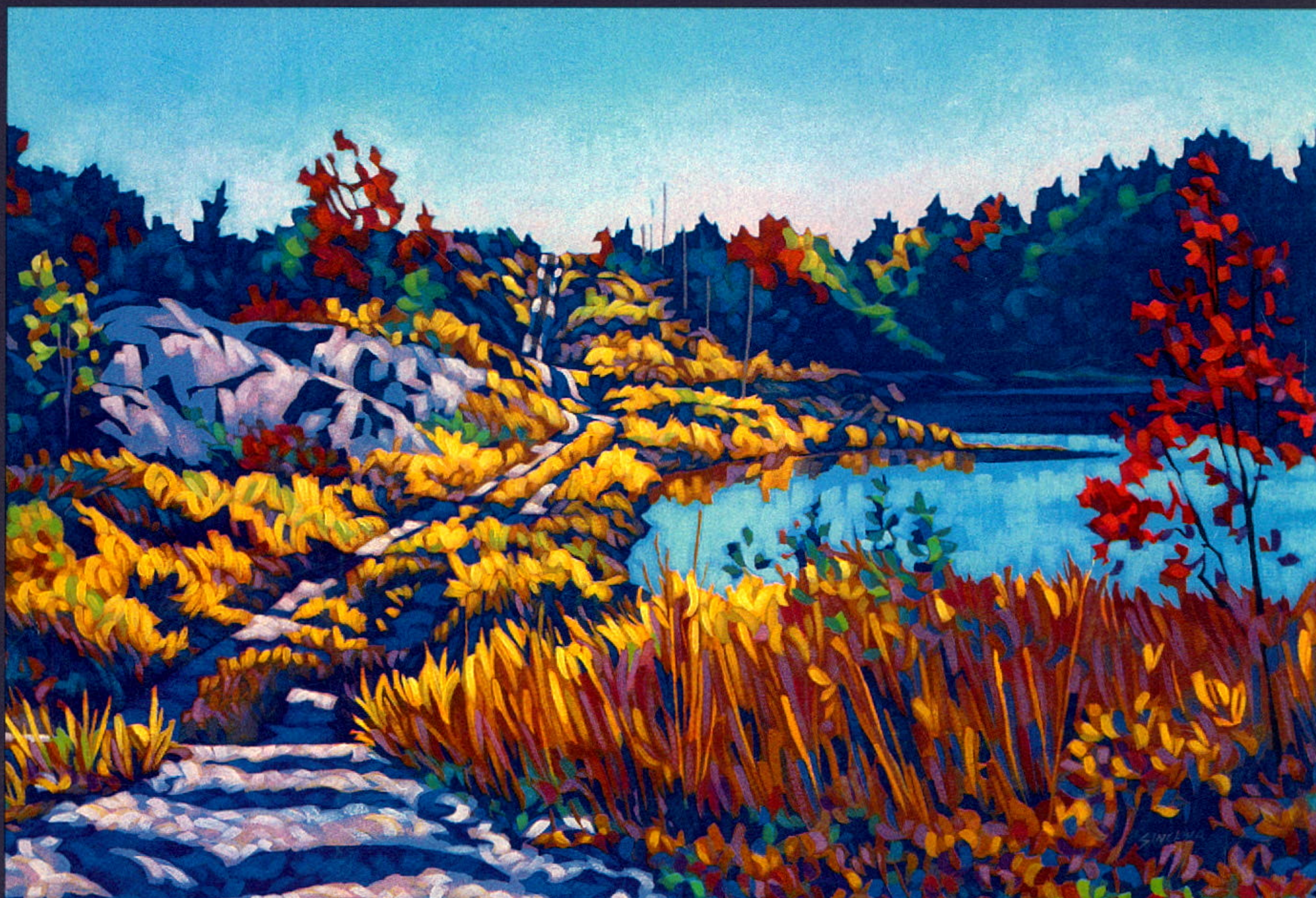
TransCanada PipeLines



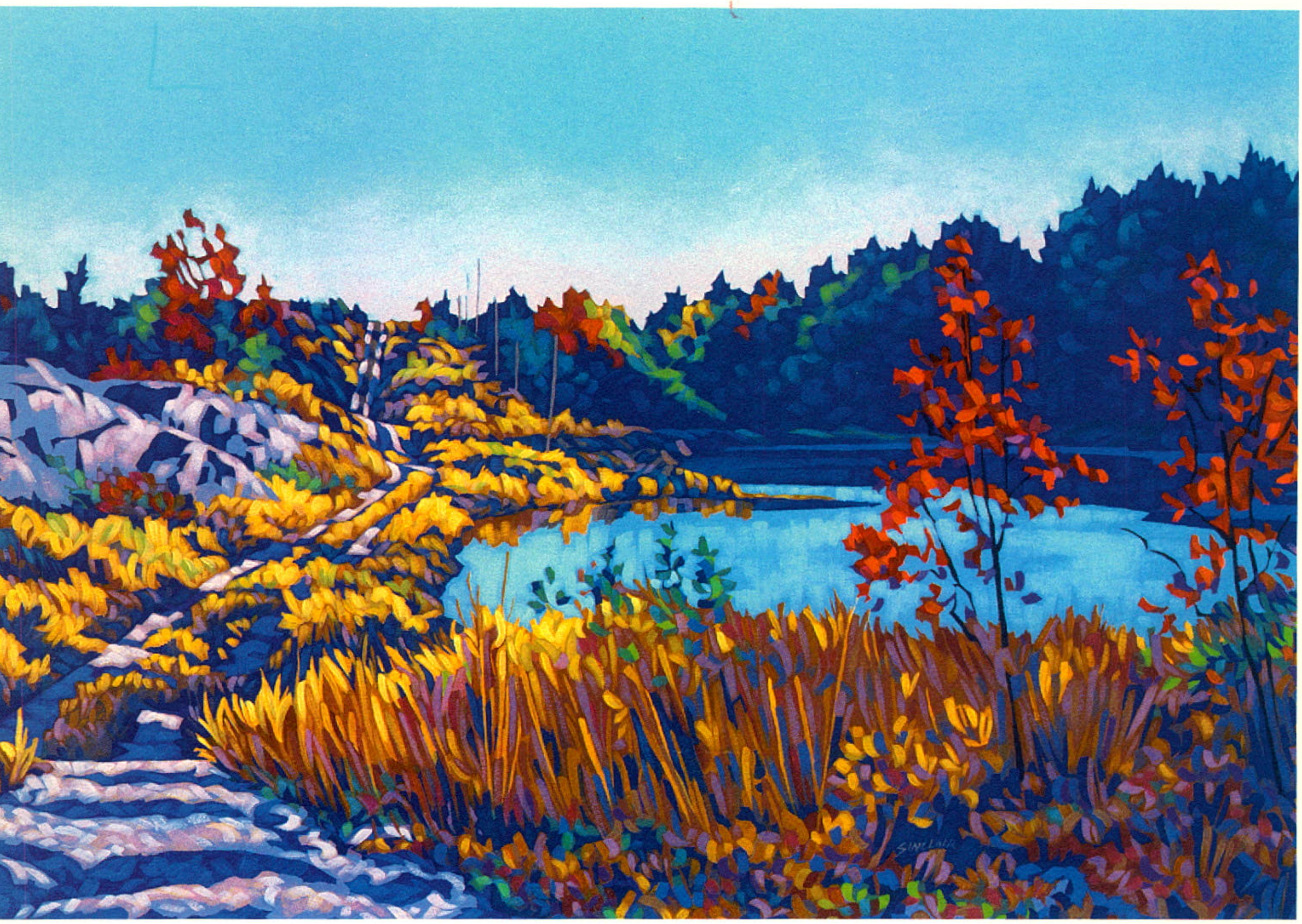
1991 ANNUAL REPORT

## TRANSCANADA'S CANADA

*Transportation systems bind a nation together. Since 1958, TransCanada PipeLines' mainline has woven together Western Canadian natural gas producers and consumers in Saskatchewan, Manitoba, Ontario and Québec, fulfilling the vision of a strong, economic relationship.*

> "Across three quarters of Canada a new industrial giant is stirring, threatening to break long set patterns of business . . . New capital, new factories, new products, new people – this is the promise of the pipeline."
>
> Maclean's Magazine, September 14, 1957

Crossing the Canadian Shield
Mainline Valve 124, Gravenhurst, Ontario



"In the 124 years since Confederation, Canada has prospered. As people with many diverse backgrounds and regional interests we've had to accommodate each other and find solutions to difficult problems. Changes are required – significant changes. But what is wrong with that? I believe that Canadians, who are regarded as a compassionate and compromising people, can find the solutions.

"We are a land that possesses immense and valuable natural resources, and despite some negatives, such as a challenging climate, geography, long distance and a relatively small population base, we have developed into a country with the seventh largest economy in the western world, and one of the highest standards of living in the world. Surely, then, we must have done something right."

Gerald Maier, April 26, 1991

## CONTENTS



**ANNUAL MEETING**

The 1992 Annual Meeting of Shareholders is scheduled for Friday, April 24, 1992 at 10:30 a.m in the Hotel Macdonald, Edmonton, Alberta.

## CORPORATE PROFILE

*TransCanada PipeLines was incorporated on March 21, 1951, to realize the vision that Western natural gas could help fuel Canada's expanding industrial economy and contribute to exports to the United States.*

By 1954, the Company had formulated plans for a Canadian gas transmission system from Alberta to Québec and obtained permission to transport Alberta gas east to markets in Canada. After designing, engineering and financing the mainline, TransCanada began construction in June of 1956 and completed it in October 1958. Exports to the United States began in 1960 at Niagara Falls, Ontario. In 1968, TransCanada participated as the founding partner in the completion of the Great Lakes Gas Transmission System to serve markets in the U.S. Midwest and Central Canada.

During the 1970s, TransCanada expanded its markets and pipeline system. In 1979, the Company acquired an interest in the Northern Border Pipeline Company, to build a new pipeline to the U.S. Midwest.

In the 1980s, TransCanada developed the Trans Québec & Maritimes Pipeline, extending gas transportation to Québec City. The Company took the operating interest in Foothills Pipe Lines (Sask.) Ltd., linking Alberta gas to the Northern Border system.

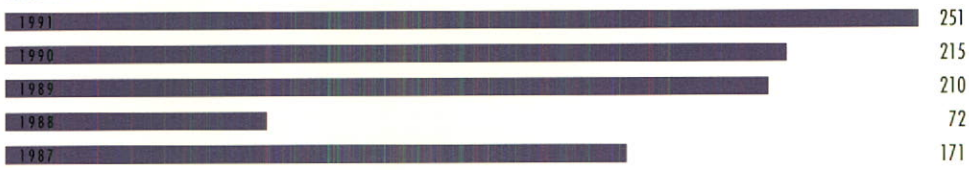
During the last half of the decade, TransCanada divested non-essential assets to concentrate on transportation and marketing. Deregulation led to the creation of Western Gas Marketing Limited. The Company took a stake in the Iroquois Gas Transmission System to serve the U.S. Northeast. TransCanada also participated in gas-fueled generation of electricity in Rhode Island and Ontario. And, in 1989, the Company launched the biggest expansion in the history of its mainline.

After 40 years, TransCanada's purpose remains to transport and market Western Canadian natural gas to customers in Canada and the United States. The Company contributes to Canada's productivity, its trade balance, and adds value to the economy, and for its customers and shareholders, by helping to meet the demand for an economical, environmentally preferred fuel.

# HIGHLIGHTS

*"TransCanada's earnings have risen steadily over the last three years, primarily due to the increase in earnings attributable to gas transmission on the expanded Canadian mainline . . ."*

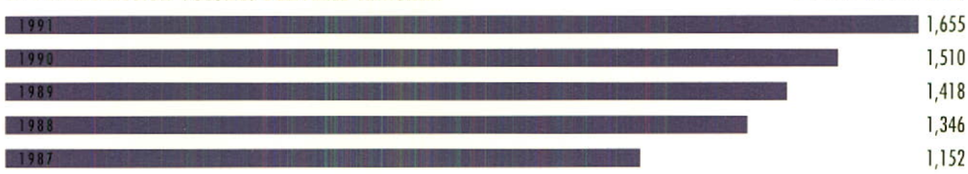
**INCOME FROM CONTINUING OPERATIONS** *(millions of dollars)**



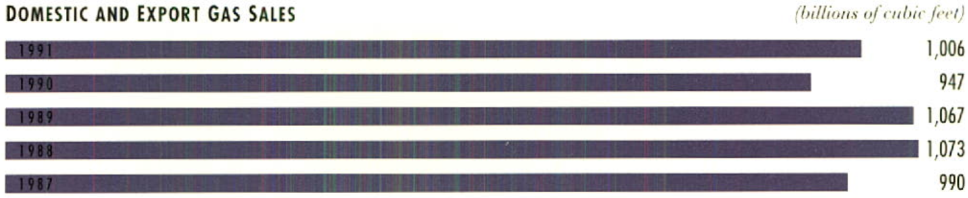

**FUNDS GENERATED FROM CONTINUING OPERATIONS** *(millions of dollars)*


**NET INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS** *(dollars per share)*


**GAS TRANSMISSION VOLUMES DELIVERED ANNUALLY** *(billions of cubic feet)*




**DOMESTIC AND EXPORT GAS SALES** *(billions of cubic feet)*




** All funds in this report are in Canadian dollar amounts unless otherwise stated.*

## FINANCIAL

| *(Millions of dollars except per common share data)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Income from continuing operations | **251.2** | 214.9 | 210.1 |
| Loss from discontinued operations | – | – | (13.4) |
| Net income for the year | **251.2** | 214.9 | 196.7 |
| Net income applicable to common shares | **219.4** | 189.5 | 164.9 |
| Funds generated from continuing operations | **337.1** | 341.1 | 289.7 |
| Cash generated from discontinued operations | – | – | 44.4 |
| Capital expenditures and investments | **1,569.7** | 579.2 | 677.4 |
| Per common share data | | | |
| Net income applicable to common shares | | | |
| from continuing operations | **$ 1.34** | $ 1.23 | $ 1.18 |
| from discontinued operations | – | – | $ (0.09) |
| Net income applicable to common shares | **$ 1.34** | $ 1.23 | $ 1.09 |
| Funds generated from continuing operations | **$ 2.06** | $ 2.22 | $ 1.91 |
| Dividends declared | **$ 0.73** | $ 0.69 | $ 0.68 |

## OPERATING STATISTICS

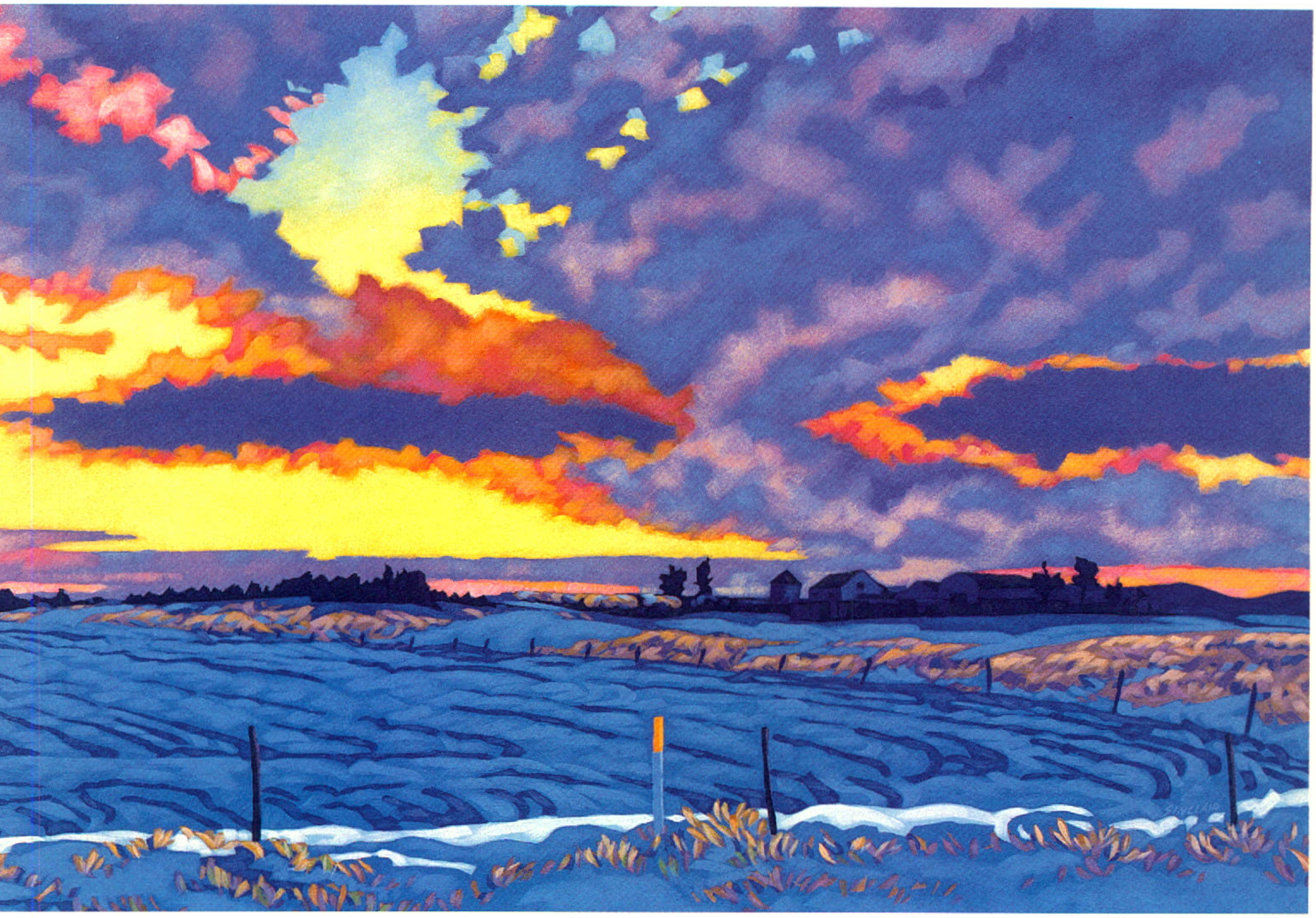
| *(Billions of cubic feet)* | | | |
|---|---|---|---|
| **Gas transmision volumes delivered annually** | | | |
| Domestic | **1,043.8** | 1,051.9 | 1,031.1 |
| Export | **611.3** | 457.7 | 386.9 |
| **Gas sales and marketing volumes sold annually** | | | |
| Domestic | **561.4** | 676.1 | 771.1 |
| Export | **444.4** | 271.2 | 296.3 |

## TRANSCANADA PIPELINES LIMITED

# Report to Shareholders

*For TransCanada, 1991 was a very satisfactory year from the perspective that events unfolded in close accord with its business plan, including an improvement in financial results. Our major construction projects were completed essentially on time and within budget, we transported record volumes of gas, gas marketing operations improved, the Company's first venture into electric power generation came into service and is performing ahead of projections, and our earnings increased in line with expectations.*

Crossing Minor's Ranch
Mainline Valve 4, Saskatchewan



It is anomalous for TransCanada to be in the midst of a multi-year expansion of its transmission systems, calling for an investment of over $4 billion, when at the same time there is a severe economic downturn in much of North America. This is not an indication of TransCanada's immunity from variances in the health of the gas industry or the North American economy, but is a vivid portrayal of the long-term nature of our highly capital-intensive business. It requires up to ten years to advance a major project from conceptualization to completion, and once constructed, our installations will have useful lives of decades. Our challenge therefore is to balance cyclical swings in the economy and energy industry with our responsibility to provide increased energy transportation capacity when the market requires it. In setting TransCanada's strategy we cannot be unmindful of the current economic malaise and industrial restructuring taking its toll in North

America. Nor can we let that blind us to the longer term fundamentals and strengths of our economic system and, more particularly, the critical role that natural gas is destined to play as a preferred form of energy because of its environmentally preferred qualities.

TransCanada's expansion program, the largest in North America, will provide substantial benefits to the economy. In addition to the enhanced producer revenues resulting from increased access to growing natural gas markets, the expansion is responsible for creating thousands of person-years of employment as well as economic spin-offs that provide a positive impact on the construction, manufacturing and service sectors in many parts of both Canada and the United States.

## FINANCIAL RESULTS

Net income applicable to common shares in 1991 was $219.4 million, an increase of 15.8 per cent over the $189.5 million recorded in 1990. Net income on a per share basis increased nearly nine per cent, rising to $1.34 from $1.23 per share in 1990. The improved earnings together with a positive outlook justified an increase to dividends declared, from 69 cents per common share in 1990 to 73 cents per common share in 1991.

It is noteworthy that 1991 earnings growth is more attributable to operational performance and less reliant on utilizing tax recoveries from prior operating losses than has been the case in recent years. While this has a dampening effect on 1991 earnings relative to 1990, in 1992 and subsequent periods the year-to-year change in earnings will more accurately reflect the Company's performance in its ongoing businesses.

## OPERATING HIGHLIGHTS

### TRANSPORTATION

The 1991 facilities additions to the Canadian mainline, the completion of new capacity on Great Lakes Gas Transmission and the start-up of Iroquois Gas Transmission on December 1 enabled TransCanada to achieve another year of record transportation volumes. Canadian mainline throughput reached 1,655 billion cubic feet (bcf), an increase of 9.6 per cent over 1990.

All of the Company's affiliated pipelines, Great Lakes Gas Transmission, Northern Border, Trans Québec & Maritimes, and Foothills Pipe Lines (Sask.), also experienced record throughput volumes.

### GAS SALES AND MARKETING

Western Gas Marketing Limited reversed the decline in gas sales that it has experienced over the past few years. Total 1991 sales were 1,006 bcf, an increase of 6.2 per cent, which is a positive reflection of marketing strategies and efforts. Western Gas expects further improvements in 1992, in part because of the completion of Iroquois Gas Transmission System and the second phase of Ocean State Power, both of which provide markets for the Company.

## CAPITAL INVESTMENTS AND FINANCE

TransCanada is in the midst of a heavy capital investment program that started in 1989 and will continue into 1993, and perhaps beyond. The primary thrust is to expand the throughput capacity of our Canadian mainline natural gas transmission system, and increase the carry-away capacity of affiliated, partially owned connecting pipelines. Investments in other projects, such as power generation, are made when they are profitable and complementary to our basic business.

In 1991 the Company's investments totalled $1.93 billion, including its proportionate share of investments made in associated pipelines and projects. The bulk of the funds, $1.38 billion, went towards expansion of the mainline; $478 million for associated pipelines (mainly Great Lakes Gas Transmission and Iroquois); and $72 million for electric power generation (primarily Ocean State and Nipigon). In 1992 our capital investments will be less than in 1991, probably in excess of $1.2 billion, exclusive of any funds that may be required to consummate a possible transaction with Pacific Gas and Electric for the acquisition of Pacific Gas Transmission. As in 1991, the bulk of our 1992 capital expenditures will be invested in the Canadian mainline. The size and timing of those expenditures will be linked to firm shipping requirements and economic conditions as they unfold during the year.

TransCanada's source of funds to finance its 1991 capital program and other activities came from internally generated cash ($505 million), new common and preferred equity ($435 million), convertible debentures ($150 million) and new debt ($684 million). Improvement in the Company's capital structure and financial outlook resulted in an upgrade of its credit rating to single "A", a standard which we will strive to maintain and ultimately raise. The capital programs in 1992 will be funded in somewhat the same ratios as in 1991. As the returns on our capital investment programs become realized, and the bulk of the heavy capital expenditures are completed, the outside funding requirements for facilities after 1992-1993 should be greatly diminished.

**MAINLINE CAPITAL EXPENDITURES** *(millions of dollars)*


**AVERAGE RATE BASE** *(billions of dollars)*

## REGULATORY

The Company's regulatory calendar was not as active in 1991 as it had been in 1990, when major pipeline expansion projects were under review. In 1991 three applications were active with the National Energy Board (NEB) to deal with the following matters: 1991 tolls; a $360 million expansion of the mainline; and 1992 tolls. The 1991 tolls application was heard in early summer and the NEB announced its decision in August; the facilities application was heard by the NEB in November and a decision is expected in the first quarter of 1992; the 1992 tolls application is subject to a hearing which commenced February 18, 1992.

In the United States, Northern Border Pipeline Company's September 1991 application to the Federal Energy Regulatory Commission (FERC) to extend its system and increase contracted capacity by 312 million cubic feet (mmcf) per day, or 23 per cent, was approved in February, 1992. Iroquois Gas Transmission filed an application in December with the FERC to add compression to boost capacity by 65.2 mmcf per day, an increase of 11.3 per cent.

Gerald J. Maier

## OTHER BUSINESS

The year 1991 saw the Company receive its first income from electric power generation as the Ocean State Power plant in Rhode Island came into service. The completion of this 500 megawatt plant culminates six years of effort by the Company and its partners. Our second power project is located at Nipigon; it is a wholly owned 36 megawatt plant and is expected to commence delivering power to Ontario Hydro before mid 1992. Several other power projects in Ontario are in the planning stage.

In September, TransCanada signed a letter of intent with Pacific Gas and Electric Company (PG&E) with respect to the acquisition of its 100 per cent interest in Pacific Gas Transmission Company (PGT) and PGT's 49.98 per cent interest in Alberta Natural Gas Company Ltd.(ANG). Negotiations with PG&E are ongoing, and a letter amending and restating the letter of intent was signed February 7, 1992. A number of complex issues involving PG&E, one of its subsidiaries, a number of gas-producing companies, the California Public Utilities Commission, and several governments and governmental agencies in Canada require resolution before the acquisition can be completed.

## OBJECTIVES AND PRIORITIES

TransCanada PipeLines achieved measurable success in meeting the objectives and priorities outlined in the 1990 Report to Shareholders. These objectives and priorities represent the fundamentals of success in natural gas transportation and marketing, and will continue to govern our activities.

The Company's first objective remains the enhancement of financial and operational performance in conjunction with providing the highest-quality service at a reasonable cost. The 1991 results speak for themselves. While measurements of quality of service and reasonable cost can be somewhat subjective, the 1991 results stem directly from accomplishments in gas transportation and marketing that reflect customer service.

In 1992, TransCanada's priorities are:

- To continue the expansion of gas transmission capacity for our customers in a timely, cost-effective manner, thereby continuing to improve our gas transportation capacity, flexibility and competitiveness.
- To continue to improve pipeline operating efficiency and service, yet still maintain the highest safety, environmental and reliability standards; to be preeminent in gas transportation.
- To continue diversification and expansion of natural gas markets, creating sales for producers and ensuring long-term security of supply for core-market customers.
- To develop and consummate new investment opportunities consistent with our business strategy and which will yield proper returns for shareholders and other stakeholders.

## Recognition of Employees and Board Members

The strong improvement of TransCanada's financial and operating results in 1991, and the completion of an arduous construction schedule served to highlight the competence, consistency and commitment of our employee team. The Directors and Officers of the Company are proud of the people who work for this Company, and commend them for their achievements of the past year.

We grieved over the loss, in June, of former President, Vice-Chairman and Director, George Woods, who died in Toronto at the age of 69. Following his retirement and until his passing, Mr. Woods remained a friend and counsellor to the Company.

Mr. J. Stuart Spalding, a director of the Company since 1985, resigned from the Board in July. Mr. A. Jean de Grandpré, C.C., Q.C., and Mr. Russell E. Harrison, who have served as directors since 1973 and 1976, respectively, having reached retirement age, will not be standing for re-election. The shareholders have been well served by these gentlemen, and it is with warmth and deep gratitude that we acknowledge their dedication and strong contribution over these many years.

In September the Board of Directors appointed The Honourable Donald S. Macdonald, P.C., a director of the Company following his return from London where he was High Commissioner for Canada.

Effective February 29, 1992, Mr. J.V. Raymond Cyr, O.C., Chairman and Chief Executive Officer of BCE Inc., stepped down as Chairman of the Board of Directors, but will continue to provide his wise counsel as a Director. Mr. Cyr's positive leadership as Chairman was of great benefit to the Company and is respected by his peers. The Board of Directors has appointed the undersigned to the additional position of Chairman.

**Gerald J. Maier, P.Eng.**
*Chairman, President and Chief Executive Officer*

# Corporate Operations

## CANADIAN MAINLINE OPERATIONS

*Concentrating on the fundamentals of safe, efficient and reliable operations, competitive expansion and service to its customers, TransCanada PipeLines' mainline system produced solid results in 1991. The mainline contributes approximately 75 per cent of the Company's net income applicable to common shares, and continues to offer strong opportunity for growth. In 1991, the system achieved record delivery volumes.*

Bird Sanctuary Road Crossing
St. Mathieu Extension near
Mainline Valve 806, St. Armand Ouest, Québec

The pipeline is undergoing the largest expansion in TransCanada's history, and the construction schedule for the year was completed on time and under budget. Additionally during 1991, the Company improved its safety record and met all environmental requirements.

**Transportation Volumes**

Increased capacity on the mainline and on associated pipelines, combined with continuing operational reliability and efficiency, resulted in transporting a record 1,655 billion cubic feet (bcf) of natural gas, up 9.6 per cent over 1990. The record for daily receipts was 5.5 bcf, reached during cold weather in December.

Deliveries to domestic markets, which represent 63 per cent of TransCanada's market, decreased marginally by 0.8 per cent to 1,043.8 bcf. However, export volumes surged by 33.6 per cent to 611.3 bcf. As the Iroquois Gas Transmission System reaches its full throughput of 640 million cubic feet (mmcf) per day and other U.S. markets take delivery under new contracts, exports will sustain transportation growth again in 1992.

### CONSTRUCTION

TransCanada completed its third year of major facilities expansion on the mainline, spending $1.38 billion on new looping and compression facilities in 1991. In total, the Company installed 841 km (523 miles) of pipeline loop and a net increase of 71.6 megawatts (96,000 hp) of compression. The facilities were added in Saskatchewan, Manitoba, Ontario and Québec. Some compression facilities under construction at year-end will come into service in 1992.

## 1991 REGULATORY ISSUES

### FACILITIES

In May 1991, the National Energy Board (NEB) approved the balance of TransCanada's GH-5-89 facilities application for 1 590 km (988 miles) of pipeline and 239 megawatts (321,000 hp) of compression power, a $600 million portion of which had been authorized in November 1990 to permit the Company to proceed with winter construction. TransCanada estimates the cost of this two-year program to be $2.4 billion (1989 dollars), of which $1.38 billion was spent in 1991 and the balance is expected to be spent in 1992. The program will provide additional transportation capacity of 829 mmcf per day.

In addition to expansion already approved, the NEB heard in November 1991, an application by the Company to build 278 km (173 miles) of facilities to accommodate additional capacity of 156 mmcf per day. If approved, the additional capacity is intended to come into service in 1992 and 1993. A decision on this application is expected in 1992.

Construction inspector, Kenora, Ontario

Automatic welding huts, Brandon, Manitoba

### TOLLS

In October the NEB set a 1991 rate of return of 13.5 per cent on a deemed common equity ratio of 30 per cent of rate base, retroactive to January 1, 1991. The tolls resulting from this decision also have been approved on an interim basis for 1992 until final tolls for the year are approved by the NEB. In November, TransCanada filed an updated 1992 tolls application with the NEB which proposed a 13.25 per cent rate of return on a 30 per cent deemed equity ratio. This application was updated again in February, and, if approved, would result in tolls remaining basically unchanged in 1992.

## ASSOCIATED PIPELINES

The expansion of certain associated pipeline systems and the completion of the Iroquois Gas Transmission System added significantly to shareholder value and made a strong contribution to earnings in 1991.

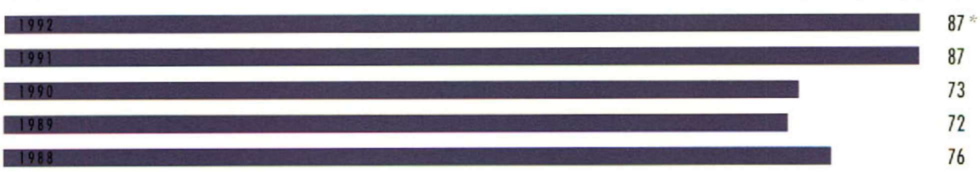
The pipelines in Canada and the United States which are linked to the Canadian mainline, and in which the Company holds various equity interests, are also of strategic importance to the development of transportation markets for TransCanada, and gas markets for Western Gas Marketing Limited and the Canadian gas production industry as a whole.

### IROQUOIS GAS TRANSMISSION SYSTEM

On January 25, 1992, the commencement of gas deliveries to Long Island, New York, marked the completion of the Iroquois Gas Transmission System (Iroquois) in which TransCanada is a founding partner and holds a 29 per cent interest. Iroquois provides new market opportunities for Western Canadian natural gas in the Northeast United States, one of the best gas markets on the continent. The system connects with TransCanada's mainline at Iroquois, Ontario, crosses the St. Lawrence River and the states of New York and Connecticut to reach Long Island.

**CAPITAL EXPENDITURES OF ASSOCIATED PIPELINES** *(millions of dollars)*


**AVERAGE AUTHORIZED TOLL TO EASTERN CANADA** *(cents per gigajoule)*




** 1992 toll is that applied for in TransCanada's application to the National Energy Board as amended in February, 1992.*

Most of the US $675.4 million, 595-km (370-mile) Iroquois line was constructed, tested and commissioned during 1991. First deliveries started on December 1 and volumes in the first calendar month exceeded 4.5 bcf – an average daily delivery of 145 mmcf.

Iroquois has transportation contracts with 17 local distribution companies and four power generation plants to transport 575.9 mmcf per day for distribution in New York, New Jersey, Connecticut, Massachusetts, Rhode Island and New Hampshire. Full deliveries are expected by November 1, 1992.

In addition, the Iroquois partnership has firm service requests and precedent agreements for deliveries of an additional 65.2 mmcf per day. It applied to Federal Energy Regulatory Commission (FERC) in December 1991 to add a US $18.5 million compression station to the system to enable commencement of those deliveries by November 1, 1992.

### GREAT LAKES GAS TRANSMISSION SYSTEM

Expanded facilities on Great Lakes Gas Transmission System (Great Lakes), put into service in 1990 and 1991, resulted in another year of record deliveries, with volumes of 635 bcf, an increase of 15 per cent over 1990's level of 551.6 bcf.

The US $525 million, 740-km (460-mile) major expansion of Great Lakes which commenced in 1990 was completed in December 1991, increasing capacity by 417.5 mmcf per day, or 29 per cent above 1991 pre-expansion capacity. TransCanada has a 50 per cent interest in Great Lakes.

### NORTHERN BORDER PIPELINE COMPANY

Gas deliveries in 1991 through Northern Border Pipeline Company (Northern Border), in which TransCanada holds a 30 per cent interest, experienced a 10.6 per cent increase to 441.9 bcf from the 1990 record of 399.5 bcf.

In February 1992, Northern Border received and accepted a certificate from the FERC authorizing the construction of its expansion and extension project. Northern Border will construct US $80 million in new compression facilities on its existing 1 323-km (822-mile) line and proceed to acquire from Natural Gas Pipeline Company of America, for US $78 million, a connecting 236-km (147-mile) pipeline in Iowa. The expansion and extension will add capacity of 312.8 mmcf per day bringing it to approximately 1.7 bcf.

### FOOTHILLS PIPE LINES (SASK.) LTD.

Foothills Pipe Lines (Sask.) Ltd. delivers Canadian gas to Northern Border at Monchy, Saskatchewan. In 1991, it transported a record volume of 374 bcf of natural gas, compared to 337 bcf in 1990. TransCanada operates Foothills (Sask.) and holds a 44 per cent interest in the company.

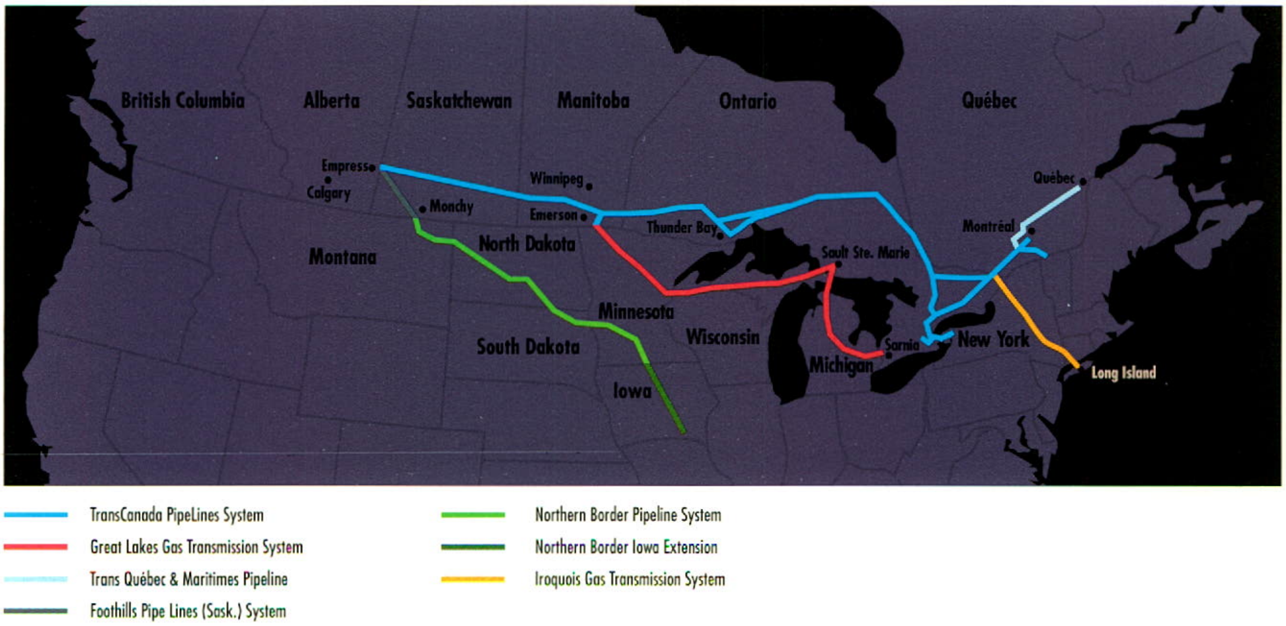
### TRANS QUÉBEC & MARITIMES PIPELINE INC.

Deliveries on Trans Québec & Maritimes Pipeline (TQM) to its Québec markets increased 10.3 per cent in 1991, to reach a record 105.1 bcf of natural gas, compared to 95.3 bcf in 1990. TransCanada has a 50 per cent interest in the TQM Pipeline Partnership which owns the pipeline.

### PACIFIC GAS TRANSMISSION SYSTEM AND ALBERTA NATURAL GAS COMPANY

On February 7, 1992, TransCanada and Pacific Gas and Electric Company of San Francisco (PG&E) signed a letter of intent which amends and restates the agreement in principle dated September 5, 1991, regarding the possible acquisition of all of the shares of Pacific Gas Transmission Company (PGT), a wholly owned subsidiary of PG&E, and PGT's 49.98 per cent interest in Alberta Natural Gas Company Ltd. (ANG). PGT owns and operates a pipeline which transports Alberta gas from Kingsgate, British Columbia, on the International Border, to the California-Oregon state line. ANG transports gas from the Crowsnest Pass, Alberta, to Kingsgate.

Discussions with respect to the conclusion of a definitive share purchase agreement for PGT are continuing between TransCanada and PG&E. Conclusion of the purchase is subject to the resolution of several outstanding issues.

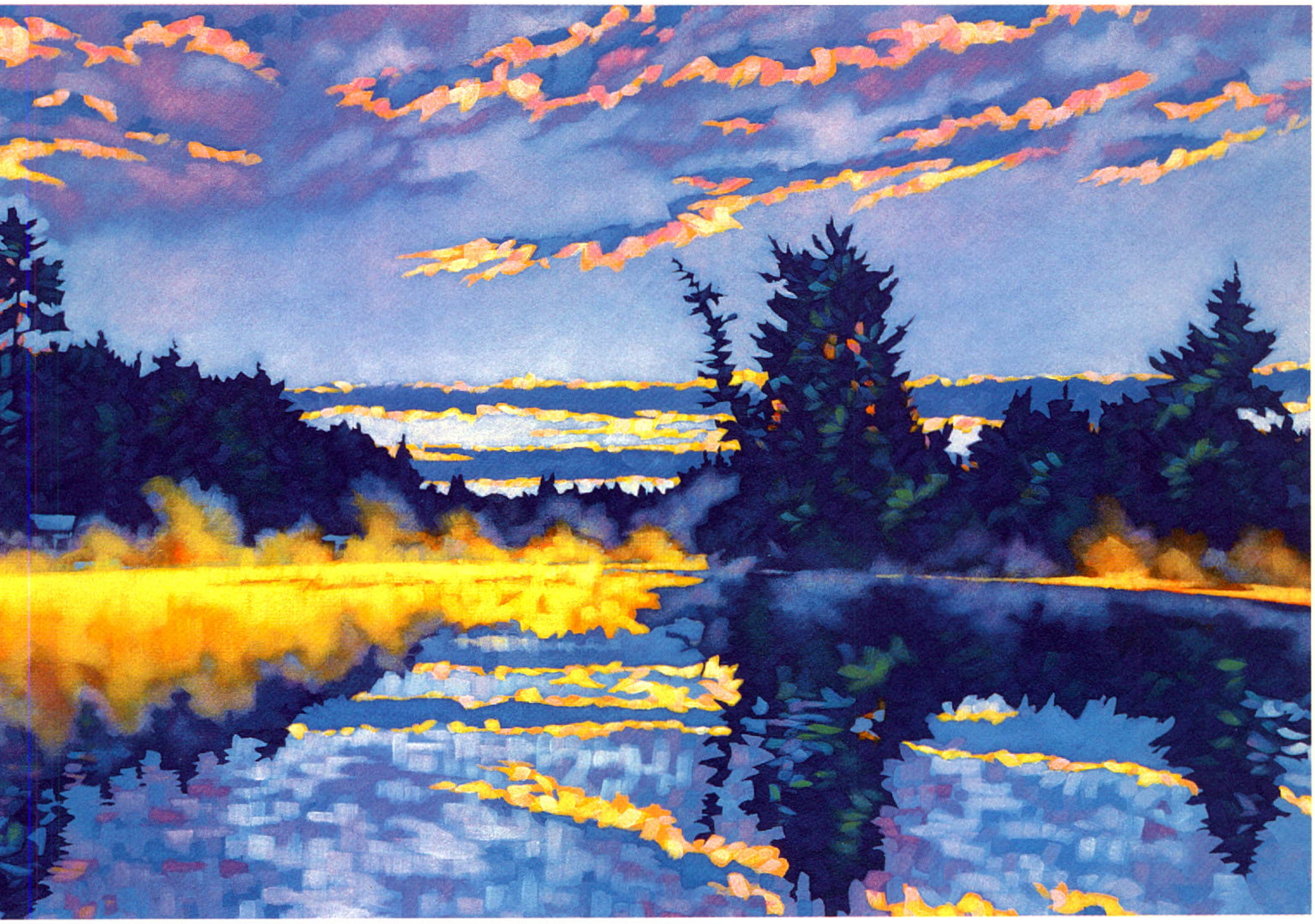


## GAS SALES AND MARKETING

### WESTERN GAS MARKETING LIMITED

Capitalizing on its experience and strategic strength as the largest marketer of Canadian natural gas and one of the largest aggregators in North America, Western Gas Marketing Limited (Western Gas), recorded 1991 sales of 1,005.8 bcf, a 6.2 per cent increase over the 1990 level of 947.3 bcf. The results, achieved in competitive and frequently adverse market conditions, reversed the decline of 1990 and are more in line with record-year 1988 in which sales reached 1,072.5 bcf.

Muskoka River Crossing
Station 123, Bracebridge, Ontario



The recovery was based on gains in the U.S. market, where sales rose 64 per cent, from 271.2 bcf in 1990 to 444.4 bcf. This improvement more than offset a 17 per cent decline in domestic sales, which fell from 676.1 bcf to 561.4 bcf, due to the economic recession and competition from an oversupply condition in gas producing areas.

Western Gas is in a position to make further gains in the U.S. in 1992. It is supplying 25 mmcf per day of gas to Unit II at Ocean State Power, which started commercial production in October. It also accounts for approximately 345 mmcf per day, or 60 per cent, of the 575 mmcf per day gas supply on the Iroquois pipeline. To enhance marketing operations in the United States, Western Gas moved its U.S. headquarters from Dallas to Houston.

During 1991, Western Gas improved the quality of its services to customers with several measures, including the reorganization of gas supply and marketing and the creation of a service quality directorate. This additional customer focus is expected to make the Company more competitive in today's market environment.

### SALES AGREEMENTS

Western Gas concluded new sales and price agreements in 1991 which will consolidate, broaden and expand the company's markets.

It reached new price agreements with Consumers' Gas and Union Gas, two of the largest distribution companies in Ontario, which is Canada's largest market. These agreements are important to the stability of gas sales in an area where there is strong competition from suppliers.

The company also signed a 35 mmcf per day contract with Niagara Mohawk Power, providing some of the first volumes to move on the Iroquois pipeline when it commenced deliveries in December.

### RESTRUCTURING THE SUPPLY POOL

During the year, Western Gas received notices from some of its producers that they may remove up to 14 per cent of dedicated supply from the pool in 1994, pursuant to contract provisions. Subsequent to year-end, further notices were received from producers that they may remove an additional three per cent of dedicated supply.

Western Gas does not anticipate that a reduction of reserves in its existing gas supply will impair its ability to supply natural gas to its customers pursuant to its sales contracts. Reductions will improve delivery rates for producers remaining in the pool, and may advance the date at which the company can negotiate for new reserves under more advantageous terms. It is able to contract for new supplies when its reserve life index falls to 10 years.

Western Gas also held discussions with producers on various measures which may be taken to restructure and reorganize the gas supply pool to make it more flexible and competitive.

### PREPAYMENTS ON FUTURE GAS SALES

The majority of the Company's gas purchase agreements include provisions which require the Company to make prepayments to some producers in the period 1992 to 1994, under obligations contained in the producer agreements. The estimated prepayments for 1991 are not expected to exceed $30 million. Producers have an option to defer their decision to receive payments until a determination is made on a financing program, proposed by the Company in November, under which all prepayments made would be recovered by 1999.

Western Gas is entitled to full recovery upon delivery of prepaid gas and a significant number of producers have waived their rights to receive further prepayments. The Company has no prepayment obligations after 1994.

## OTHER BUSINESSES

### CANCARB LIMITED

Cancarb Limited, a wholly owned subsidiary that produces thermal carbon black (Thermax), had a decline in sales of five per cent in 1991 from record sales in 1990. This decline was a result of the North American recession which severely impacted many of Cancarb's customers, particularly automotive parts manufacturers. The reduction in U.S. sales was partially offset by a 30 per cent increase in European sales. Despite the reduction in sales, Cancarb operated at 85 per cent of its plant capacity.

The company has developed a customer base in 30 nations, and in 1991 was awarded the Alberta Export Achievement Award for manufacturing companies of its size. It also received Union Carbide's Outstanding Supplier of the Year Award for a record fifth consecutive year.

Station Nine, Herbert, Saskatchewan

Welders, Kenora, Ontario

Cancarb strengthened sales in Western Europe through new arrangements with major manufacturers, and political changes in Eastern Europe enabled it to open new markets in Poland, Czechoslovakia and Hungary.

The company has launched a program to obtain International Standards Organization certification for quality assurance; the application will be made in 1992.

### OCEAN STATE POWER

Full commercial power production was achieved at Ocean State Power five months ahead of schedule. TransCanada has a 40 per cent interest in the 500 megawatt, natural gas combined-cycle plant in Rhode Island. The 250 megawatt Unit I started up on December 31, 1990, and Unit II went on line in October 1991. Since operations began, the units have met or exceeded expected performance standards and are yielding TransCanada's first power generation income.

### NIPIGON POWER PROJECT

Construction was over 90 per cent completed in 1991 on the Company's wholly owned 36 megawatt electric power plant located at Nipigon, Ontario. The facility will start commercial production before mid 1992, with power sales to Ontario Hydro. Gas supply for the plant will be 6 mmcf per day.

The facility generates power from burning natural gas in a turbine engine and from waste heat recovered from the mainline compressor station at Nipigon. TransCanada is planning similar but larger plants at North Bay and Kapuskasing, also in Ontario. The decision to proceed with these projects will be made following receipt of environmental approvals and finalization of commercial arrangements. Each would generate 150 megawatts for sale to Ontario Hydro. Gas requirements for each of these plants will be 30 mmcf per day.

### EMPRESS II

TransCanada holds an undivided 50 per cent interest in the Empress II gas liquids extraction plant located near Empress, Alberta, where ethane and other products are removed from natural gas in the pipeline stream. In 1991, the facility continued its record of reliable production at contract volumes.

## SOCIAL RESPONSIBILITY

TransCanada's policies and programs regarding corporate donations, volunteerism, education and environmental management reflect the expectations, standards and social goals of the communities in which it operates.

Long-term business success requires communities that are successful in terms of all human values because environment, culture, education, human health and civic responsibility are concomitant with economic strength.

### CORPORATE DONATIONS, EDUCATION AND VOLUNTEERISM

In 1991, TransCanada contributed $1.3 million to charitable causes through its Corporate Donations program, with priority given to education and community social services. Contributions are made at local, regional and national levels. The Company annually budgets an amount equal to one half of one per cent of a three year average of pretax income.

In 1991, the Company added to its education policy by introducing programs which encourage employees to advance their education and improve job skills. The Company supports cooperative student education programs, mentorship, and other innovative ways to improve the quality of education and the competence of graduates. The revisions will result in broader corporate and employee participation in education matters, and in a refocusing of educational corporate donations.

TransCanada promotes employee volunteerism. The Company also has guidelines which encourage community activity and set ethical standards for the relationship between community and political volunteerism and job responsibilities.

Soil reclamation, Great Sand Hills, Saskatchewan

Right-of-way, Montréal, Québec

## ENVIRONMENTAL MANAGEMENT

In 1991, a Corporate Environmental Policy was approved and implemented, representing a significant demonstration of TransCanada's continued commitment to environmental matters. The Company also revised its Environmental Practices handbook and conducted an Early Public Notification and Environmental Impact Assessment for the 1992/93 facilities application currently under consideration by the NEB. Communities and groups with an interest in facilities planned or under construction were consulted, as appropriate, and their comments were often helpful in setting standards and modifying practices.

In response to increasingly complex and rigorous environmental legislation across the mainline system, a comprehensive environmental audit procedure was approved and implemented to ensure that all Company operations are in compliance with current regulations and Company standards. As well, a new Waste Management Manual was prepared for implementation in 1992.

During the year, the Company completed an extensive mainline construction program through a variety of Canadian natural and agricultural ecosystems – many of which require rigorous protection, conservation, mitigation, reclamation and restoration practices. All construction, including 270 stream crossings and a pipeline loop through the fragile Great Sand Hills of Saskatchewan, were completed with minimal environmental impact and very satisfactory reclamation and restoration results.

## REPORT OF MANAGEMENT

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

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

The independent auditors, 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, operating results and changes in financial position in conformity with generally accepted accounting principles.

The report of the independent auditors on page 35 outlines the scope of their examination and their opinion on the consolidated financial statements.

C.K. Orr
Group Vice-President

G.M. Hugh
Chief Operating Officer

G.W. Watson
Chief Financial Officer

R.A.M Young, Q.C.
Senior Vice-President, Law

C.R. Frew
President, Western Gas Marketing

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion has been prepared by Management and is a review of the financial results of the Company based on Canadian generally accepted accounting principles. Its focus is primarily a comparison of the financial performance of 1991 and 1990 and it should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1990 and 1989 are highlighted. Note 20 to the financial statements describes significant differences between Canadian and United States generally accepted accounting principles.

In order to provide a better understanding of the Company's regulated operations, definitions of certain terms which appear in italics have been set out at the end of this discussion.

## RESULTS FROM OPERATIONS

Net income applicable to common shares from continuing operations for 1991 was $219.4 million or $1.34 per share compared to $189.5 million or $1.23 per share for 1990. In 1989, net income applicable to common shares amounted to $164.9 million or $1.09 net of a loss of $13.4 million or 9 cents per share with respect to discontinued operations.

The primary reason for the Company's improvement in earnings over the period 1989 to 1991 is the increase in earnings attributable to the Gas Transmission segment. As discussed more fully under the heading Gas Transmission Segment, this increase in earnings is a direct result of increases in *rate base* in each of the past three years. TransCanada's 1991 earnings have also benefited from new investments, in particular the Ocean State Power Plant and the Iroquois Gas Transmission System.

These improvements have been offset to some extent by reductions in the income tax benefits recorded from the utilization of prior years' losses. In 1990 and 1989, income tax benefits contributed $27.3 million or 18 cents per share and $21.1 million or 14 cents per share, respectively. By the end of 1990, certain of these losses had been fully utilized and, as a result, the contribution from income tax benefits to 1991 earnings was reduced to $7.4 million or 4 cents per share.

Funds generated from continuing operations were $337.1 million in 1991 compared to $341.1 million in 1990. Funds generated from continuing operations in 1990 had increased by $51.4 million over 1989's level of $289.7 million. This increase resulted from higher earnings which included higher non-cash expenses, such as depreciation and deferred income taxes.

TransCanada reports its operations under two principal business segments, the Gas Transmission segment and the Gas Sales, Marketing and Other segment. The Company's Gas Transmission segment, together with investments in associated pipelines and projects, provides the majority of consolidated net income of the Company. These operations are subject to the jurisdiction of various regulatory bodies with respect to matters such as tolls, construction, operations and accounting.

## GAS TRANSMISSION SEGMENT

The Gas Transmission segment's tolls are set by the National Energy Board (NEB) to permit the Company the opportunity to recover, in its revenues, projected costs of transporting natural gas and to provide a fair and reasonable return on its investment in *rate base*. New facilities must be approved by the NEB before construction commences. Tolls are based on a number of factors including estimates of the level of this segment's *rate base*, as well as operating and financing costs. The contribution to net income by this segment will be affected by changes in *rate base* and by the *rate of return on rate base*. Most of the Company's operating costs are fixed, and are recovered monthly from shippers on the system. Variations in the volumes of gas delivered do not, by themselves, have an impact on net income.

In 1991, the Company continued to add significantly to its *rate base* by constructing almost $1.4 billion of additional pipeline and compression facilities. As in 1990, the return earned by the Company in 1991 was subject to deferral for any differences between actual and projected capital costs. The segment's actual average *rate base* for 1991 and 1990 amounted to $3,679.5 million and $3,005.7 million respectively and the Company's earnings reflect that level of *rate base*. The segment's approved average *rate base* for 1989 was $2,519.7 million. Over the past three years, the NEB set the segment's *rate of return on common equity* at 13.50 per cent for 1991, 13.25 per cent for 1990 and 13.75 per cent for 1989, all on a *deemed common equity component* of 30 per cent. The Gas Transmission segment's approved *rate of return on rate base* was 12.11 per cent for 1991, 12.05 per cent for 1990 and 12.65 per cent for 1989. The year over year changes reflect the changes in the *rate of return on common equity*, noted above, plus the reduced cost of financings arranged by the Company. In addition to the return earned by the segment on its approved *rate base*, the NEB allows the Company to record *AFUDC*, which includes a return on common equity, and which varies from year to year depending on the level of the construction program.

Gas Transmission segment revenues of $1,220.6 million increased by almost 25 per cent or $242.3 million over revenues for 1990. This increase reflects a 9.6 per cent increase in total deliveries as well as higher toll charges. The high level of construction activity in 1990 and 1991 caused part of the tolls increase in 1991 together with the collection in 1991 of certain operating cost variances that were deferred in 1990. Revenues for 1990 increased by 10 per cent or $88.8 million over those for 1989 resulting from a 6.5 per cent increase in deliveries as well as higher tolls. While 1991 domestic deliveries declined by less than 1 per cent over 1990 levels, export deliveries increased by over one third to a point where they represented almost 37 per cent of total 1991 deliveries. In 1990, domestic deliveries increased by two per cent and export deliveries increased by 18 per cent, both compared to 1989 deliveries.

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

## GAS SALES, MARKETING AND OTHER SEGMENT

The Gas Sales, Marketing and Other segment includes the financial results of Western Gas Marketing Limited (Western Gas), the subsidiary which administers all of the contracts under which the Company purchases and sells gas. Also included in this segment are the comparatively minor revenues and expenses from the Company's interests in the manufacturing and sale of thermal carbon black, the extraction of natural gas liquids and ethane from natural gas, as well as project development and administrative costs.

This segment's revenues and operating costs represent primarily the sale of natural gas to the Company's customers and the cost of purchasing that gas. This segment's revenues are highly sensitive to the effects of competition in the North American marketplace for natural gas. In determining the amount paid to producers for the purchase of gas, certain charges are deducted from related gas sales revenues, including a marketing fee, as approved by the producers. The following table sets out percentage increases and (decreases) in domestic and export gas sales volumes and revenues:

| Domestic Sales | 1991 Compared to 1990 | 1990 Compared to 1989 |
|---|---|---|
| | % | % |
| Volumes | (17) | (12) |
| Revenues | (23) | (9) |
| **Export Sales** | | |
| Volumes | 64 | (8) |
| Revenues | 26 | 3 |

Western Gas has seen a steady erosion of its domestic market share over the past several years due to intense competition resulting from deregulation of natural gas markets and prices. The decrease in domestic sales revenues in 1991 compared to 1990 resulted from the decline in volumes and significantly lower sales prices which reflect the effect of the recession coupled with a higher relative percentage of spot sales. Domestic revenues in 1990 decreased from 1989 levels as a result of lower sales volumes partially offset by slightly higher sales prices.

The increases in export sales volumes and revenues in 1991 reflect the demand in the United States for Canadian natural gas. While export sales volumes declined in 1990 from 1989, export sales revenues increased as a result of higher prices.

## EQUITY INCOME FROM ASSOCIATED PIPELINES AND PROJECTS

Equity income from the Company's investments in associated pipelines and projects for 1991 of $94.2 million rose by 32.9 per cent over the previous year. This is directly attributable to two recent investments made by the Company. Ocean State Power Plant phased in its two units, the first commenced commercial production at the end of December 1990 and the second at the beginning of October 1991. In late 1990, Iroquois Gas Transmission System received the United States Federal Energy Regulatory Commission's (FERC) permission to commence construction of its pipeline facilities. TransCanada recorded its proportionate share of Iroquois' *AFUDC* as equity earnings in 1991. Initial deliveries through the Iroquois Gas Transmission System commenced December 1, 1991. Equity income from associated pipelines and projects in 1990 increased marginally over that of 1989.

## OTHER INCOME

Other income of $100.0 million in 1991 includes interest and other income and *AFUDC* from the Gas Transmission segment. Interest and other income of $67.1 million decreased by $9.5 million in 1991 compared to 1990. This resulted primarily from a fourth quarter provision of $15.3 million or 9 cents per share with respect to the full book value of an option to purchase common shares of Encor Inc., which expires on May 1, 1994, and to a royalty arrangement in respect of certain other oil and gas properties disposed of in 1988. Interest income from higher average cash balances served to partially offset the effects of this provision. Interest and other income increased by $1.4 million in 1990 compared to 1989 as a result of higher balances on deposit and slightly higher average interest rates.

The increase in *AFUDC* from the 1990 level reflects the significant construction activity during 1991. Construction in 1990 was somewhat lower than that of 1989 resulting in a decrease in *AFUDC* in 1990.

## FINANCIAL CHARGES

Financial charges increased by $63.6 million in 1991 compared to 1990. Of this amount, non-regulated financial charges increased marginally by $4.4 million and those attributable to the Gas Transmission segment increased by $59.2 million. The increase in the financial charges of the Gas Transmission segment is a direct result of debt issued to finance the 1991 construction program. Financial charges increased by $10.5 million in 1990 compared to 1989 and the increase was split equally between the non-regulated and Gas Transmission segment. Non-regulated financial charges were affected by higher foreign exchange costs in 1990 and the Gas Transmission segment's financial charges increased as a result of additional debt issued to finance construction.

## INCOME TAXES

Income taxes increased by $31.6 million in 1991 compared to the previous year. Almost $20 million of this increase resulted from the reduction in tax benefits arising from the utilization of prior years' losses. Certain of these losses were fully utilized by the end of 1990 and therefore were not available to the Company in 1991. The balance of the increase in income taxes in 1991 is primarily due to a higher level of taxable income in the Gas Transmission segment. Income taxes for 1990 in total increased slightly from 1989.

## LIQUIDITY AND CAPITAL RESOURCES

In 1991, cash generated from operations amounted to $505.2 million and new financing provided another $1,268.9 million. These sources of cash, together with cash on hand, were more than sufficient to meet all 1991 capital expenditures and investment requirements, retire long-term debt and pay dividends on preferred and common shares.

During 1991, the Company issued $293 million of common shares, $150 million of preferred shares, US $600 million of debentures and $150 million of convertible debentures, the proceeds of which were used to finance the Company's 1991 construction program and other investments. In 1990, a total of $800 million in debt and preferred equity was raised.

In January 1991, the Company filed a short-form prospectus with the securities commissions in Canada to allow the Company to issue up to $500 million of medium term notes for periods ranging from one to 10 years. This facility was used to issue $90 million of notes in January 1992 and has effectively been renewed in February 1992 for a two-year period.

In the fourth quarter of 1990 and in January 1991, the Company took several steps in connection with the financing of its construction program. In October 1990, the Company's Board of Directors approved an increase in the authorized limit of the Company's commercial paper program from $600 million to $1 billion. The Company has negotiated adequate back up lines of credit to the commercial paper program with a number of banks. In December 1990, the Company filed a "shelf registration statement" in the United States to allow it to offer to the public up to US $1 billion of debt securities during 1991 and 1992. Under the shelf registration statement, US $600 million has been issued and US $250 million has been designated for a medium term note program.

In December 1990, the Company increased its quarterly dividend to 18 cents per common share in recognition of increased profits. During 1989, the Company's common share dividend was 17 cents per quarter. In December 1991, the Company further increased its quarterly dividend to 19 cents per common share.

Early in 1990, two major commitments made by TransCanada in previous years were significantly reduced. In January 1990, TransCanada sponsored a refinancing of the Topgas Programs, a series of financings arranged with banks and natural gas producers in the early 1980s. As discussed in Note 19 (a) to the financial statements, TransCanada had indemnified the Topgas companies in respect of certain events to a total of $360 million. This limited indemnity has been reduced to 10 per cent of the outstanding balance, or $66 million at December 31, 1991. In addition, at the end of the first quarter of 1990, a refinancing of the Northern Border partnership's outstanding debt took place that eliminated the requirement whereby TransCanada may have had to make funds available to the Northern Border partnership.

During 1989, the Company received $493 million of cash as a return of its investment resulting from the distribution to its common shareholders of its discontinued oil and gas operations under a Plan of Arrangement. This cash, coupled with cash generated from operations and the Company's various financing activities, was more than sufficient to cover the Company's cash requirements in 1989. As the $493 million was returned to the Company from a non-regulated investment the Company determined at that time that those funds would be used, over time, in the non-regulated operations of the business.

Capital expenditures for the Company's mainline facilities and other investments are now expected to exceed $1.2 billion in 1992 with the Gas Transmission segment's portion of this capital representing 97 per cent of the total. In addition, mandatory retirements of long-term debt for 1992 amount to $134.2 million. To finance these requirements, the Company expects to utilize external financing, including the above noted facilities, as well as internally generated funds. External financing is anticipated to include the raising of additional amounts of common equity.

## OUTLOOK

On February 7, 1992, TransCanada signed a letter of intent with Pacific Gas and Electric Company (PG&E) of San Francisco which amends and restates the agreement in principle dated September 5, 1991, regarding the possible acquisition of all the shares of Pacific Gas Transmission Company (PGT), a wholly owned subsidiary of PG&E, and PGT's 49.98 per cent interest in Alberta Natural Gas Company Ltd. (ANG). Assuming the acquisition closes in the second half of 1992, the total purchase price for all of the shares of PGT, and the 49.98 per cent interest in ANG, is estimated at between US $350 million and US $450 million. The final price will depend on a number of adjustments including the actual level of expenditures incurred on the PGT portion of the PGT-PG&E pipeline expansion project and other contingent future payments. The completion and date of the acquisition remains subject to the resolution of several outstanding issues.

As noted in the 1990 Annual Report, Western Gas has experienced erosion of its Canadian market share due to the competitive effects of deregulation in the natural gas industry, gas to gas competition as well as the effects of the North American recession. It was noted that the Company may be required to make prepayments to its producers for volumes of gas that it was unable to take. In November 1991, the Company made proposals to its producers with respect to the prepayments due at the end of 1991 and the financing costs associated with those prepayments (see Note 12 to the financial statements). These proposals are presently under discussion with producers. Based on information available at the end of 1991, the Company expected that prepayments for the 1991 contract year would not exceed $30 million and it has recorded that amount in its accounts. The extent of future prepayments depends upon several variables and is presently uncertain. At this time, however, the Company expects that prepayments for the 1992-1994 contract years will not exceed $100 million. The Company has no prepayment obligations to producers after the 1994 contract year.

The Encor Inc. options against which the Company has taken a provision were acquired as part of a 1989 corporate restructuring pursuant to a Plan of Arrangement whereby the common shares of Encor Inc. were distributed to TransCanada's common shareholders. In its third quarter report to shareholders dated October 31, 1991, Encor Inc. reported that it had suffered a significant reduction in cash flow during 1991 and that unless commodity prices increase, Encor Inc.'s cash flow and earnings may be further reduced. The report to shareholders also advised that the impact has been exacerbated by Encor Inc.'s current capital structure and that in order to address these concerns and ensure ongoing compliance with current loan agreements, Encor Inc. is reviewing a number of alternative courses of action relating to both its capital structure and operating position.

In addition, as a result of the Plan of Arrangement, the Company has continuing obligations pursuant to certain guarantees of a portion of the outstanding debt of Encor Inc. As at December 31, 1991, approximately $69 million of this debt remained outstanding. Encor Inc. has continued to service its debt requirements but the Company is unsure as to whether it will be required, at some future date, to honour these guarantees. Should it be required to do so, the Company anticipates that it would rank among the unsecured creditors of Encor Inc., immediately behind the secured creditors but in priority to the holders of convertible debentures and preferred shares.

As noted earlier, the Iroquois Gas Transmission System commenced its initial deliveries on December 1, 1991, and during 1991 TransCanada recorded its share of Iroquois' *AFUDC*. Most of the construction was completed in 1991 and, as a result, *AFUDC* will be reduced to nil early in 1992. Due to delays in completion of certain facilities on both the TransCanada and Iroquois systems, full designed-for volumes will not flow on the Iroquois system for a number of months. The FERC has approved deferral of certain revenues and costs, up to October 31, 1992, as a result of these delays. The Company expects that, as a result of the foregoing, Iroquois' contribution to TransCanada's 1992 net income will be below its 1991 level. Countering somewhat the expected reduction in equity income contributions from Iroquois, the Great Lakes system placed new pipeline facilities in service on November 1, 1991, and, subject to final approval of new tolls by the FERC, will have the opportunity to increase its earnings in 1992.

In July 1991, the Company filed its application with the NEB to establish the Company's tolls for 1992. This application was updated in February 1992 and, as filed, proposes no increase from 1991 tolls levels. This arises from a combination of a reduction in the rate of return on common equity to 13.25 per cent and higher projected throughput. The hearing for this application commenced on February 18, 1992. Until the NEB releases its decision on this application, the Company will operate under interim tolls.

A facilities hearing was held in November 1991 to consider the Company's application for permission to construct additional facilities in late 1992 and 1993 totalling $360 million. A decision on this application is expected in the first quarter of 1992.

The Company continues to evaluate energy related projects with the goal of enhancing shareholder value. Construction of a 36-megawatt gas-fueled electric generation plant at Nipigon, Ontario, is in the final stages of construction and is expected to be in service in the second quarter of 1992. This plant will supply electricity to Ontario Hydro. The Company is actively pursuing two larger projects at Kapuskasing and North Bay, Ontario, and other similar projects are in the planning stages, subject to negotiation and various approval processes.

## DEFINITIONS

***Rate Base*** – Is the sum of the cost, after accumulated depreciation, of the assets used by the Company 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 the Company for the cost of financing debt and equity funds used during construction of the Gas Transmission segment's 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 (as approved by the National Energy Board) is the blended cost of the Company's capital and when applied to the Gas Transmission segment's *rate base* establishes the amount the Company will receive 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 by the Gas Transmission segment on behalf of the Company's common shareholders.

***Deemed Common Equity Component*** – Also referred to as the common equity ratio, this percentage is the amount of common equity that is approved by the National Energy Board as being dedicated to finance the Gas Transmission segment's *rate base*.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME

*Year ended December 31*

| *(Stated in millions of dollars except per share amounts)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Revenues** *(Note 2)* | **3,094.1** | 3,033.2 | 3,082.9 |
| **Costs and Expenses** *(Note 2)* | **2,538.8** | 2,580.7 | 2,653.4 |
| **Operating Income** | **555.3** | 452.5 | 429.5 |
| **Equity Income from Associated Pipelines and Projects** *(Note 4)* | **94.2** | 70.9 | 68.1 |
| **Other Income** | | | |
| Interest and other income | **67.1** | 76.6 | 75.2 |
| Allowance for funds used during construction | | | |
| Debt | **19.5** | 10.8 | 16.6 |
| Equity | **13.4** | 7.2 | 11.5 |
| | **100.0** | 94.6 | 103.3 |
| **Income before Financial Charges and Income Taxes** | **749.5** | 618.0 | 600.9 |
| **Financial Charges** *(Note 7)* | **400.8** | 337.2 | 326.7 |
| **Income before Income Taxes** | **348.7** | 280.8 | 274.2 |
| **Income Taxes** *(Note 9)* | **97.5** | 65.9 | 64.1 |
| **Income from Continuing Operations** | **251.2** | 214.9 | 210.1 |
| **Loss from Discontinued Oil and Gas Operations** *(Note 18)* | – | – | (13.4) |
| **Net Income for the Year** | **251.2** | 214.9 | 196.7 |
| **Dividends on Preferred Shares** | **31.8** | 25.4 | 31.8 |
| **Net Income Applicable to Common Shares** | **219.4** | 189.5 | 164.9 |
| **Per Common Share Data** *(Note 11)* | | | |
| **Income from Continuing Operations** | **$1.34** | $1.23 | $1.18 |
| **Loss from Discontinued Operations** | – | – | (0.09) |
| **Net Income for the Year** | **$1.34** | $1.23 | $1.09 |

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

## CONSOLIDATED CHANGES IN FINANCIAL POSITION

*Year ended December 31*

| *(Stated in millions of dollars)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Cash Generated From Operations** | | | |
| Income from continuing operations | **251.2** | 214.9 | 210.1 |
| Depreciation | **146.4** | 127.3 | 110.2 |
| Deferred income taxes | **(29.7)** | 24.5 | 18.1 |
| Equity income less dividends received from investments | **(50.9)** | (40.2) | (31.0) |
| Allowance for equity funds used during construction | **(13.4)** | (7.2) | (11.5) |
| Other | **33.5** | 21.8 | (6.2) |
| Funds generated from continuing operations | **337.1** | 341.1 | 289.7 |
| Decrease/(increase) in operating working capital from continuing operations *(Note 17)* | **168.1** | (38.8) | 40.1 |
| Cash generated from continuing operations | **505.2** | 302.3 | 329.8 |
| Cash generated from discontinued oil and gas operations | **–** | – | 44.4 |
| | **505.2** | 302.3 | 374.2 |
| **Investment Activities** | | | |
| Capital expenditures | **1,417.0** | 487.1 | 674.3 |
| Associated pipelines and projects | **152.7** | 92.1 | 3.1 |
| Deferred charges and other | **(93.2)** | 89.0 | 21.2 |
| Discontinued oil and gas operations | | | |
| Investment | **–** | – | 72.1 |
| Return of investment *(Note 18)* | **–** | – | (493.5) |
| | **1,476.5** | 668.2 | 277.2 |
| **Dividends Paid** | **145.6** | 130.1 | 142.3 |
| **Financing Activities** | | | |
| Long-term debt issued | **684.1** | 591.4 | 573.8 |
| Reduction of long-term debt | **(211.5)** | (145.4) | (221.0) |
| Convertible debentures issued | **149.8** | – | – |
| Common shares issued | **286.6** | 23.9 | 31.3 |
| Preferred shares issued | **148.4** | 198.3 | 74.6 |
| Preferred shares retracted or redeemed | **(0.3)** | (154.4) | (175.1) |
| Decrease in notes payable | **–** | – | (44.0) |
| Other | **(57.9)** | 5.3 | 103.5 |
| | **999.2** | 519.1 | 343.1 |
| **(Decrease)/Increase in Cash and Short-Term Investments** | **(117.7)** | 23.1 | 297.8 |
| **Cash and Short-Term Investments** – at beginning of year | **638.2** | 615.1 | 317.3 |
| **Cash and Short-Term Investments** – at end of year | **520.5** | 638.2 | 615.1 |

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

## CONSOLIDATED FINANCIAL POSITION

*December 31 (Stated in millions of dollars)*

| ASSETS | 1991 | 1990 |
|---|---|---|
| **Current Assets** | | |
| Cash and short-term investments *(Note 5)* | **520.5** | 638.2 |
| Accounts receivable *(Note 15)* | **410.4** | 296.6 |
| Other | **24.8** | 24.8 |
| Total current assets | **955.7** | 959.6 |
| **Payments on Future Gas Supply** *(Note 12)* | **58.8** | 30.7 |
| **Investments in Associated Pipelines and Projects** *(Note 4)* | **652.0** | 439.2 |
| **Plant, Property and Equipment** *(Notes 3 and 6)* | **4,846.9** | 3,570.1 |
| **Deferred Charges and Other Assets** *(Note 13)* | **91.3** | 240.2 |
| | **6,604.7** | 5,239.8 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | 1991 | 1990 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable *(Note 15)* | **427.5** | 288.5 |
| Income taxes payable | **105.2** | 10.0 |
| Interest accrued | **145.5** | 137.3 |
| Dividends payable | **42.0** | 34.0 |
| Long-term debt due within one year *(Note 6)* | **134.2** | 163.3 |
| Total current liabilities | **854.4** | 633.1 |
| **Long-Term Debt** *(Note 6)* | **3,369.6** | 2,859.3 |
| **Deferred Income Taxes** | **32.4** | 77.7 |
| **Convertible Debentures** *(Note 8)* | **150.0** | – |
| **Preferred Shares (redeemable)** *(Note 10)* | **539.0** | 389.3 |
| **Common Shareholders' Equity** | | |
| Common shares *(Note 11)* | **710.7** | 424.1 |
| Contributed surplus | **269.6** | 271.6 |
| Retained earnings | **692.1** | 594.5 |
| Foreign exchange adjustment | **(13.1)** | (9.8) |
| | **1,659.3** | 1,280.4 |
| **Commitments and Contingencies** *(Note 19)* | | |
| | **6,604.7** | 5,239.8 |

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

On behalf of the Board:

*Director* *Director*

## CONSOLIDATED CONTRIBUTED SURPLUS AND RETAINED EARNINGS

*Year ended December 31*

| *(Stated in millions of dollars except per share amounts)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Contributed Surplus** | | | |
| Balance at beginning of year | **271.6** | 271.6 | 277.8 |
| Plan of Arrangement expenses *(Note 11)* | – | – | (5.7) |
| Share issue expenses | **(2.0)** | – | (0.5) |
| Balance at end of year | **269.6** | 271.6 | 271.6 |
| **Retained Earnings** | | | |
| Balance at beginning of year | **594.5** | 510.9 | 448.3 |
| Net income for the year | **251.2** | 214.9 | 196.7 |
| | **845.7** | 725.8 | 645.0 |
| Dividends declared | | | |
| Preferred *(Note 10)* | **31.8** | 25.4 | 30.9 |
| Common | **121.8** | 105.9 | 103.2 |
| | **153.6** | 131.3 | 134.1 |
| Balance at end of year | **692.1** | 594.5 | 510.9 |
| Dividends per common share | **$0.73** | $0.69 | $0.68 |

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

## AUDITORS' REPORT

KPMG Peat Marwick Thorne

### TO THE SHAREHOLDERS OF TRANSCANADA PIPELINES LIMITED

We have audited the consolidated statements of financial position of TransCanada PipeLines Limited as at December 31, 1991 and December 31, 1990 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, 1991. 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, 1991 and December 31, 1990 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, 1991 in accordance with Canadian generally accepted accounting principles.

Peat Marwick Thorne

**Chartered Accountants**
*Calgary, Canada*
*January 20, 1992*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 1 ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by Management in accordance with accounting principles generally accepted in Canada. These accounting principles are different in some respects from those generally accepted in the United States (U.S. GAAP) and the significant differences are described in Note 20. 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 the Company and its subsidiaries. The Company uses the equity method of accounting for investments in which it exercises significant influence. Other investments and projects which are in the development stage, are included at cost in Deferred Charges and Other Assets.

**REGULATION** The Company is subject to the authority of the National Energy Board (NEB) with respect to the determination of tolls and related accounting for the natural gas transmission system (the Gas Transmission segment) as further described in Note 2. In order to achieve a proper matching of revenues and expenses the timing of recognition of certain revenues and expenses in this segment may differ from that otherwise expected under generally accepted accounting principles applicable to non-regulated businesses. The associated pipelines and projects are also subject to the authority of certain regulatory bodies.

**CASH AND SHORT-TERM INVESTMENTS** The Company's short-term investments are considered to be cash equivalents and are recorded at cost which approximates market value.

**PLANT, PROPERTY AND EQUIPMENT**

***Gas Transmission*** – Gas transmission plant is carried at cost. Depreciation is calculated on a straight-line basis using rates approved by the NEB: 2.5 per cent for pipelines, 3.5 per cent for compressor stations and other transmission plant and various rates for general plant and equipment. Removal and site restoration costs are recorded when approved by the NEB. An allowance for funds used during construction is capitalized and included in the cost of gas plant. The rate employed in calculating this allowance is the NEB's approved rate of return on rate base.

***Gas Sales, Marketing and Other*** – Plant, property and equipment is carried at cost and depreciated on a straight-line basis over estimated service lives. Interest is capitalized on projects under construction.

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

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

The following table outlines the exchange rates used to translate the various financial statement items under the temporal and current rate methods referred to above:

| Financial Statement Item | Temporal Method | Current Rate Method |
|---|---|---|
| Monetary assets and liabilities | Period-end exchange rate | Period-end exchange rate |
| Non-monetary assets and liabilities | Historical exchange rate | Period-end exchange rate |
| Revenues and expenses related to non-monetary items | Historical exchange rate | Average monthly exchange rate |
| All other revenues and expenses | Transaction date exchange rate | Average monthly exchange rate |

Non-Gas Transmission segment debt denominated in US dollars is a partial hedge of the Company's net investment in US dollars. In addition, from time to time, the Company enters into forward contracts, options and swaps to manage its exposure to other interest rate and foreign currency risks. Gains and losses on these contracts are amortized over the period that the contract has been designated as a hedge of the specific exposure.

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

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS** The Company provides its retired employees with life insurance and certain medical benefits beyond those provided by government sponsored plans. These benefits are expensed when the costs are paid.

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

## Note 2 SEGMENTED AND OTHER INFORMATION

The Company operates principally in two segments:

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

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

In October 1991, the NEB issued its 1991 Tolls Decision which, among other things, set the Company's rate of return on common equity for 1991 at 13.50 per cent based on a deemed common equity of 30 per cent.

***(ii) Gas Sales, Marketing and Other*** The operations of Western Gas Marketing Limited ("Western Gas"), a wholly owned subsidiary, are included in this segment. Western Gas administers all of the Company's gas purchase contracts with producers and all gas sales contracts with domestic and export customers.

Other operations included in this segment are the manufacturing and sale of thermal carbon black, the extraction of natural gas liquids and ethane from natural gas as well as the administration and development of the Company's investments in associated pipelines and other projects.

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

### (A) BUSINESS SEGMENTS

| *Year ended December 31 (millions of dollars)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Revenues** | | | |
| *Gas Transmission* | | | |
| Domestic deliveries | **826.5** | 713.9 | 681.7 |
| Export deliveries | **390.0** | 262.2 | 202.5 |
| Other revenues | **4.1** | 2.2 | 5.3 |
| | **1,220.6** | 978.3 | 889.5 |
| *Gas Sales, Marketing and Other* | | | |
| Domestic gas sales | **1,058.5** | 1,380.2 | 1,523.2 |
| Export gas sales | **736.3** | 586.9 | 570.8 |
| Other revenues | **78.7** | 87.8 | 99.4 |
| | **1,873.5** | 2,054.9 | 2,193.4 |
| **Total revenues** | **3,094.1** | 3,033.2 | 3,082.9 |
| **Costs and expenses** | | | |
| *Gas Transmission* | | | |
| Operating costs | **541.7** | 418.6 | 370.5 |
| Depreciation | **138.8** | 118.7 | 101.0 |
| | **680.5** | 537.3 | 471.5 |
| *Gas Sales, Marketing and Other* | | | |
| Cost of gas and operating costs | **1,850.7** | 2,034.8 | 2,172.7 |
| Depreciation | **7.6** | 8.6 | 9.2 |
| | **1,858.3** | 2,043.4 | 2,181.9 |
| **Total costs and expenses** | **2,538.8** | 2,580.7 | 2,653.4 |
| **Operating income** | | | |
| Gas Transmission | **540.1** | 441.0 | 418.0 |
| Gas Sales, Marketing and Other | **15.2** | 11.5 | 11.5 |
| | **555.3** | 452.5 | 429.5 |
| **Capital expenditures** | | | |
| Gas Transmission | **1,393.6** | 476.8 | 672.8 |
| Less allowance for equity funds used during construction | **13.4** | 7.2 | 11.5 |
| | **1,380.2** | 469.6 | 661.3 |
| Gas Sales, Marketing and Other | **36.8** | 17.5 | 13.0 |
| | **1,417.0** | 487.1 | 674.3 |

| December 31 *(millions of dollars)* | | | |
|---|---|---|---|
| **Business segment assets** | | | |
| Gas Transmission | **4,941.7** | 3,727.8 | 3,214.2 |
| Gas Sales, Marketing and Other | **460.9** | 348.9 | 330.1 |
| | **5,402.6** | 4,076.7 | 3,544.3 |
| Investments in associated pipelines and projects | **652.0** | 439.2 | 318.4 |
| Corporate assets | **550.1** | 723.9 | 760.7 |
| | **6,604.7** | 5,239.8 | 4,623.4 |

Due to the regulatory process, variations in the Gas Transmission segment's revenues and volumes by themselves do not have an impact on net income.

**(B) PRINCIPAL CUSTOMERS** The following table sets forth the Company's revenues generated from the sale and transmission of natural gas to its five principal customers:

| *Year ended December 31 (millions of dollars)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| The Consumers' Gas Company Ltd. | **487.6** | 551.4 | 698.4 |
| Gaz Métropolitain, inc. | **272.7** | 299.0 | 308.1 |
| Centra Gas Ontario Inc. | **199.2** | 282.5 | 319.2 |
| Union Gas Limited | **179.6** | 293.6 | 302.5 |
| Centra Gas Manitoba Inc. | **119.7** | 130.2 | 156.4 |

## Note 3 PLANT, PROPERTY AND EQUIPMENT

| *December 31 (millions of dollars)* | 1991 | | | 1990 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| **Gas Transmission** | | | | |
| Gas plant in service | | | | |
| Mainline | **4,637.3** | **(1,077.6)** | **3,559.7** | 2,645.8 |
| Compression | **994.2** | **(321.9)** | **672.3** | 535.3 |
| Metering and other | **188.4** | **(51.1)** | **137.3** | 115.9 |
| | **5,819.9** | **(1,450.6)** | **4,369.3** | 3,297.0 |
| Gas plant under construction | **357.7** | **–** | **357.7** | 172.5 |
| | **6,177.6** | **(1,450.6)** | **4,727.0** | 3,469.5 |
| **Gas Sales, Marketing and Other** | **173.1** | **(53.2)** | **119.9** | 100.6 |
| | **6,350.7** | **(1,503.8)** | **4,846.9** | 3,570.1 |

## Note 4 INVESTMENTS IN ASSOCIATED PIPELINES AND PROJECTS

The Company's investment in these operations and its share of the pretax earnings from those investments for the years ended as follows are:

| *(millions of dollars)* | 1991 | | 1990 | | 1989 | |
|---|---|---|---|---|---|---|
| | Investment | Equity Earnings | Investment | Equity Earnings | Investment | Equity Earnings |
| Great Lakes System | **234.8** | **30.5** | 122.2 | 27.2 | 66.4 | 26.8 |
| Northern Border Pipeline Company | **191.7** | **22.9** | 190.4 | 29.3 | 181.6 | 27.6 |
| Foothills Pipe Lines (Sask.) Ltd. | **27.4** | **8.7** | 27.4 | 8.6 | 27.1 | 7.8 |
| Trans Québec & Maritimes Pipeline | **40.7** | **7.9** | 42.1 | 5.8 | 43.3 | 5.9 |
| Iroquois System | **51.0** | **9.8** | – | – | – | – |
| Ocean State Power Plant | **106.4** | **14.4** | 57.1 | – | – | – |
| | **652.0** | **94.2** | 439.2 | 70.9 | 318.4 | 68.1 |

Dividends and distributions received from the investments in associated pipelines and projects amounted to $43.3 million, $32.2 million and $41.9 million for the years ended December 31, 1991, 1990 and 1989, respectively. Consolidated retained earnings at December 31, 1991, includes $159.1 million (December 31, 1990 – $117.3 million), which represents undistributed earnings of investments accounted for by the equity method.

**GREAT LAKES SYSTEM** The Company owns 50 per cent of Great Lakes Gas Transmission Company which operates a pipeline system (Great Lakes System) extending from the Canada/United States border near Emerson, Manitoba through the United States to the vicinity of Sarnia, Ontario. The Great Lakes System became an open access pipeline in 1990 and transports gas for the Company and other shippers.

The following sets out summarized financial information for the Great Lakes System:

| *December 31 (millions of US dollars)* | **1991** | 1990 |
|---|---|---|
| Natural gas transmission plant (net) | **989.6** | 555.1 |
| Current assets | **73.2** | 110.0 |
| Current liabilities | **(75.5)** | (225.3) |
| Deferred credits | **(92.4)** | (94.6) |
| Long-term debt | **(500.0)** | (136.8) |
| Equity | **394.9** | 208.4 |

| *Year ended December 31 (millions of US dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Operating revenues | **185.6** | 227.8 | 245.1 |
| Operating expenses | **(112.6)** | (168.2) | (194.0) |
| Interest (net) | **(17.7)** | (12.8) | (6.3) |
| Income before income taxes | **55.3** | 46.8 | 44.8 |

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

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

| *December 31 (millions of US dollars)* | **1991** | 1990 |
|---|---|---|
| Natural gas transmission plant (net) | **978.3** | 959.3 |
| Current assets | **35.8** | 60.0 |
| Deferred charges | **49.3** | 31.7 |
| Current liabilities | **(41.2)** | (32.0) |
| Deferred credits | **(367.5)** | (332.6) |
| Long-term debt | **(419.5)** | (440.0) |
| Equity | **235.2** | 246.4 |

| *Year ended December 31 (millions of US dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Operating revenues | **156.2** | 171.3 | 230.8 |
| Operating expenses | **(59.7)** | (48.3) | (102.9) |
| Interest (net) | **(29.6)** | (39.1) | (48.2) |
| Income before income taxes | **66.9** | 83.9 | 79.7 |

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

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

| *December 31 (millions of dollars)* | **1991** | 1990 |
|---|---|---|
| Natural gas transmission plant (net) | **288.0** | 290.6 |
| Current assets | **9.7** | 9.9 |
| Current liabilities | **(7.2)** | (7.7) |
| Deferred credits | **(70.1)** | (66.5) |
| Long-term debt | **(150.8)** | (156.1) |
| Equity | **69.6** | 70.2 |

| *Year ended December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Operating revenues | **56.4** | 57.3 | 58.9 |
| Operating expenses | **(20.4)** | (18.6) | (21.7) |
| Interest (net) | **(16.4)** | (19.1) | (19.6) |
| Income before income taxes | **19.6** | 19.6 | 17.6 |

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

The following sets out summarized financial information for TQM:

| *December 31 (millions of dollars)* | **1991** | 1990 |
|---|---|---|
| Natural gas transmission plant (net) | **358.7** | 371.5 |
| Current assets | **7.6** | 7.8 |
| Deferred charges | **1.2** | 3.2 |
| Current liabilities | **(16.0)** | (18.4) |
| Long-term debt | **(260.0)** | (269.0) |
| Equity | **91.5** | 95.1 |

| *Year ended December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Operating revenues | **74.5** | 69.4 | 70.7 |
| Operating expenses | **(22.8)** | (22.5) | (22.1) |
| Interest (net) | **(34.9)** | (36.0) | (37.6) |
| Income before income taxes | **16.8** | 10.9 | 11.0 |

**IROQUOIS GAS TRANSMISSION SYSTEM** The Company has a 29 per cent interest in the Iroquois Gas Transmission System L.P. which owns a pipeline system (Iroquois System), extending from Iroquois, Ontario, across the St. Lawrence River, through New York and Connecticut to Long Island. The Iroquois System was constructed during 1991 and portions of it went into service on December 1, 1991. The remaining portion is scheduled to be put into service in 1992.

The following sets out summarized financial information for the Iroquois System:

| *December 31 (millions of US dollars)* | 1991 |
|---|---|
| Natural gas transmission plant (net) | **610.7** |
| Current assets | **38.2** |
| Current liabilities | **(96.8)** |
| Long-term debt | **(398.5)** |
| Equity | **153.6** |

| *Year ended December 31 (millions of US dollars)* | 1991 |
|---|---|
| Allowance for funds used during construction | **36.1** |
| Interest (net) | **(6.6)** |
| Income before income taxes | **29.5** |

**OCEAN STATE POWER PLANT** The Company has a 40 per cent equity interest in the partnership which owns the Ocean State Power combined-cycle power generation plant (Ocean State Power Plant) located in Rhode Island. On December 31, 1990, Phase I of the Ocean State Power Plant commenced commercial production. Phase II was completed and commenced commercial production on October 1, 1991.

The following sets out summarized financial information for the Ocean State Power Plant:

| *December 31 (millions of US dollars)* | 1991 | 1990 |
|---|---|---|
| Plant, property and equipment (net) | **392.3** | 204.6 |
| Current assets | **71.8** | 12.6 |
| Deferred charges | **12.5** | 6.6 |
| Current liabilities | **(43.9)** | (10.6) |
| Deferred credits | **(6.7)** | (4.8) |
| Long-term debt | **(205.0)** | (88.4) |
| Equity | **221.0** | 120.0 |

| *Year ended December 31 (millions of US dollars)* | 1991 |
|---|---|
| Operating revenues | **130.9** |
| Operating expenses | **(89.9)** |
| Interest (net) | **(10.6)** |
| Income before income taxes | **30.4** |

## Note 5 CASH AND DEBT MANAGEMENT

The Company utilizes various financial instruments to reduce its exposure to fluctuations in interest and currency rates. The Company's credit risk with respect to these instruments is the possibility that a party to a transaction fails to perform according to the terms of the contract. At December 31, 1991, this credit risk amounted to $53.7 million with respect to interest rate and currency swap transactions and $16.8 million with respect to foreign exchange transactions. This credit risk has been minimized by dealing only with highly rated international financial institutions. The largest exposure to a single institution is $22.1 million.

At December 31, 1991, the Company had net assets denominated in United States dollars of approximately US $415.3 million (December 31, 1990 – US $460.5 million). At December 31, 1991, the Company had short-term contracts outstanding to sell US $296.8 million (December 31, 1990 – US $235.8 million) in order to reduce the effect of changes in the US/Cdn. dollar exchange rate on its net asset position. Premiums with respect to these foreign exchange contracts are deferred and amortized to income over the terms of the contracts.

The following summarizes the Company's position with respect to cash and short-term investments as at December 31, 1991 and 1990:

| | Balance at End of Year | Weighted Average Rate Per Annum End of Year | Average Amount Outstanding During the Year | Weighted Average Rate Per Annum During the Year |
|---|---|---|---|---|
| | *(millions of dollars)* | | *(millions of dollars)* | |
| **1991** | | | | |
| **Term Deposits** | | | | |
| **in Cdn. $ accounts** | **330.6** | **7.5%** | **513.8** | **9.5%** |
| **in US $ accounts** | **147.4** | **4.6%** | **283.1** | **6.7%** |
| **Other** | **42.5** | **7.3%** | **41.8** | **8.5%** |
| | **520.5** | | | |
| **1990** | | | | |
| Term Deposits | | | | |
| in Cdn. $ accounts | 407.0 | 11.7% | 141.4 | 12.6% |
| in US $ accounts | 166.7 | 11.9% | 542.6 | 8.2% |
| Other | 64.5 | 9.4% | 43.2 | 9.3% |
| | 638.2 | | | |

With respect to interest rate risk management of the cash and short-term investments included in the table above, at December 31, 1991, the Company had forward rate agreements with notional principal amounts totalling approximately $236.0 million (December 31, 1990 – nil) and swapped interest obligations with notional principal amounts totalling approximately $200.0 million (December 31, 1990 – nil).

There were no significant amounts of bank loans or commercial paper outstanding during 1991. During 1990, the average amount of bank loans and commercial paper outstanding amounted to $27.0 million and $140.4 million, respectively. The weighted average interest rate during 1990 for such instruments amounted to 12.3 per cent for bank loans and 13.0 per cent for commercial paper.

The Company had unused lines of credit of $970.3 million at December 31, 1991 (1990 – $1,142.6 million) for the purpose of supporting the Company's commercial paper program and for general corporate needs. These borrowing arrangements are available to the Company at prime rates of Canadian chartered banks and on other negotiated financial bases. The cost to maintain the unused portion of the lines of credit for the year ended December 31, 1991 was approximately $1.0 million (1990 – $0.5 million).

## Note 6 LONG-TERM DEBT

| | | 1991 | | 1990 | |
|---|---|---|---|---|---|
| Classification | Maturity Dates | Outstanding December 31 (1) | Average Interest Rate (2) | Outstanding December 31 (1) | Average Interest Rate (2) |
| **Gas Transmission Segment** | | | | | |
| **First Mortgage Pipe Line Bonds** | | | | | |
| Denominated in Canadian dollars | 1992 & 1993 | **18.4** | **9.1%** | 26.7 | 9.1% |
| Denominated in United States dollars *(1991 US $311.5; 1990 US $340.9)* | 1996 & 1997 | **360.0** | **16.2%** | 395.5 | 16.2% |
| Denominated in Pounds Sterling *(1991 £25.0; 1990 £25.0)* | 2007 | **54.0** | **16.5%** | 56.1 | 16.5% |
| **Debentures** | | | | | |
| Denominated in Canadian dollars *(Series E to G and J to U)* | 1993 to 2020 | **1,572.0** | **11.0%** | 1,640.9 | 11.2% |
| Denominated in United States dollars *(1991 US $400.0; 1990 Nil)* | 2021 | **462.2** | **9.9%** | – | – |
| **Notes** | | | | | |
| Denominated in New Zealand dollars *(1991 NZ $125.0; 1990 NZ $125.0) (4)* | 1993 | **104.1** | **14.6%** | 104.1 | 14.9% |
| | | **2,570.7** | | 2,223.3 | |
| Foreign exchange differential recoverable through the tollmaking process | | **(0.1)** | | (1.6) | |
| Total | | **2,570.6** | | 2,221.7 | |
| **Other** | | | | | |
| **Debentures (Series I)** | | | | | |
| Denominated in Canadian dollars | 1993 | **100.0** | **11.7%** | 100.0 | 11.7% |
| **Subordinated Debentures** | | | | | |
| Denominated in United States dollars *(1991 US $200.0; 1990 Nil) (5)* | 2006 | **231.1** | **8.6%** | – | – |
| **Notes** | | | | | |
| Denominated in Swiss francs *(1991 SFr. 642.6; 1990 SFr. 759.2) (3)* | 1992 to 1995 | **485.9** | **8.1%** | 584.4 | 10.0% |
| Denominated in New Zealand dollars *(1991 NZ $175.0; 1990 NZ $175.0) (4)* | 1993 | **116.2** | **14.5%** | 116.2 | 14.7% |
| **Other Debt** | – | **–** | **–** | 0.3 | – |
| Total | | **933.2** | | 800.9 | |
| Total long-term debt | | **3,503.8** | | 3,022.6 | |
| Less: due within one year | | **134.2** | | 163.3 | |
| | | **3,369.6** | | 2,859.3 | |

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

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

*(3) As at December 31, 1991, 538.6 million Swiss francs have been exchanged through swap agreements into Cdn. $428.1 million (December 31, 1990 – 655.2 million Swiss francs into Cdn. $526.4 million) and 104 million Swiss francs have been exchanged through a swap agreement into US $50 million (December 31, 1990 – 104 million Swiss francs into US $50 million).*

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

*(5) In 1991, the fixed interest rate of 9.125 per cent on US $100 million of the subordinated debentures was exchanged through swap agreements into a floating interest rate based on the London Interbank Offered Rate.*

**FIRST MORTGAGE PIPE LINE BONDS** The Deed of Trust and Mortgage securing the Company's First Mortgage Pipe Line Bonds provides for a first charge on all real and immovable property and rights of the Company and on substantially all of the Company's gas transmission, gas purchase, gas sales and gas product sales contracts and also provides for a first floating charge on all remaining assets. All series of bonds, with the exception of the series denominated in Pounds Sterling, are subject to mandatory sinking fund provisions which require the Company to retire prescribed amounts of each series annually prior to maturity.

**DEBENTURES** During 1991 and 1990, the Company issued US $600 million and $600 million, respectively, aggregate principal amount of debentures. The terms of the debentures are as follows:

| Issue | Principal Amount | Maturity Date | Interest Rate |
|---|---|---|---|
| | *(millions of dollars)* | | |
| **1991** | **US $400** | **January 1, 2021** | **9.875% paid semi-annually** |
| | **US $200** | **April 20, 2006** | **9.125% paid semi-annually** |
| **1990** | | | |
| Series Q | $100 | October 20, 2009 | 10.625% paid semi-annually |
| Series R | $100 | June 20, 2008 | 11.85% paid semi-annually |
| Series S | $150 | August 20, 2015 | 11.90% paid semi-annually |
| Series T | $150 | November 20, 2000 | 11.65% paid semi-annually |
| Series U | $100 | November 20, 2020 | 11.80% paid semi-annually |

In December 1990, the Company filed a "Shelf Registration Statement" in the United States to allow it to offer to the public up to US $1 billion of debt securities during 1991 and 1992. During 1991, the Company issued US $400 million of debentures and US $200 million of subordinated debentures under this program. The US $400 million debentures rank equally with other debentures. The US $200 million debentures are subordinated in right of payment to the prior payment in full of the First Mortgage Pipe Line Bonds, other debentures and notes (Senior Indebtedness). Neither of these debenture issues is subject to sinking or purchase funds.

In December 1991, the Company redeemed the outstanding Series H debentures amounting to $37.5 million at a price of $102.60 per $100.

The Series E to G debentures are subject to mandatory annual sinking fund provisions and provide for annual purchase funds which require the Company to purchase debentures in the market, if available at prices, including costs of purchase, that do not exceed the principal amount plus accrued interest to the date of purchase. The Series I to S debentures rank equally with the sinking fund debentures but are not subject to sinking or purchase funds. The Series T and U debentures also rank equally with the sinking fund debentures, are not subject to sinking fund provisions but do provide for purchase funds. The Series T debentures are, at the holders' option, convertible into debentures substantially the same as the Series U debentures during the period May 1, 1995 to November 19, 1995.

**NOTES** The principal and all future interest payments of the New Zealand notes were hedged through a series of transactions into Canadian funds. The effective interest cost over the term of the issues is fixed at a rate of 10.72 per cent per annum on the portion financing the Gas Transmission segment and is at a floating rate approximating bankers' acceptances on the other portion. The notes rank equally with the debentures.

During 1991, the Company established two Medium Term Note Programs that will allow for the issuance of notes with a wide range of maturities. The Canadian program was established for $500 million and on January 7, 1992, notes aggregating $90 million were issued for a period of 10 years. These notes bear interest at an average rate of 9.82 per cent. The United States program was established in April 1991, under the Shelf Registration Statement, for US $250 million and no notes have been issued under this facility.

**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: 1992 – $134.2 million; 1993 – $593.4 million; 1994 – $113.3 million; 1995 – $142.4 million; and 1996 – $34.0 million.

## Note 7 FINANCIAL CHARGES

| *Year ended December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Interest on long-term debt | **403.8** | 331.9 | 273.6 |
| Amortization of foreign exchange contract premiums | **(15.5)** | (31.4) | (21.0) |
| | **388.3** | 300.5 | 252.6 |
| Regulatory deferrals and amortizations | **(4.3)** | (12.7) | 19.5 |
| Non-regulatory foreign exchange losses | **17.6** | 20.8 | 16.9 |
| Short-term interest and other financial charges | **1.8** | 28.6 | 37.7 |
| Interest capitalized | **(2.6)** | – | – |
| | **400.8** | 337.2 | 326.7 |

The Company made interest payments of $399.0 million, $349.0 million and $301.6 million for the years ended December 31, 1991, 1990 and 1989, respectively.

## Note 8 CONVERTIBLE DEBENTURES

On December 20, 1991, the Company issued $150 million of ten-year convertible subordinated debentures 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, or principal on redemption or at maturity, in common or preferred shares of the Company subject to the debentureholder's right to receive a cash payment in respect thereof. The debentures rank equally with the US $200 million subordinated debentures and are subordinated in right of payment to the prior payment in full of the Senior Indebtedness. They are not subject to sinking or purchase funds.

## Note 9 INCOME TAXES

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

| *Year ended December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Canada | **260.7** | 170.3 | 160.9 |
| Foreign | **88.0** | 110.5 | 113.3 |
| | **348.7** | 280.8 | 274.2 |

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

| *Year ended December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| **Current** | | | |
| Canada | **120.9** | 35.6 | 42.8 |
| Foreign | **6.3** | 5.8 | 3.2 |
| | **127.2** | 41.4 | 46.0 |
| **Deferred** | | | |
| Canada | **(36.6)** | 21.5 | 6.1 |
| Foreign | **6.9** | 3.0 | 12.0 |
| | **(29.7)** | 24.5 | 18.1 |
| | **97.5** | 65.9 | 64.1 |

(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 their effect on income taxes are as follows:

| *Year ended December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Capital cost allowance in excess of depreciation | **3.9** | 1.1 | 8.8 |
| Deferred amounts | **(34.5)** | 28.4 | 12.2 |
| Unrealized foreign exchange losses | **(2.2)** | 0.1 | (3.4) |
| Other | **3.1** | (5.1) | 0.5 |
| | **(29.7)** | 24.5 | 18.1 |

(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)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Income before income taxes | **348.7** | 280.8 | 274.2 |
| Less: | | | |
| Income not subject to tax currently *(f)* | **(106.2)** | (76.6) | (78.3) |
| | **242.5** | 204.2 | 195.9 |
| Federal statutory tax rate | **38.8%** | 38.8% | 38.8% |
| Expected income tax expense | **94.1** | 79.2 | 76.0 |
| Non-deductible capital losses | **7.7** | – | 8.0 |
| Net difference between the federal statutory tax rate and rates of provincial, state and foreign authorities | **(1.6)** | 1.0 | (1.8) |
| Utilization of prior years' operating losses | **(7.4)** | (27.3) | (21.1) |
| Large Corporations Tax | **10.3** | 7.3 | 2.9 |
| Other | **(5.6)** | 5.7 | 0.1 |
| Actual income tax expense | **97.5** | 65.9 | 64.1 |

(e) At December 31, 1991, the Company's United States subsidiaries had net operating losses carried forward for accounting purposes of approximately US $120.8 million for which the future tax benefits have not been recorded. The net operating losses carried forward for tax purposes differ from the accounting losses, primarily because of timing differences as described in (c) above, and amounted to US $240.1 million. 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: 1998 –US $13.7 million; 1999 – US $35.1 million; 2000 – US $79.1 million; 2001 – US $63.6 million; 2002 – US $37.5 million; and 2005 – US $11.1 million.

(f) The Company follows the taxes payable method of accounting for those income taxes related to the regulated operations of the Gas Transmission segment. Had the deferral method of tax allocation accounting been prescribed by the NEB for this segment from the date of commencement of operations, additional deferred income taxes in the amount of $491.9 million to December 31, 1991 (December 31, 1990 – $450.1 million) would have been recorded and recovered in tolls to date through the tollmaking process.

(g) The Company made income tax payments of $22.5 million, $36.9 million and $40.2 million during the years ended December 31, 1991, 1990 and 1989, respectively.

## Note 10 PREFERRED SHARES

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

| *December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| **First Preferred Shares** *(1)* | | | |
| **Cumulative redeemable shares** | | | |
| $2.80 Series (1991 – 569,768; 1990 and 1989 – 574,868) | **28.5** | 28.7 | 28.7 |
| Series O (1991 – 3,000,000; 1990 and 1989 – Nil) | **150.0** | – | – |
| **Cumulative redeemable retractable shares** | | | |
| Series H (1991 – 39,991; 1990 – 40,091; 1989 – 1,000,000) | **2.0** | 2.0 | 50.0 |
| Series I (1991 – 70,920; 1990 – 71,020; 1989 – 2,200,000) | **3.5** | 3.6 | 110.0 |
| Series J (1991, 1990 and 1989 – 1,600,000) | **80.0** | 80.0 | 80.0 |
| Series N (1991 and 1990 – 1,500,000; 1989 – Nil) | **75.0** | 75.0 | – |
| **Cumulative redeemable perpetual shares** | | | |
| Series K (1991, 1990 and 1989 – 150) | **75.0** | 75.0 | 75.0 |
| Series L (1991 and 1990 – 100; 1989 – Nil) | **50.0** | 50.0 | – |
| Series M (1991 and 1990 – 150; 1989 – Nil) | **75.0** | 75.0 | – |
| | **539.0** | 389.3 | 343.7 |

*(1) During 1991, 1990 and 1989, 5,300, nil and 3,600 shares respectively were purchased by the Company for cancellation.*

Additional information pertaining to the Company's preferred shares outstanding as at December 31, 1991 is as follows:

| First Preferred Share Issue | Stated Value Per Share | Dividend Rate Per Share | Redemption Dates and Price | Retraction Date *(1)* | Annual Purchase Fund Requirement |
|---|---|---|---|---|---|
| $2.80 Series | $50 | $2.80 | Redeemable any time at $50.50 per share | Not applicable | 2% of aggregate stated value of shares outstanding on previous December 31 |
| Series H | $50 | $4.35 | Redeemable any time at the stated value per share | Expired | 3% of aggregate stated capital amount outstanding on August 2, 1990 |
| Series I | $50 | $3.90 | Redeemable any time at the stated value per share | Expired | 3% of aggregate stated capital amount outstanding on November 2, 1990 |
| Series J | $50 | $3.80 | Redeemable after July 31, 1992 at the stated value per share | August 1, 1992 and August 1, 1997 | 3% of aggregate stated capital amount outstanding on August 2, 1997 |
| Series K | $500,000 | $38,400 *(2)* | Redeemable after October 31, 1994 at the stated value per share | Not applicable | None |
| Series L | $500,000 | $40,625 *(2)* | Redeemable after December 1, 1995 at the stated value per share | Not applicable | None |
| Series M | $500,000 | $42,750 *(2)* | Redeemable after April 30, 1996 at the stated value per share | Not applicable | None |
| Series N | $50 | $4.50 | Redeemable after January 31, 1996 at the stated value per share | February 1, 1996 | None |
| Series O *(3)* | $50 | $3.95 | *(3)* | Not applicable | None |

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

(2) *The dividend rate per share on the Series K, Series L and Series M will be redetermined as of November 1, 1994, December 1, 1995 and May 1, 1996 respectively by one of: direct negotiation between the Company and the holders of the First Preferred Shares; bids solicited from investment dealers; or an auction procedure.*

(3) *The Series O shares are redeemable after October 31, 1998 at prices ranging from $52 per share if redeemed on or before October 31, 1999 and reducing to $50 per share if redeemed after October 31, 2001. After October 31, 1998, the Company may elect to convert the Series O shares into common shares at 95 per cent of the then market price or, with the agreement of Series O shareholders, into a new issue of preferred shares. In addition, after October 31, 2001, at the holders' option, the Series O shares can be converted into common shares at 95 per cent of the then market price but, the Company has the option to satisfy the obligation in cash, a new issue of preferred shares, common shares or a combination thereof.*

In December 1991, the Company issued $150 million of Cumulative Redeemable First Preferred Shares, Series O. In 1990, the Company issued $50 million of Cumulative Redeemable Perpetual First Preferred Shares, Series L, $75 million of Cumulative Redeemable Perpetual First Preferred Shares, Series M and $75 million of Cumulative Redeemable Retractable First Preferred Shares, Series N. During 1990, the holders of the Company's Cumulative Redeemable Retractable First Preferred Shares, Series H and I, retracted all but 40,091 and 71,020 respectively, of such outstanding shares at a price of $50 per share.

## Note 11 COMMON SHARES

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

| | Number of Shares | Amount in Millions of Dollars |
|---|---|---|
| **Outstanding – January 1, 1989** | 150,539,846 | 1,043.3 |
| Issued for cash or cash equivalent | | |
| Under the dividend reinvestment and share purchase plan | 2,101,017 | 31.3 |
| Under warrant subscription | 1,050 | – |
| Exercise of options | 240 | – |
| Distribution under Plan of Arrangement | – | (674.4) |
| Cancellation of common shares | (542) | – |
| **Outstanding – December 31, 1989** | 152,641,611 | 400.2 |
| Issued for cash or cash equivalent | | |
| Under the dividend reinvestment and share purchase plan | 1,532,013 | 23.7 |
| Exercise of options | 14,251 | 0.2 |
| Cancellation of common shares | (385) | – |
| **Outstanding – December 31, 1990** | 154,187,490 | 424.1 |
| Issued for cash or cash equivalent | | |
| Under public offering | **15,500,000** | **260.7** |
| Under the dividend reinvestment and share purchase plan | **1,654,501** | **25.3** |
| Exercise of options | **35,629** | **0.6** |
| Cancellation of common shares | **(336)** | – |
| **Outstanding – December 31, 1991** | **171,377,284** | **710.7** |

**EQUITY ISSUE** On June 14, 1991, the Company issued 15,500,000 common shares. Of the total issued, 9,750,000 shares were issued in Canada at a price of $17.25 per share, while the remaining 5,750,000 shares were issued in the United States at a price of US $15.046 ($17.25) per share. The net after tax cash proceeds were $260.7 million.

**PLAN OF ARRANGEMENT** A Plan of Arrangement was approved by the Supreme Court of Ontario and the Company's common shareholders effective May 2, 1989. The book value of the Company's common shares was reduced by $674.4 million to reflect the distribution of the Company's oil and gas operations to the Company's common shareholders as at that date (See Note 18). The expenses of the Plan of Arrangement net of taxes have been charged to Contributed Surplus.

**NET INCOME PER COMMON SHARE** Net income per common share during the respective years is calculated using the weighted average number of common shares outstanding which for the years ended December 31, 1991, 1990 and 1989 are 163,628,231, 153,554,906 and 151,740,962, respectively. The calculation of net income per common share on a fully diluted basis assumes exercise of all options for the relevant years that such options were outstanding, if such action would result in dilution of earnings per share. In 1991, 1990 and 1989, the effect of potential dilution was immaterial.

**EMPLOYEE STOCK INCENTIVE PLAN**

***(i) Share Purchase Feature*** The Company has a Key Employee Stock Incentive Plan (KESIP) under which the Company provides interest-free loans, repayable within ten years, through a trustee to certain key employees, some of whom are also officers, to purchase common shares of the Company. The outstanding balance of these loans totalled $17.2 million, $23.8 million and $29.9 million at December 31, 1991, 1990 and 1989, respectively. During 1991, 1990 and 1989, no shares issued under the KESIP were purchased by the Company for cancellation.

***(ii) Stock Option Feature*** KESIP permits the award, to certain key employees, some of whom are also officers, of options to purchase the Company's common shares. Options may be exercised at a price to be determined at the time the option is awarded. Generally, 20 per cent of the common shares subject to an option may be purchased at the end of each year following the award date of the option. Each share option issued to officers may be accompanied by a share appreciation right which would be exercisable only within 60 days following a share exchange offer for the Company's common shares by BCE Inc. (BCE) if one were to be made. A share appreciation right entitles the holder to receive a payment from the Company equal to the amount by which the fair market value of the common share on the date when such right is exercised exceeds the exercise price of the accompanying option.

| Options | Number of Shares | Exercise Prices | Shares Exercisable |
|---|---|---|---|
| **Outstanding at January 1, 1990** | 592,360 | $14.70-$16.75 | 61,300 |
| Granted | 311,400 | $16.175-$17.125 | |
| Exercised | (14,251) | $14.70 | |
| Cancelled or expired | (88,500) | $14.70-$16.75 | |
| **Outstanding at December 31, 1990** | 801,009 | $14.70-$17.125 | 156,749 |
| Granted | **436,500** | **$17.35** | |
| Exercised | **(35,629)** | **$14.70-$17.125** | |
| Cancelled or expired | **(15,280)** | **$14.70-$17.125** | |
| **Outstanding at December 31, 1991** | **1,186,600** | **$14.70-$17.35** | **284,560** |

Certain officers of the Company who received stock options also received share appreciation rights totalling 465,071 shares.

**COMMON SHARES RESERVED** The maximum number of common shares of the Company that may be issued under KESIP is 15.0 million shares subject to an annual limitation of 1.2 million shares. At December 31, 1991, approximately 9.8 million shares remained to be issued under KESIP. In addition to the above options, as at December 31, 1991, 694,730 common shares have been set aside and reserved for future issuance under KESIP. At December 31, 1991 there were also 550,000 common shares reserved for future issuance pursuant to the Company's Employee Savings Plan.

## Note 12 PAYMENTS ON FUTURE GAS SUPPLY

The majority of the Company's gas purchase contracts include provisions which require the Company to make payments (prepayments) to producers for gas to be delivered in future years (prepaid gas) if it is unable to nominate for delivery of specified minimum annual quantities of gas. During the contract year ended October 31, 1991, (the 1991 contract year) the Company nominated less than the aggregated minimum quantity. In November, 1991, the Company proposed a program to producers under which prepayments made or to be made by the Company would be recovered in full by 1999. Under this program, the Company has proposed to make prepayments for the 1991 contract year from its corporate funds and seek, during 1992, to refinance these payments on a long-term basis in a manner similar to the Topgas Programs (see Note 19(a)). Producers have the option to defer their decision to receive prepayments for the 1991 contract year until the terms of any refinancing are determined. The final amount to be paid will not be determined until later in 1992. The Company expects that, in total, prepayments for the 1991 contract year will not exceed $30.0 million and this amount has been accrued in the accounts of the Company at December 31, 1991. Costs associated with financing prepayments, are recovered by the Company through producers' agreements or pursuant to regulations made by the Province of Alberta.

The Company's risk with respect to the recovery of these prepayments is the possibility that a producer will fail to deliver prepaid gas as scheduled. This risk is mitigated by a number of factors including cross dedication of reserves on certain contracts with producers and joint and several obligations in multi-party contracts. In addition, the Company monitors the financial and deliverability capabilities of producers and implements special recovery measures as necessary.

The Company may be required to make further prepayments to producers in respect of each of the three contract years commencing on November 1, 1991, if it is unable to nominate for the delivery of certain minimum quantities of gas in those years. However, a significant number of producers have waived their rights to receive further prepayments for this period. The amount of such prepayments, if any, is dependant upon a number of future factors which cannot be quantified at this time. The Company has no prepayment obligations after 1994.

## Note 13 DEFERRED CHARGES AND OTHER ASSETS

| *December 31 (millions of dollars)* | **1991** | 1990 |
|---|---|---|
| **Deferred Amounts** | | |
| Subject to regulation | **69.3** | 158.1 |
| Not subject to regulation: | | |
| Unamortized foreign exchange losses | **27.6** | 42.9 |
| Other deferred amounts | **(6.4)** | 5.4 |
| | **90.5** | 206.4 |
| **Other Assets** | **0.8** | 33.8 |
| | **91.3** | 240.2 |

The deferred amounts subject to regulation are amortized and recovered or refunded in future periods through the regulatory process. The remaining amortization of the unamortized foreign exchange losses, on an after tax basis, will approximate: 1992 – $14 million; 1993 – $9 million; 1994 – $4 million; and 1995 – $1 million.

## Note 14 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)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Pension costs for benefits earned during the current period | **9.7** | 9.8 | 9.9 |
| Amortization of transition amount and other | **2.2** | 2.9 | 3.0 |
| Net pension expense | **11.9** | 12.7 | 12.9 |

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

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

| *December 31 (millions of dollars)* | **1991** | 1990 |
|---|---|---|
| Accumulated benefits based on service to date and current compensation: | | |
| Vested | **129.5** | 119.1 |
| Non-vested | **14.8** | 14.7 |
| Accumulated benefit obligation | **144.3** | 133.8 |
| Additional amounts related to projected salary increases | **49.1** | 50.0 |
| Actuarial present value of current accumulated pension benefits | **193.4** | 183.8 |
| Pension plan assets | **171.1** | 155.2 |
| Deficit | **22.3** | 28.6 |

Pension plan assets are stated at average market value using a five-year moving average 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 8.5 per cent. The rate of the return on pension plan assets was estimated to be 8.5 per cent per annum.

## Note 15 RELATED PARTY TRANSACTIONS

Revenue from and payments by the Company to each of the Great Lakes System, Ocean State Power Plant and TQM, affiliates of the Company, were as follows:

| *Year ended December 31 (millions of dollars)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Gas Sales and Gas Transmission Services** | | | |
| Great Lakes System | **53.5** | 150.0 | 153.2 |
| Ocean State Power Plant | **1.8** | – | – |
| **Charges for Gas Transmission Services** | | | |
| Great Lakes System | **145.2** | 138.7 | 125.8 |
| TQM | **74.3** | 69.3 | 70.7 |

Amounts due from and to related parties were as follows:

| *December 31 (millions of dollars)* | 1991 | 1990 |
|---|---|---|
| Accounts receivable | **1.4** | 3.5 |
| Accounts payable | **23.2** | 19.1 |

In 1990, the Great Lakes System became an open access pipeline. In 1991, it ceased being a seller of natural gas and, as a result, no longer purchases natural gas from the Company. Offsetting this decrease in gas sales to the Great Lakes System, the Company has increased its level of direct gas sales to the former customers of the Great Lakes System.

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

Reference should be made to Note 11 regarding loan transactions between the Company and certain of its employees for the purchase of common shares.

The Company's major shareholder, BCE Inc., announced in September 1990 that it would sell its common share position in the Company. Units, each consisting of one TransCanada PipeLines Limited common share and one warrant, were sold by BCE in October 1990 at a price of $17.00 per unit. Each warrant entitles the holder to purchase one TransCanada share from BCE until December 15, 1992 at a price of $17.50. As a result of the offering and prior to the exercise of any of the warrants, BCE's ownership was reduced from 48.8 per cent to 24.5 per cent. At December 31, 1991, BCE's ownership in the Company was 21.9 per cent. In the event all of the warrants are exercised, BCE's ownership in the Company will be reduced to nil.

## Note 16 RESTRICTION ON DIVIDENDS

Declaration of dividends on both preferred and common shares is restricted under certain preferred share provisions and under several debt instruments. At December 31, 1991, under the most restrictive provisions, approximately $322 million was available for the payment of dividends on common shares.

## Note 17 DECREASE/(INCREASE) IN OPERATING WORKING CAPITAL FROM CONTINUING OPERATIONS

The following table sets forth the changes in the components of operating working capital from continuing operations:

| *Year ended December 31 (millions of dollars)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| (Increase)/decrease in accounts receivable | **(46.5)** | (15.7) | 25.7 |
| (Increase)/decrease in other current assets | **(2.4)** | 2.9 | (0.5) |
| Increase/(decrease) in accounts payable | **113.6** | (37.3) | 24.6 |
| Increase/(decrease) in income taxes payable | **95.2** | (1.3) | (20.0) |
| Increase in interest accrued | **8.2** | 12.6 | 10.3 |
| | **168.1** | (38.8) | 40.1 |

## Note 18 DISCONTINUED OIL AND GAS OPERATIONS

On May 2, 1989, the Company completed a Plan of Arrangement. Under the terms of the Plan of Arrangement, the Company combined its oil and natural gas exploration, development and production business under one corporate entity, Encor Inc. An integral part of the Plan of Arrangement was the refinancing of Encor Inc. which resulted in the Company receiving $493.5 million, thereby reducing its investment to $674.4 million. The common shares of Encor Inc. were then distributed to the Company's common shareholders eliminating the Company's investment.

As a result, the Company's former oil and gas interests have been classified as discontinued operations and the financial statements reflect both continuing and discontinued operations.

The following sets out the summarized financial information for discontinued oil and gas operations:

*Year ended December 31, 1989 (millions of dollars)*

| | |
|---|---|
| Operating revenues | **107.4** |
| Costs and expenses | **120.8** |
| Net loss | **13.4** |

The Company followed the full cost method of accounting for its oil and gas operations and used the unit-of-production method to calculate depletion.

## Note 19 COMMITMENTS AND CONTINGENCIES

***(a) Gas Supply*** During 1982 and 1983, the Company concluded arrangements (referred to as the "Topgas Programs") with syndicates of banks and substantially all of its producers to finance its payments for prepaid gas incurred up to and including the contract year ended October 31, 1983. Pursuant to the Topgas Programs, Alberta corporations controlled by the banking syndicates (the "Topgas Companies") advanced approximately $2.7 billion to these producers in respect of these payments for prepaid gas. Pursuant to contractual arrangements, recovery of the advances commenced in 1984 and is being effected in instalments by the nomination for delivery of prepaid gas. Scheduled recovery of the prepaid gas for the Topgas Programs will be completed not later than 1994. As at December 31, 1991, approximately $0.6 billion ($0.9 billion as at December 31, 1990) remained outstanding. Interest costs associated with the advances are being recovered by the Company through producers' agreements or pursuant to regulations made by the Province of Alberta.

On January 10, 1990, the Topgas Companies completed a refinancing of their debt obligations whereunder they issued debentures and commercial paper to investors by way of private placement. Proceeds from these issues were used to completely repay the bank syndicates. The refinancing was undertaken to reduce interest carrying costs for the producers who are participants in the Topgas Programs. At the same time, the indemnities that the Company had given the Topgas Companies against losses arising due to the inability or failure of a producer to deliver prepaid gas were reduced from $360 million to the greater of 10 per cent of the advances outstanding and $25 million. As of December 31, 1991, the indemnities total approximately $66 million (December 31, 1990 – $91 million).

The Company's risk with respect to the possibility that a producer will fail to deliver prepaid gas as scheduled is mitigated by a number of factors including cross dedication of reserves on certain contracts with producers and joint and several obligations in multi-party contracts. In addition, the Company monitors the financial and deliverability capabilities of producers and implements special recovery measures as necessary.

***(b) Guarantee of Debt of Encor*** As at December 31, 1991, the Company has guaranteed approximately $69 million (1990 – $69 million) of the outstanding debt of Encor Inc.

***(c) Capital Expenditures*** The Company expects to make the following expenditures in 1992:

*(millions of dollars)*

| | |
|---|---|
| Gas Transmission segment | 1,581 |
| Associated pipelines and projects and other | 39 |

## Note 20 SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP

The Company's Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) which are different in some respects from those applicable in the United States. The following sets forth the reconciliation of these differences:

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

| *Year ended December 31 (millions of dollars except per share amounts)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| Income from continuing operations as reported | **251.2** | 214.9 | 210.1 |
| U.S. GAAP adjustments: | | | |
| Foreign currency translation *(i)* | **15.3** | 11.0 | 40.1 |
| Income taxes *(ii)* | **(7.4)** | (27.3) | (21.1) |
| Income from continuing operations in accordance with U.S. GAAP | **259.1** | 198.6 | 229.1 |
| Loss from discontinued operations in accordance with U.S. GAAP *(iii)* | – | – | (3.0) |
| Income before extraordinary item | **259.1** | 198.6 | 226.1 |
| Reduction of income taxes from the application of prior years' losses *(ii)* | **7.4** | 27.3 | 21.1 |
| Net income for the year in accordance with U.S. GAAP | **266.5** | 225.9 | 247.2 |
| Net income applicable to common shares in accordance with U.S. GAAP | **234.7** | 200.5 | 215.4 |
| Per common share data: | | | |
| Income from continuing operations | **$ 1.39** | $ 1.13 | $ 1.30 |
| Loss from discontinued operations | – | – | (0.02) |
| Income before extraordinary item | **1.39** | 1.13 | 1.28 |
| Extraordinary item | **0.04** | 0.18 | 0.14 |
| Net income | **$ 1.43** | $ 1.31 | $ 1.42 |

*(i) 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 such debt. Under U.S. GAAP, such gains and losses are immediately recognized in income in the period.*

*(ii) Under U.S. GAAP, the reduction of income taxes arising from the application of prior years' losses would be reported separately as an extraordinary item.*

*(iii) Differences arise from the application of the full cost method of accounting and related ceiling test rules under Canadian GAAP from those prescribed under the Securities and Exchange Commission rules.*

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

| | Amount reported under Canadian GAAP | | Amount as adjusted to conform with U.S. GAAP | |
|---|---|---|---|---|
| *December 31 (millions of dollars)* | **1991** | 1990 | **1991** | 1990 |
| Deferred Charges and Other Assets | **91.3** | 240.2 | **64.3** | 197.9 |
| Common Shareholders' Equity | **1,659.3** | 1,280.4 | **1,615.2** | 1,214.4 |

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

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

(i) *In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes". This statement is effective for fiscal years beginning after December 15, 1992. The Company has not calculated the impact that the adoption of this new standard will have on its financial position and results of operations.*

(ii) *In January 1991, the FASB issued Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions". This statement would be effective for the Company January 1, 1995. The Company has not calculated the impact that the adoption of this new standard will have on its financial position and results of operations.*

(iii) *The components of the Company's pension expense in accordance with U.S. GAAP are detailed as follows:*

| *Year ended December 31 (millions of dollars)* | **1991** | 1990 | 1989 |
|---|---|---|---|
| Current service cost | **7.5** | 7.1 | 6.4 |
| Interest on accrued benefits | **15.5** | 15.3 | 14.4 |
| Expected return on pension assets | **(13.3)** | (12.6) | (10.9) |
| Amortization of prior service cost | **2.8** | 2.1 | 2.4 |
| Amortization of transition amount | **(0.3)** | (0.3) | (0.3) |
| Net pension expense | **12.2** | 11.6 | 12.0 |

There is no significant impact on income for any difference between Canadian and U.S. GAAP pension expense, as a major portion of the difference would be deferred and recognized in income in the future when recovered in the tollmaking process.

The funded status of the Company's pension plans for U.S. GAAP purposes is as follows:

| *December 31 (millions of dollars)* | **1991** | 1990 |
|---|---|---|
| Projected benefit obligation | **193.4** | 183.8 |
| Pension assets – market value | **177.7** | 152.1 |
| Deficit | **(15.7)** | (31.7) |
| Unrecognized net loss | **3.9** | 0.3 |
| Unrecognized prior service cost | **19.1** | 20.9 |
| Unrecognized net transitional assets | **(5.6)** | (5.9) |
| Pension asset/(liability) | **1.7** | (16.4) |

The amount of deficit reported above is different than the amount calculated under Canadian GAAP as a result of differences in the valuation of pension assets. Under U.S. GAAP, pension assets are at market value, whereas under Canadian GAAP such assets are at an average market value using a five-year moving average.

# SUPPLEMENTARY INFORMATION

## QUARTERLY CONSOLIDATED FINANCIAL DATA *(Unaudited)*

**(A) SELECTED QUARTERLY FINANCIAL DATA** The following sets forth selected quarterly financial data for the four quarters of 1991 and 1990 in millions of dollars except for per share amounts.

| *Three months ended* | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
|---|---|---|---|---|
| **1991** | | | | |
| Revenues | **849.2** | **711.7** | **681.2** | **852.0** |
| Operating income | **127.4** | **128.1** | **132.5** | **167.3** |
| Net income | **58.5** | **61.5** | **64.5** | **66.7** |
| Net income applicable to common shares | **51.1** | **52.7** | **57.7** | **57.9** |
| Per common share data: | | | | |
| Net income applicable to common shares | **$0.33** | **$0.33** | **$0.34** | **$0.34** |
| **1990** | | | | |
| Revenues | 877.2 | 701.0 | 655.5 | 799.5 |
| Operating income | 115.6 | 109.6 | 108.0 | 119.3 |
| Net income | 55.8 | 51.7 | 53.1 | 54.3 |
| Net income applicable to common shares | 49.2 | 45.1 | 47.0 | 48.2 |
| Per common share data: | | | | |
| Net income applicable to common shares | $0.32 | $0.30 | $0.30 | $0.31 |

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

| | Toronto Stock Exchange | | New York Stock Exchange | |
|---|---|---|---|---|
| | High | Low | High | Low |
| | *(Cdn. $)* | | *(US $)* | |
| **1991** | | | | |
| First Quarter | **$18.00** | **$16.50** | **$15.63** | **$14.25** |
| Second Quarter | **$17.88** | **$17.00** | **$15.63** | **$14.63** |
| Third Quarter | **$17.63** | **$16.00** | **$15.38** | **$14.00** |
| Fourth Quarter | **$18.00** | **$16.25** | **$15.88** | **$14.38** |
| **1990** | | | | |
| First Quarter | $18.00 | $16.25 | $15.13 | $13.75 |
| Second Quarter | 16.75 | 14.38 | 14.63 | 12.38 |
| Third Quarter | 17.38 | 15.00 | 15.38 | 13.13 |
| Fourth Quarter | 17.50 | 15.13 | 15.00 | 12.88 |

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

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

Interest payable on the Company's debt securities held by non-residents, which are not exempt institutions, will be subject to Canadian withholding tax depending upon the terms and provisions of such securities.

**DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN** This Plan allows common and preferred shareholders of the Company to purchase additional common shares of the Company by reinvesting their cash dividends and by making optional cash payments.

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

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

**REGISTERED COMMON SHAREHOLDERS AND DIVIDENDS** As of February 21, 1992 there were 17,674 registered holders of common shares.

Quarterly dividends of 17 cents per common share were declared in the first three quarters of 1990. The 1990 fourth quarter dividend was increased to 18 cents per common share and has remained constant throughout the first three quarters of 1991. In the fourth quarter of 1991, the quarterly dividend was increased to 19 cents per common share.

Declaration of dividends on both preferred and common shares is restricted under certain preferred share provisions and under several debt instruments. At December 31, 1991, under the most restrictive provisions, approximately $322 million was available for the payment of dividends on common shares.

**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* | **1991** | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|
| Ratio of earnings to fixed charges *(1)* | **1.8** | 1.8 | 1.8 | 1.6 | 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 continuing operations before financial charges and income taxes, excluding undistributed income of less than 50 per cent owned persons. The financial data used in the calculation of the ratio of earnings to fixed charges was obtained from financial statements that were prepared in accordance with Canadian generally accepted accounting principles.*

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 note (1) above, but utilizing similar information determined in accordance with United States generally accepted accounting principles.

| *Year ended December 31* | **1991** | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|
| Ratio of earnings to fixed charges | **1.9** | 1.9 | 2.0 | 3.1 | 1.5 |

For information regarding significant differences between Canadian and United States generally accepted accounting principles, see Note 20 to the Company's consolidated financial statements.

# FIVE-YEAR FINANCIAL AND OPERATING HIGHLIGHTS

## FINANCIAL

| *(millions of dollars except where indicated)* | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|
| **Operating Results** | | | | | |
| Revenues | **3,094.1** | 3,033.2 | 3,082.9 | 3,268.7 | 3,161.1 |
| Operating income | **555.3** | 452.5 | 429.5 | 467.6 | 521.0 |
| Income from continuing operations | **251.2** | 214.9 | 210.1 | 72.3 | 171.4 |
| Loss from discontinued operations | – | – | (13.4) | (80.9) | (11.4) |
| Net income/(loss) for the year | **251.2** | 214.9 | 196.7 | (8.6) | 160.0 |
| Net income/(loss) applicable to common shares | **219.4** | 189.5 | 164.9 | (46.0) | 121.4 |
| **Assets** | | | | | |
| Plant, property and equipment (net) | | | | | |
| Gas transmission | **4,727.0** | 3,469.5 | 3,115.1 | 2,541.9 | 2,521.0 |
| Gas sales, marketing and other | **119.9** | 100.6 | 88.6 | 89.5 | 120.9 |
| Total assets | **6,604.7** | 5,239.8 | 4,623.4 | 5,022.9 | 5,356.6 |
| **Capitalization** | | | | | |
| Long-term debt | **3,369.6** | 2,859.3 | 2,443.7 | 2,137.2 | 2,308.8 |
| Preferred shares | | | | | |
| Subject to mandatory redemption | **155.0** | 155.0 | 240.0 | 315.0 | 315.0 |
| Not subject to mandatory redemption | **384.0** | 234.3 | 103.7 | 128.9 | 129.0 |
| Common shareholders' equity | **1,659.3** | 1,280.4 | 1,169.2 | 1,766.1 | 1,678.3 |
| **Cash Flow Data** | | | | | |
| Funds generated from continuing operations | **337.1** | 341.1 | 289.7 | 286.5 | 246.2 |
| Capital expenditures and investments | **1,569.7** | 579.2 | 677.4 | 141.2 | 97.7 |
| **Common Share Statistics** | | | | | |
| Net income/(loss) per common share | | | | | |
| Income from continuing operations | **$ 1.34** | $ 1.23 | $ 1.18 | $ 0.24 | $ 1.05 |
| Loss from discontinued operations | – | – | $ (0.09) | $ (0.55) | $ (0.09) |
| Net income/(loss) for the year | **$ 1.34** | $ 1.23 | $ 1.09 | $ (0.31) | $ 0.96 |
| Dividends declared per common share | **$ 0.73** | $ 0.69 | $ 0.68 | $ 0.68 | $ 1.12 |
| Funds generated from continuing operations per average common share | **$ 2.06** | $ 2.22 | $ 1.91 | $ 1.96 | $ 1.95 |
| Outstanding – year end *(millions)* | **171.4** | 154.2 | 152.6 | 150.5 | 129.2 |
| – weighted average *(millions)* | **163.6** | 153.6 | 151.7 | 146.3 | 126.3 |
| Number of shareholders, December 31 | **18,871** | 17,733 | 19,254 | 22,636 | 24,062 |
| Common equity per share at year end | **$ 9.68** | $ 8.30 | $ 7.66 | $ 11.73 | $ 12.99 |
| **Number of Regular Employees,** December 31 | **1,784** | 1,757 | 1,765 | 1,939 | 2,016 |
| **In Accordance with U.S. GAAP** | | | | | |
| Income from continuing operations | **259.1** | 198.6 | 229.1 | 275.9 | 99.5 |
| Loss from discontinued operations | – | – | (3.0) | (79.4) | (183.0) |
| Net income/(loss) for the year | **266.5** | 225.9 | 247.2 | 196.5 | (83.5) |
| Net income/(loss) applicable to common shares | **234.7** | 200.5 | 215.4 | 159.1 | (122.1) |
| Net income/(loss) per common share | | | | | |
| Income from continuing operations | **$ 1.39** | $ 1.13 | $ 1.30 | $ 1.63 | $ 0.48 |
| Loss from discontinued operations | – | – | $ (0.02) | $ (0.54) | $ (1.45) |
| Net income/(loss) for the year | **$ 1.43** | $ 1.31 | $ 1.42 | $ 1.09 | $ (0.97) |
| Common shareholders' equity | **1,615.2** | 1,214.4 | 1,086.1 | 1,088.7 | 781.6 |
| Common equity per share at year end | **$ 9.42** | $ 7.88 | $ 7.12 | $ 7.23 | $ 6.05 |

## OPERATING

| | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|
| Gas transmission volumes delivered *(billions of cubic feet)* | | | | | |
| Annual | **1,655.1** | 1,509.6 | 1,418.0 | 1,345.6 | 1,152.0 |
| Maximum per day | **5.5** | 5.1 | 5.0 | 5.0 | 4.3 |
| Kilometres of pipeline – including loop line | **12 242** | 11 400 | 11 039 | 10 675 | 10 600 |
| Compressor power *(kilowatts)* | **1 282 300** | 1 210 700 | 1 059 400 | 1 027 400 | 1 023 200 |

# CORPORATE INFORMATION

## DIRECTORS

**J.V. Raymond, Cyr, O.C.**
Chairman and Chief Executive Officer
BCE Inc., Montréal

**A. Jean de Grandpré, C.C., Q.C.**
Founding Director and Chairman Emeritus
BCE Inc., Montréal

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

**Russell E. Harrison**
Past Chairman
Canadian Imperial Bank of Commerce
Toronto

**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.**
Counsel, McCarthy Tétrault, Toronto

**Gerald J. Maier**
Chairman, President and
Chief Executive Officer
TransCanada PipeLines Limited, Calgary

**Gordon P. Osler**
Corporate Director, Toronto

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

**Harry G. Schaefer**
Chairman of the Board
and Chief Financial Officer
TransAlta Utilities Corporation
Calgary

**Neil J. Stewart**
Corporate Director, Calgary

**Robert Stollery**
Chairman, PCL Constructors Inc.
Edmonton

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

## COMMITTEES OF THE BOARD OF DIRECTORS

### EXECUTIVE
J.V.R. Cyr – *Chairman*
A.J. de Grandpré
R.H. Jones
G.J. Maier
G.P. Osler
H.G. Schaefer

### AUDIT
R.H. Jones – *Chairman*
A.J. de Grandpré
R.E. Dineen, Jr.
R.E. Harrison

### HUMAN RESOURCES
J.V.R. Cyr – *Chairman*
G.P. Osler
H.C. Pinder, Sr.
N.J. Stewart
A.R. Taylor

### KESIP
H.C. Pinder, Sr. – *Chairman*
G.P. Osler
N.J. Stewart
A.R. Taylor

### NOMINATING
G.P. Osler – *Chairman*
J.V.R. Cyr
A.J. de Grandpré
R.E. Harrison

## EXECUTIVE MANAGEMENT

**G.J. Maier**
Chairman, President
and Chief Executive Officer

**C.K. Orr**
Group Vice-President

**G.M. Hugh**
Chief Operating Officer

**G.W. Watson**
Chief Financial Officer

**R.A.M. Young, Q.C.**
Senior Vice-President, Law

**C.R. Frew**
President, Western Gas Marketing

**D.E. Henwood**
Senior Vice-President

**G.J. Couper**
Senior Vice-President

## CORPORATE MANAGEMENT

**H.F. Button**
Vice-President

**D.J. Cohen**
Vice-President, Information Systems

**M. Durnin**
Vice-President
Engineering and Operations

**M. Feldman**
Vice-President
Transmission Systems Planning

**R.B. Hodgins**
Vice-President, Finance and Treasurer

**S. Jakymiw**
Vice-President, Rates

**W.E. Lunt**
Vice-President, Economics and Planning

**J.M. Murray**
Corporate Secretary
and General Counsel, Corporate

**G.G. Penrose**
Assistant Treasurer

**D.E. Reid**
Vice-President, Engineering

**D. Russell**
Vice-President

**W.A. Scotland**
Vice-President, Government Relations

**L.W. Sloan**
Assistant Secretary

**R.T. Smith**
Vice-President and Controller

**J.W. Stinson**
Vice-President, Human Resources

**P.R. Wigle**
Vice-President, Transportation

**A.A. Wilkins**
Vice-President, Gas Reserves

# CORPORATE INFORMATION

## WHOLLY-OWNED SUBSIDIARIES

### WESTERN GAS MARKETING LIMITED

**C.R. Frew**
President

**G.J. Maier**
Chairman

**S.F. Becker**
Vice-President and Controller

**D.G. Hanson**
Vice-President,
Short Term Marketing

**B.G. Luft**
Vice President, Gas Supply

**J.W.A. McDonald**
Vice-President, Operations

**M.A. Ross**
Vice-President,
Long Term Marketing

**L.W. Sloan**
Vice-President, Secretary
and General Counsel

### CANCARB LIMITED

**R.D. Hale**
President and
Chief Operating Officer

### IROQUOIS PIPELINE OPERATING COMPANY

**R.J. Reid**
President

**Derek Henwood**
Chairman

**K.R. Austin**
Vice-President,
Engineering and Operations

**R. Craig-Murphie**
Vice-President,
Finance and Administration

**B.M. Otis**
Vice-President,
Transportation and Rates

## CORPORATE OFFICES

### TRANSCANADA PIPELINES TOWER

111 – 5th Avenue S.W.
Calgary, Alberta
T2P 3Y6
Telephone: (403) 267-6100

### TORONTO OFFICE

55 Yonge Street, 8th Floor
Toronto, Ontario
M5E 1J4
Telephone: (416) 869-2111

## SUBSIDIARY OFFICES

### CANCARB LIMITED

P.O. Box 310
1702 Brier Park Crescent N.W.
Medicine Hat, Alberta
T1A 7G1
Telephone: (403) 527-1121

### IROQUOIS PIPELINE OPERATING COMPANY

1 Corporate Drive, Suite 606
Shelton, Connecticut, 06484
Telephone: (203) 925-2700

### WESTERN GAS MARKETING LIMITED

530 – 8th Avenue S.W.
Calgary, Alberta
T2P 3V6
Telephone: (403) 267-5611

### WESTERN GAS MARKETING INC.

Suite 1120, 11 Greenway Plaza
Houston, Texas 77046
Telephone: (713) 871-5900

## OTHER SUBSIDIARIES

TCPL Cogeneration Ltd.
TCPL Ireland Financial Services
TCPL Power Ltd.
TCPL Project Engineering Ltd.
TCPL Storage Ltd.
TransCanada Border PipeLine Ltd.
TransCanada GL, Inc.
TransCanada Iroquois Ltd.
TransCan Finance Alberta Ltd.
TransCan Northern Ltd.
TransCanada PipeLine Division Limited
TransCanada PipeLine USA Ltd.
TransCanada PipeLines Investments (Québec) Inc.
Western Gas Marketing Inc.

## AFFILIATES

Great Lakes Gas Transmission Company
Trans Québec & Maritimes Pipeline Inc.

# INVESTOR INFORMATION

## COMMON SHARES

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

## PREFERRED SHARES

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

\$2.80 cumulative redeemable first preferred shares

Cumulative redeemable first preferred shares series H, series I and series O

Cumulative redeemable retractable first preferred shares series J and series N

Cumulative redeemable perpetual first preferred shares series K, series L and series M are transferable at the office of the Company

## FIRST MORTGAGE PIPE LINE BONDS

**Trustee:**
National Trust Company, Toronto

**Registrar Canadian Series:**
9¼% and 8⅞%, series A and B,
National Trust Company, Montréal, Toronto, Winnipeg, Calgary and Vancouver

**Co-Registrars U.S. Series:**
16% and 16¾% U.S.
National Trust Company and
Morgan Guaranty Trust Company
of New York

**Co-Registrars U.K. Series:**
16½% U.K.
National Trust Company and The Royal Bank of Scotland plc, London, England

## DEBENTURES

**Trustee and Registrar Canadian Series:**
Central Guaranty Trust Company, Montréal, Toronto, Winnipeg, Calgary and Vancouver
9% series E sinking fund,
9.60% series G sinking fund,
11.70% series I,
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
and 11.80% series U debentures

**Trustee and Registrar U.S. Series:**
Canadian Imperial Bank of Commerce (New York) 9.875% U.S. Debentures

## CONVERTIBLE SUBORDINATED DEBENTURES

**Trustee and Registrar Canadian Series:**
Montreal Trust Company, Calgary
10.426% Convertible

## SUBORDINATED DEBENTURES

**Trustee and Registrar U.S. Series:**
The Bank of Nova Scotia Trust Company (New York)
9.125% U.S.

## MEDIUM TERM NOTES

**Paying Agent:**
The Royal Trust Company, Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver

## STOCK EXCHANGES

Common and preferred shares are listed on the Toronto, Montréal, Vancouver, Alberta and Winnipeg stock exchanges. The 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 retractable first preferred shares:
Series H: TRP.PR.H
Series I: TRP.PR.I
Series J: TRP.PR.J
Series N: TRP.PR.N
Series O: TRP.PR.O

## FORM 10-K

The Company's report to the Securities and Exchange Commission on Form 10-K is available to common shareholders at no charge by writing to:
Corporate Secretary and
General Counsel, Corporate
TransCanada PipeLines Limited
P.O. Box 1000
Station M
Calgary, Alberta
T2P 4K5

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## DEBORAH LOUGHEED SINCLAIR, A.S.A.

In 1991, TransCanada PipeLines commissioned Alberta artist Deborah Lougheed Sinclair, A.S.A., to paint a series of landscapes on the Company's mainline right-of-way across Canada. These paintings, which are reproduced on the inside front cover, pages 6, 12, and 18, celebrate the unity of TransCanada's Canada, from the wheat farms of Saskatchewan to the villages of Québec.

Deborah Lougheed Sinclair is a graduate of Queen's University, where she received a Bachelor of Fine Arts (Hons.) in 1976, and the Banff School of Fine Arts. She has had solo exhibitions in Calgary, Toronto, Ottawa and Kingston and has participated in more than 15 group exhibits since 1982. She has had numerous corporate commissions and her work appears in the collections of 50 Canadian companies.

## PHOTOGRAPHY

Lisa Freedman: pages 14, 21 and 23
Brian Harder: pages 10 and 25

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111 – 5th Avenue S.W.
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