687	13 106	12 242	11 400
Canadian mainline compressor power *(megawatts)*	**1,766**	1,627	1,582	1,282	1,211

CORPORATE INFORMATION

(December 31, 1994)

DIRECTORS

J.V. Raymond Cyr, O.C.
Chairman
Bell Canada and
Director, BCE Inc., 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

Robert H. Jones
Corporate Director, Winnipeg

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

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

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

Harry G. Schaefer
Chairman of the Board
TransAlta Corporation, Calgary

Robert Stollery
Chairman,
PCL Employee Holdings Ltd., Edmonton

Allan R. Taylor
Chairman
Royal Bank of Canada, Toronto

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

COMMITTEES OF THE BOARD OF DIRECTORS

Audit and Environmental Committee

H.G. Schaefer - *Chairman*
R.E. Dineen, Jr.
W. Dobson
L.Y. Fortier
R.H. Jones
T.E. Kierans

Executive Committee

G.J. Maier - *Chairman*
J.V.R. Cyr
D.S. Macdonald
A.R. Taylor

Human Resources Committee

A.R. Taylor - *Chairman*
J.V.R. Cyr
T.E. Kierans
R. Stollery

Nominating Committee

J.V.R. Cyr - *Chairman*
R.H. Jones
D.S. Macdonald
G.J. Maier
R. Stollery

EXECUTIVE OFFICERS

George W. Watson
President and Chief Executive Officer

George M. Hugh
Chief Operating Officer

Gavin J. Couper
President, Western Gas Marketing Limited

Michael Durnin
Senior Vice-President

A. Jake Epp
Senior Vice-President

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

Robert W. McKenzie
**President, TCPL Energy Management Limited*

Robert J.C. Reid
Senior Vice-President

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

Ray T. Smith
Vice-President and Controller

John W. Stinson
Vice-President, Human Resources

**Effective February 1, 1995*

OFFICERS

John K. Archambault
Vice-President

Edward J. Brown
Assistant Controller

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, Transportation Planning and Gas Control

Steve Jakymiw
Vice-President, Transportation Services and Rates

Alison T. Love
Corporate Secretary and Associate General Counsel

Barry G. Luft
Vice-President, Storage and Extraction

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 G. Walker
Vice-President, Operations

Bruce A. Westell
Treasurer

Paul R. Wigle
Vice-President, Gas Supply and Transportation Economics

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TransCanada welcomes questions from shareholders and potential investors. Please telephone Gary Lloyd, Investor Relations, at 1-800-361-6522 (Canada and U.S. Mainland) or (403) 267-8518.

To change your address, eliminate multiple mailings or request information regarding cheques, share certificates, stock transfers and dividend reinvestment plan account updates, please contact the transfer agent: Montreal Trust Company of Canada, Stock & Bond Transfer Department, 411 – 8 Avenue S.W., Calgary, Alberta, Canada, T2P 1E7. Telephone: (403) 267-6555.

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 shares: TRP; $2.80 cumulative redeemable first preferred shares: TRP.PR.A; Cumulative redeemable first preferred shares series N: TRP.PR.N; Series O: TRP.PR.O; Series Q: TRP.PR.Q; Cumulative equity second preferred shares: TRP.PR.P.

Pertinent Dates

Scheduled dividend payment dates in 1995 are January 31, April 28, July 31 and October 31. Quarterly earnings news releases in 1995 are scheduled for April 21, July 20 and October 24.

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 brokerage or administrative fees.

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 1977 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 N, series O, series P and series Q. Cumulative equity second preferred shares, series B; Cumulative redeemable perpetual first preferred shares, series L and series M are transferable at TransCanada.

First Mortgage Pipe Line Bonds

The R-M Trust Company, as agent for National Trust Company, Toronto; co-Registrars U.S. Series 16% and 16 3/4% U.S., The R-M Trust Company, as agent for National Trust Company, trustee; and Banker's Trust Company; co-registrars U.K. Series 16 1/2% U.K., The R-M Trust Company, as agent for National Trust Company, trustee; and the 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 Note Debentures

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).

TransCanada's 1994 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, bureau du secrétaire.

METRIC CONVERSION TABLE

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

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

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

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