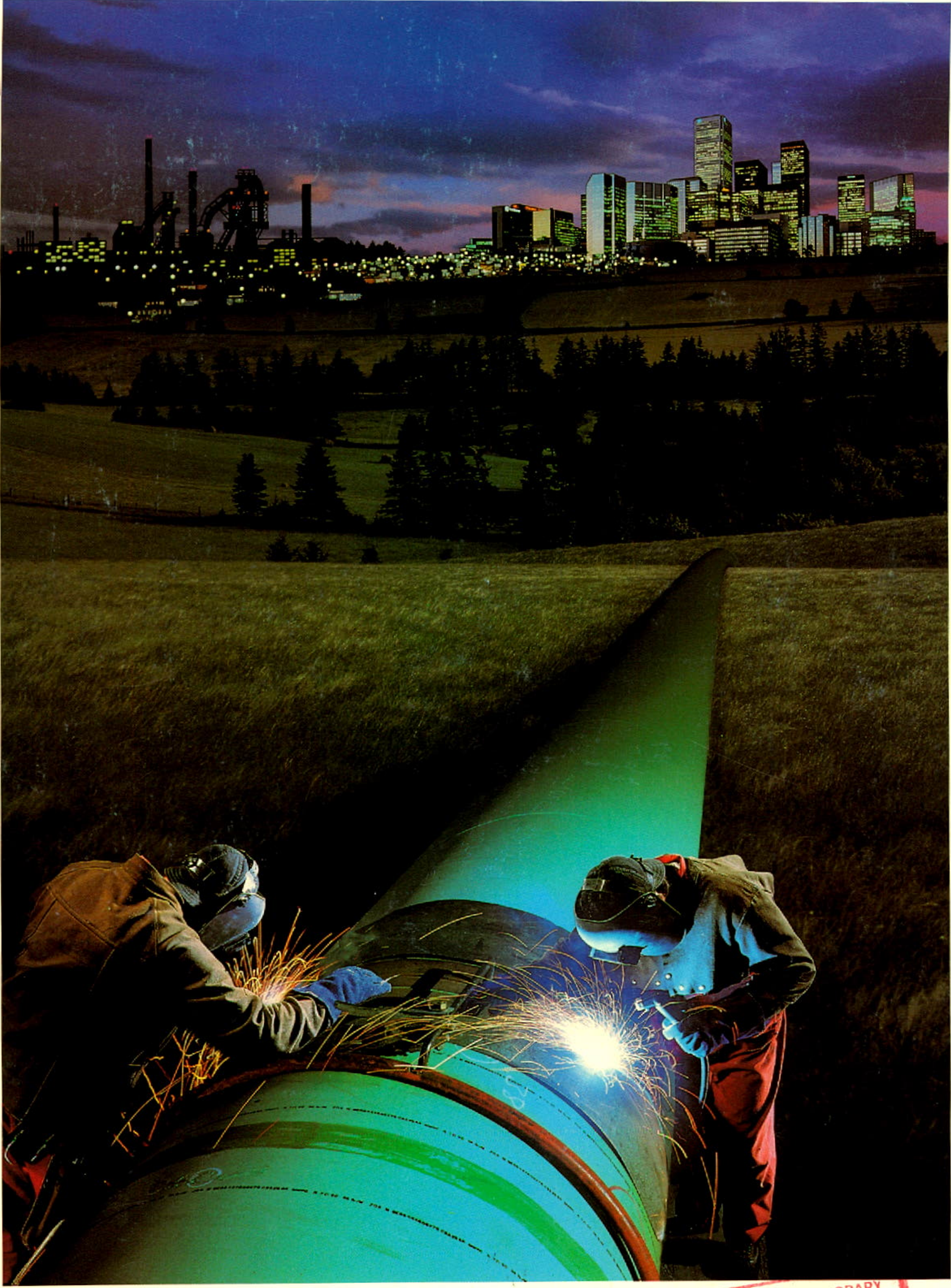
TransCanada PipeLines Limited



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ANNUAL

REPORT

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The cover

The cover photograph is a representation of how TransCanada PipeLines' natural gas transmission system meets the energy needs of consumers, distributors and industries in Canada and in the United States. The system is currently undergoing significant expansion to increase and improve its level of service.

Annual Meeting

The 1991 Annual Meeting of Shareholders is scheduled for Friday, April 26, 1991 at 10:30 a.m. in the Chateau Laurier Hotel, Ottawa, Ontario.

Corporate Profile

TransCanada's buried natural gas transmission system crosses diverse landscapes.

TransCanada PipeLines is a major North American natural gas transportation and marketing corporation with more than 30 years experience delivering Western Canadian natural gas to markets in Canada and the United States. The enhancement of shareholder value through timely investment, prudent management and earnings growth is central to the Company's business objectives.

The core of the Company is its 100 per cent owned Canadian mainline gas transmission system which runs from the Alberta/Saskatchewan border to Montréal, Québec. A wholly-owned subsidiary, Western Gas Marketing, is the leading Canadian gas marketer, with the largest supply pool in North America. TransCanada has associated investments in two Canadian and two United States natural gas pipelines linked to its mainline system. A third pipeline in the United States, the Iroquois Gas Transmission System, is under construction.

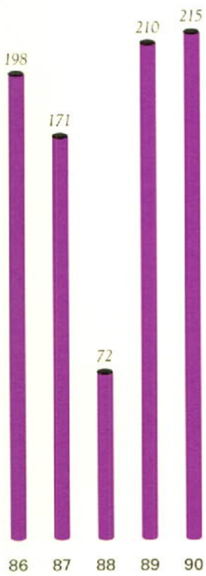
The Company also has interests in two electric power generation projects currently under construction, one in Rhode Island state and the second in the province of Ontario. Power generation is capital-intensive, natural gas-fueled and utilizes engineering and technology related to that required in pipeline operations. Another wholly-owned subsidiary, Cancarb, is the leading international producer and marketer of high-quality, thermal carbon black.

Through its investment in the Iroquois Gas Transmission System, TransCanada is playing a leading role in developing incremental markets for Western Canadian gas in the Northeast United States. A companion strategy is the expansion of the Company's mainline gas transmission system to meet both export opportunities and increased domestic demand.

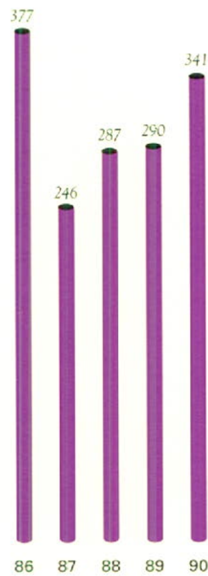
A history of sound pipeline investment, a record of cost-effective operations and years of planning now position TransCanada in a pivotal period of growth. The key current developments for the Company are: regulatory decisions in 1990 and 1991; the largest single expansion in the history of the Canadian mainline; and major capital investments in associated pipelines and electric power generation projects. Essential to the success of these efforts is the competent, reliable performance of an excellent team of directors, officers, managers and employees.

Highlights

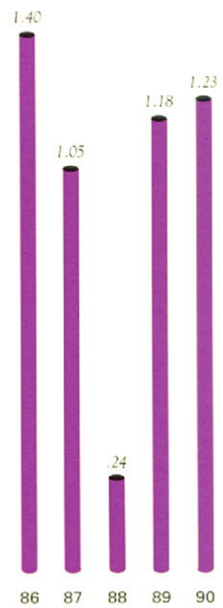
Income from Continuing Operations
(millions of dollars)



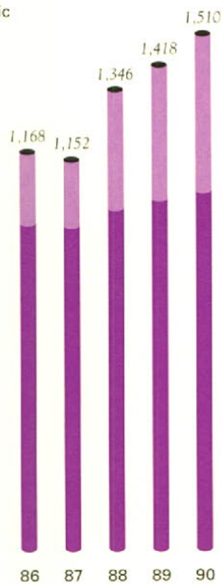
Funds Generated from Continuing Operations
(millions of dollars)



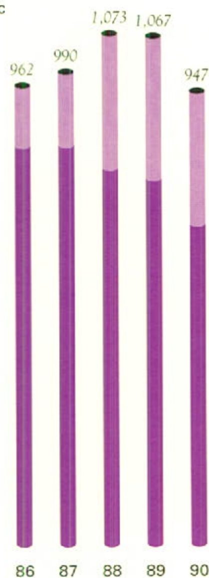
Net Income per Common Share from Continuing Operations
(dollars per share)



Gas Transmission Volumes Delivered Annually
(billions of cubic feet)



Domestic and Export Sales
(billions of cubic feet)



Steel pipe is stockpiled prior to an expansion project on the TransCanada pipeline system.

Financial *(millions of dollars except per common share data)*	1990	1989	1988
Income from continuing operations	214.9	210.1	72.3
Loss from discontinued operations	–	(13.4)	(80.9)
Net income/(loss) for the year	214.9	196.7	(8.6)
Net income/(loss) applicable to common shares	189.5	164.9	(46.0)
Funds generated from continuing operations	341.1	289.7	286.5
Cash generated from discontinued operations	–	44.4	155.5
Capital expenditures	482.2	671.0	146.4
Per common share data			
Net income/(loss) applicable to common shares:			
from continuing operations	$ 1.23	$ 1.18	$ 0.24
from discontinued operations	$ –	$(0.09)	$(0.55)
Net income/(loss) applicable to common shares	$ 1.23	$ 1.09	$(0.31)
Funds generated from continuing operations	$ 2.22	$ 1.91	$ 1.96
Dividends declared	$ 0.69	$ 0.68	$ 0.68

Operating Statistics *(billions of cubic feet)*	1990	1989	1988
Gas transmission volumes delivered annually			
Domestic	1,051.9	1,031.1	1,007.7
Export	457.7	386.9	337.9
Gas sales and marketing volumes sold annually			
Domestic	676.1	771.1	792.4
Export	271.2	296.3	280.1

Corporate Mission

TransCanada PipeLines' business values are driven by a corporate vision expressed in the Mission Statement updated by the Company in 1990.

This statement was developed through an intensive process in which officers, management and employees participated. It has, therefore, gained broad acceptance inside the Company. Initiatives are underway to implement these principles in all business dealings.

Our Mission

We are committed to achieving profitable growth by providing the highest quality services to our customers with our primary focus on achieving preeminence in the transportation and marketing of natural gas in North America.

We will fulfill this mission by building on the strong foundation of our existing business and through the pursuit of business excellence.

Business Excellence

We believe business excellence is achieved through organizational competence of the highest order. To achieve this:

- *We employ and develop creative and innovative men and women who are encouraged to realize their full potential and expected to effectively contribute to the performance of the Company.*
- *We provide a working environment which emphasizes initiative, active involvement, communication, the achievement of goals and recognition for contributions to success.*
- *We conduct our affairs with integrity, and in a manner respectful of both the environment and the safety of our employees and the public.*
- *We will develop and exploit business opportunities by anticipating changes in the business environment and by enhancing and utilizing our strategic advantages.*
- *We will, above all, succeed in our dynamic and competitive environment by functioning as a highly effective team.*

The right-of-way is prepared by bull dozers which remove soil that is conserved for replacement after construction.

Gerald J. Maier

The improvement in TransCanada PipeLines' financial and operating results in 1990 reflect a commitment to maximize performance in natural gas transportation, marketing and complementary businesses. The most important achievement of the year was the successful culmination of the large and complex project to market and deliver Western Canadian gas to the Northeast United States.

Key elements included the approval of the Iroquois Gas Transmission System, and expansion of TransCanada's Canadian mainline that ranks in significance with its original construction more than 30 years ago. Of equal importance was the development of producer support and the conclusion of long-term gas purchase arrangements for the Iroquois system. The entire undertaking is of critical importance to TransCanada and its group of supporting companies. The positive impact on the Company's financial performance and earnings will be apparent beginning in 1991. The strategic advantage it brings to Canada and the Canadian gas industry will be recognized over the long term.

In the latter part of the 1980's, after a disciplined period of assessment, planning and rationalization, TransCanada refocused its business thrust on the natural gas industry. This action is in harmony with new opportunities in a changing North American energy economy. Natural gas demand in the 1990's will be fostered by competitive price, reliable long-term supply and environmental advantages. The Company is well positioned to capitalize on the growing market for Western Canadian natural gas, particularly in the Northeast United States, and the need for additional power generation throughout much of North America.

Regulatory and industry support for projects in Canada and the United States, coupled with successful capital financings in 1990 and subsequent to year-end, demonstrated that regulators, financiers, gas producers and purchasers recognize the merit of TransCanada's business projects.

J.V. Raymond Cyr

Financial Results

Net income applicable to common shares in 1990 was $189.5 million, a 14.9 per cent increase over the $164.9 million recorded in 1989. The net income figures on a per share basis for 1990 and 1989 are $1.23 and $1.09 respectively, an increase of 12.8 per cent.

At this stage, earnings are only beginning to reflect recent breakthroughs and the soundness of Company strategies. We believe shareholders will continue to benefit from improved performance in the future.

Operating Highlights

Transportation

Major facilities expansion which began in 1989 enabled TransCanada to transport record volumes of natural gas through its mainline and associated pipeline systems in 1990. Natural gas throughput by the mainline system increased 6.5 per cent in 1990 to 1.5 trillion cubic feet for the year.

Regulatory

A series of regulatory decisions in Canada and the United States pertaining to the expansion of the Company's North American gas transportation systems are of long-term importance to the entire natural gas industry. For TransCanada, the 1990 rulings give access to the major markets developing in the United States Northeast. They also permit continued response to the increasing requirements of Canadian gas consumers.

The National Energy Board confirmed the continuation of TransCanada's traditional rolled-in toll methodology. The Board also approved construction of part of the 1991 and 1992 facilities required for the Canadian mainline. In the United States, TransCanada and its partners received approval to build the Iroquois Gas Transmission System and expand the Great Lakes Gas Transmission System.

Capital Investment

Capital investments made by TransCanada, plus its proportionate share of investments made by associated pipelines and projects, totalled $682 million in 1990. Approximately 69 per cent of this amount was invested in TransCanada's Canadian mainline system, primarily to increase throughput capacity. Under that program, 321 km (200 miles) of pipeline loop and more than 150 megawatts of compression power were added.

Pipe is strung along the right-of-way in preparation for welding.

The Company's proportionate share of expansion projects on affiliated pipelines totalled $113 million and its share of investments made by power generation projects totalled $92 million.

This is the second successive year in which the Company has invested substantial capital to increase pipeline capacity. We are proud that our engineering and operations team succeeded in completing the projects on schedule and within budget.

Marketing

Sales of natural gas by Western Gas Marketing Limited, a wholly-owned subsidiary of TransCanada, declined by 11.3 per cent from 1989. This decline was due to the economic downturn, warmer winter temperatures and increased competition for markets resulting from deregulation in the natural gas industry.

Western Gas continues to be the largest gas marketer in Canada and one of the largest in North America with 19 trillion cubic feet of reserves under contract. Loss of some Canadian markets following deregulation was expected, but Western Gas continues to compete effectively in the new business environment. It has entered into a number of new long-term export sales arrangements that will become effective in the early 1990's as pipeline capacity from Western Canada is increased by TransCanada and others.

Western Gas enjoys strategic advantages unmatched by competitors. It intends to enhance its position in the market and to develop opportunities by capitalizing on its experience and strength.

Other Businesses

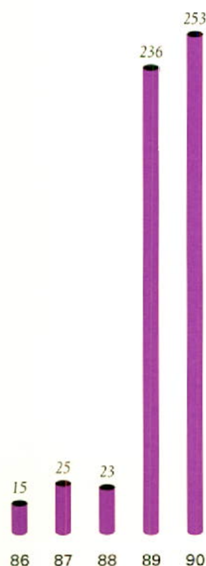
The first 250-megawatt phase of the 500-megawatt Ocean State Power electric power generation plant in Rhode Island was placed in commercial operation in December 1990. TransCanada has a 40 per cent interest in this development and the second phase is on schedule for completion in the fourth quarter of 1991. TransCanada played a key role in developing this project which provides an important market for Western Canadian natural gas.

In Ontario, the Company has a 36-megawatt electric power generation plant under construction near Nipigon. This plant is expected to go into production in the first half of 1992.

Care is taken to line up sections of pipe precisely prior to welding.

Mainline Capital Expenditures
(millions of dollars)

Capital Expenditures of Associated Pipelines
(millions of dollars)



Cancarb Limited, TransCanada's wholly-owned, thermal carbon black producer located in Medicine Hat, Alberta, achieved record sales in 1990. The 1991 sales volume outlook is positive, despite the economic downturn which caused lower sales in the United States. This decline is expected to be offset by stronger export markets elsewhere.

Our program to divest both non-essential and under-performing assets continued, with the disposal of the Company's interests in Les Mines Selbaie and Montreal Pipeline Limited. Subsequent to year-end, Pipetronix and its operations were sold.

In other important initiatives, TransCanada reduced two major commitments incurred in previous years. A refinancing of the Topgas program was sponsored by TransCanada; this resulted in a lowering of interest costs borne by producers as well as a significant reduction in TransCanada's indemnification. In a transaction with the Northern Border partnership and its lenders, TransCanada was released from certain obligations to the Northern Border lenders. While such actions do not affect the bottom line, they do strengthen our financial structure.

Objectives and Priorities

TransCanada's first objective is the enhancement of financial and operating performance in conjunction with providing quality service at reasonable cost. The Company will continue to pursue this through improved operating efficiency, expansion and extension of pipeline systems, investments in complementary ventures and improving or divesting non-essential and under-performing assets.

Present specific priorities are:

- To complete current pipeline expansions on time and within budget. The multi-year construction program for the Canadian mainline system is expected to be in the order of $3 billion. TransCanada's proportionate interest in new facilities on Great Lakes Gas Transmission, Northern Border and the Iroquois Gas Transmission System is expected to reach $500 million.
- To successfully complete the Ocean State Power and the Nipigon power generation plants.
- To diversify and expand natural gas markets, creating sales for producers and ensuring long-term supply security for core market customers.
- To continue the improvement of pipeline operating efficiency while maintaining safety and reliability

A deep ditch into which the pipe will be placed is dug by a trencher.

standards. Quality service at reasonable cost is essential to maintain a preeminent position in the competitive gas transportation environment.

- To develop new investment opportunities which are an extension of, or are complementary to, our transportation and marketing businesses. Electric power generation by independent power producers appears to be an important new growth business over the next decade, since it offers opportunities to TransCanada as a transporter and marketer of natural gas, as well as an investor and operator of power plants.

Recognition of Employees and Board Members

Employees and their families will remember 1990 as the year the Company moved its head office from Toronto to Calgary. The decision to relocate was very sound from a business perspective, but was difficult because of the effect it had on employees. Those who chose to make the move were confronted with an exceptionally-demanding workload during the transition. However, the "business as usual" spirit of head-office and field staff minimized the disruption during one of the Company's most active and successful years. We acknowledge this outstanding contribution and commend all TransCanada employees for their tremendous effort.

TransCanada would also like to recognize the past contribution made by those who were not able to relocate. We wish them success in their future endeavours. It is gratifying that the newly recruited staff members are exhibiting capability and commitment, are quickly learning the business, and are becoming valued and productive members of the TransCanada team.

We would also like to express our appreciation to our directors for their valued counsel and support during the past year. All directors will be standing for re-election at the Annual Meeting on April 26, 1991, at the Chateau Laurier Hotel in Ottawa, where we hope to see as many shareholders as possible.

G.J. Maier P. Eng.
President and Chief Executive Officer

J.V.R. Cyr O.C.
Chairman

TransCanada's 1990 mainline construction program involved the installation of 321 km of additional pipeline. Here, pipe is lined up for welding during construction near the Alberta/Saskatchewan border where the pipeline system begins.

The ends of the pipe are cleaned and bevelled for a snug, secure fit.

Canadian Mainline Operations

With TransCanada restructured and focused on gas transportation, marketing and complementary businesses, the importance to the Company of the safe, efficient Canadian mainline system is clearly evident.

Improved operating performance, record delivery volumes and continued capacity expansion reflect the technical competence and investment opportunities in the Company's core business.

TransCanada will continue to expand its capacity on the Canadian mainline to capitalize on the attachment of incremental markets and the broader use of natural gas in areas such as electric power generation. Underlying this, however, will be a strict, market-driven discipline to ensure that the pipeline system provides service to producers and distributors in a cost-effective manner.

Transportation Volumes

New capacity on the mainline system, combined with high levels of efficiency and reliability, resulted in the transportation of a record 1.5 trillion cubic feet of gas during the year, up 6.5 per cent over record levels in 1989. The completion of new facilities late in the year triggered a record daily delivery of 5.1 billion cubic feet.

Deliveries to domestic markets for the year reached 1.052 trillion cubic feet, two per cent higher than in 1989. Export deliveries grew 18.3 per cent to 458 billion cubic feet.

The Company expects that the growth in transportation volumes will be oriented towards exports during the next several years. However, the Canadian mainline system will continue to be principally devoted to domestic demand, and Canadian producers, distributors and consumers will be principal beneficiaries of system expansion.

Construction

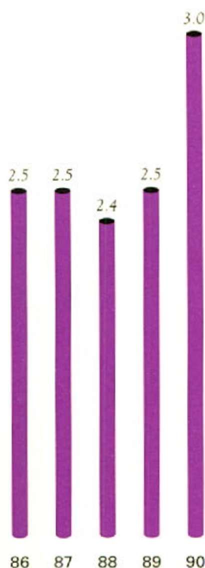
TransCanada has invested more than $1 billion during the past two years to increase transportation capacity on the mainline system by 650 million cubic feet per day. Some 685 km (425 miles) of pipeline loop and 183.3 megawatts of compression power have been added.

The 1990 portion of expansion involved the investment of $472 million on construction in Ontario, Manitoba and Saskatchewan. The Company completed 321 km (200 miles) of loop. Seven compressor units were constructed, adding a total of 124 megawatts of power. The new facilities provided an additional 224 million cubic feet per day of new, firm transportation service to markets for Western Canadian natural gas.

The next stage of TransCanada's expansion program is the major facilities expansion of 1 600 km (995 miles) of loop, 240 megawatts of compression and 832 million cubic feet of new throughput capacity. As applied for, and if fully approved, the cost of this program is expected to be $2.6 billion.

Average Rate Base

(billions of dollars)



Average Authorized Toll to Eastern Canada

(cents per gigajoule)

** 1991 toll is that applied for in TransCanada's application to the National Energy Board dated December 1990.*

1990 Regulatory Issues

1991 and 1992 Facilities Application

In late 1989, TransCanada filed a revised application with the National Energy Board (NEB) for a major facilities expansion on the Canadian mainline in 1991 and 1992. This expansion would be the largest single such program since the system was completed in 1958.

The expansion is extensive in all provinces from Saskatchewan to Québec and will serve markets in Eastern Canada and the United States.

The NEB's public hearing on the application commenced in March 1990. The scope of the hearing was expanded after some interveners successfully appealed to the Federal Court to have toll methodology reexamined by the Board.

The Tolls Issue

Historically, tolls set on the system have been rolled-in tolls. This resulted in all shippers on the system sharing all the costs of service and expansion. Some interveners wanted an incremental toll which would require new system users to pay for the costs of new facilities.

In November 1990, after a lengthy hearing, the NEB decided to apply the traditional rolled-in toll methodology to the new facilities. This was an important decision for the natural gas industry, as well as for TransCanada, because it reaffirmed the best economic basis upon which to cost allocate expansion.

In its decision, the NEB recognized the integrated nature of the pipeline system and the relatively constant growth it has experienced over the past 30 years. The Board found it is the aggregate demand of all shippers, old and new, that gives rise to the need for additional pipeline capacity.

The Board also found that, in constant dollars, the projected rolled-in tolls for the 1990's after expansion would be lower than tolls during the 1970's. They would be higher than 1980 tolls, but for only a few years.

The pipe is joined together by automatic welders housed in special huts lowered over the pipe.

Other Facilities Approvals

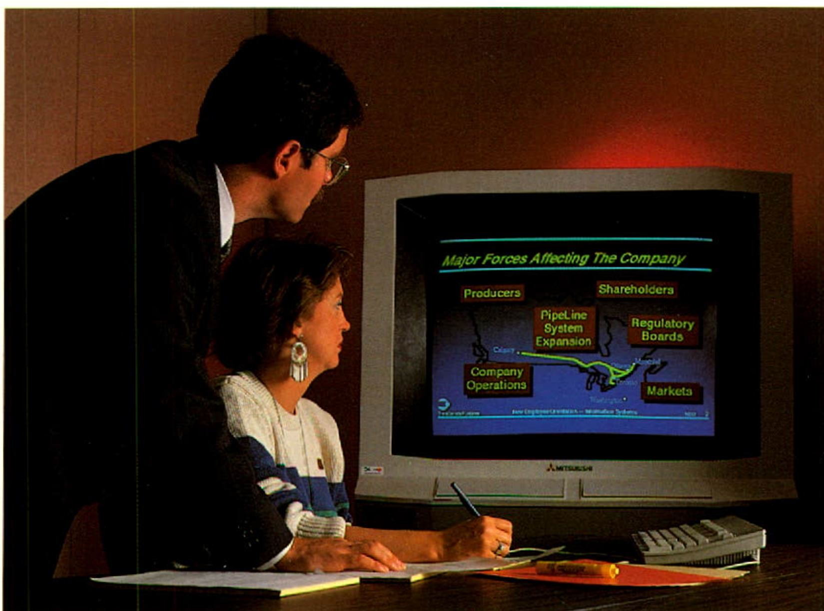
In May 1990, the NEB approved TransCanada's application for three 14-megawatt compressor units, at a cost of $62.5 million, to be installed between North Bay and Ottawa.

In November 1990, the Board approved construction of a portion of the facilities TransCanada applied for in its 1991 and 1992 expansion program. This followed a request from the Company, in October, for early consideration of some facilities because of the unexpectedly lengthy hearing for the overall application.

The NEB's partial facilities approval covers construction of 396 km (245 miles) of pipeline loop and the relocation of two compressors, for a total cost of $560 million.

1991 Tolls

In December 1990, the National Energy Board granted TransCanada an interim toll increase of 12 per cent, effective January 1, 1991, for the Canadian mainline system. A complete application for 1991 tolls is currently before the NEB, and it is expected that hearings will take place in the spring. The principal requirement for the increase is the cost of system expansion and related operating costs.



Regulatory issues are an important part of the Company's business.

A bevelling machine prepares pipe which has been strung out for welding.

Field weld joints are coated to protect the pipe from corrosion.

Associated Pipelines

Expansion on TransCanada's associated pipeline systems in Canada and the United States is driven by the same market influences that are behind facilities construction on the Canadian mainline system, namely the competitive advantages enjoyed by natural gas in the North American energy economy.

A most important event for the Company was the United States Federal Energy Regulatory Commission's (FERC) approval for the Iroquois Gas Transmission System. The Iroquois project represents a major breakthrough for both TransCanada and Western Canadian natural gas producers because it gives access to the incremental market for gas in the Northeast United States.

The Iroquois Gas Transmission System

In November 1990, after years of regulatory controversy and hearings, the FERC issued a certificate for the construction of the US $600 million Iroquois pipeline. TransCanada has a 29 per cent interest in the Iroquois Gas Transmission System L.P.

When fully completed, the 595 km (370 miles) route will deliver 575 million cubic feet per day of Western Canadian gas from TransCanada's mainline at Iroquois, Ontario, across the St. Lawrence River, through New York and Connecticut to Long Island.

Long-term firm service contracts for the gas volumes have been concluded with distributors in New York, New Jersey, Connecticut, Massachusetts, Rhode Island and New Hampshire.

In December, a major Canadian steel producer won a US $90 million contract for pipe for the project. Subsequent to year-end, a major international bank was awarded the financing of the project. Right-of-way acquisition is in the final stages and crossing the Long Island Sound will commence in March.

Service will commence in November 1991 and the full capacity of the line is expected to be available to shippers by November 1992.

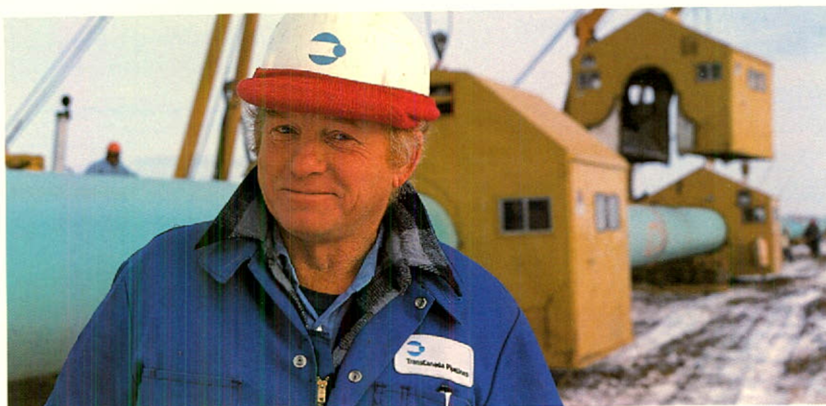
Great Lakes Gas Transmission System

An expanded Great Lakes Gas Transmission System (Great Lakes) enabled a record volume of 551.6 billion cubic feet of throughput in 1990, up six per cent over 1989 deliveries. During the year, US $200 million of new facilities were placed in service on this Midwestern United States pipeline in which TransCanada has a 50 per cent interest.

In September, the FERC approved a US $525 million major facilities expansion for 1990 and 1991 which entails looping a major portion of the existing pipeline. Great Lakes constructed approximately 40 km (25 miles) of the loop before year-end 1990. The balance of 700 km (435 miles) of construction will be completed and in service for November 1, 1991.

Effective November 1990, Great Lakes became an open access pipeline under the FERC rules which opens the system to requests for transportation service from any qualified shipper. The FERC also approved the major portion of a rates settlement for Great Lakes; outstanding rates issues are expected to be resolved in 1991.

Pipeline supervisors and inspectors monitor all aspects of construction.



Northern Border Pipeline Company

Gas deliveries in 1990 through Northern Border Pipeline Company (Northern Border), in which TransCanada holds a 30 per cent interest, experienced a 2.7 per cent increase to 399.5 billion cubic feet from the 1989 record of 388.7 billion cubic feet.

Late in the year, Northern Border reached an agreement with Natural Gas Pipeline Company of America (Natural) which will see Northern Border acquire Natural's 240-km (150 mile), 30-inch Iowa Line at a cost not to exceed US $90 million.

The Iowa Line will be integrated with Northern Border's extension and expansion plan to provide increased transportation capacity for Western Canadian gas reaching Midwestern United States markets.

The FERC approved a settlement filing which included an extension of the Northern Border pipeline's depreciation life, a reduction in the cost-of-service transportation tariff, and a 12 per cent return on equity. The reduced transportation tariff improves the competitiveness of gas supplies shipped on Northern Border. As part of the settlement and a restructuring of bank debt, TransCanada was released from certain obligations to Northern Border's lenders.

Northern Border received FERC approval to construct a US $16 million compressor station which will add 150 million cubic feet per day of capacity when placed in service in November 1991. The Company also received authorization to replace two compressor units at a cost of approximately US $10 million. The replacements, scheduled over 1991 and 1992, will increase system reliability and reduce operating and maintenance costs.

Foothills Pipe Lines (Sask.) Ltd.

Foothills Pipe Lines (Sask.), delivers Canadian gas to Northern Border at Monchy, Saskatchewan. In 1990, it transported a record volume of 337 billion cubic feet of natural gas. TransCanada operates Foothills (Sask.) and has a 44 per cent interest in the Company.

In July, Foothills (Sask.) put into service a $35 million compressor station near Val Marie, Saskatchewan, to provide increased security of delivery for the pipeline system during peak-load periods.

Each weld is x-rayed to ensure that it is free of defects and meets quality standards.

Trans Québec & Maritimes Pipeline

Deliveries by Trans Québec & Maritimes Pipeline (TQM) to Québec markets in 1990 were 95.3 billion cubic feet of natural gas, unchanged from 1989. TransCanada has a 50 per cent interest in the TQM Pipeline Partnership which owns the pipeline.

The NEB authorized a rate of return on equity of 13.75 per cent for 1990.

Northern Frontier Reserves

In 1990, TransCanada continued to develop long-term plans to become a major participant in the transmission of Northern Frontier gas reserves to markets in North America. A successful project will depend on several market factors such as price and demand.

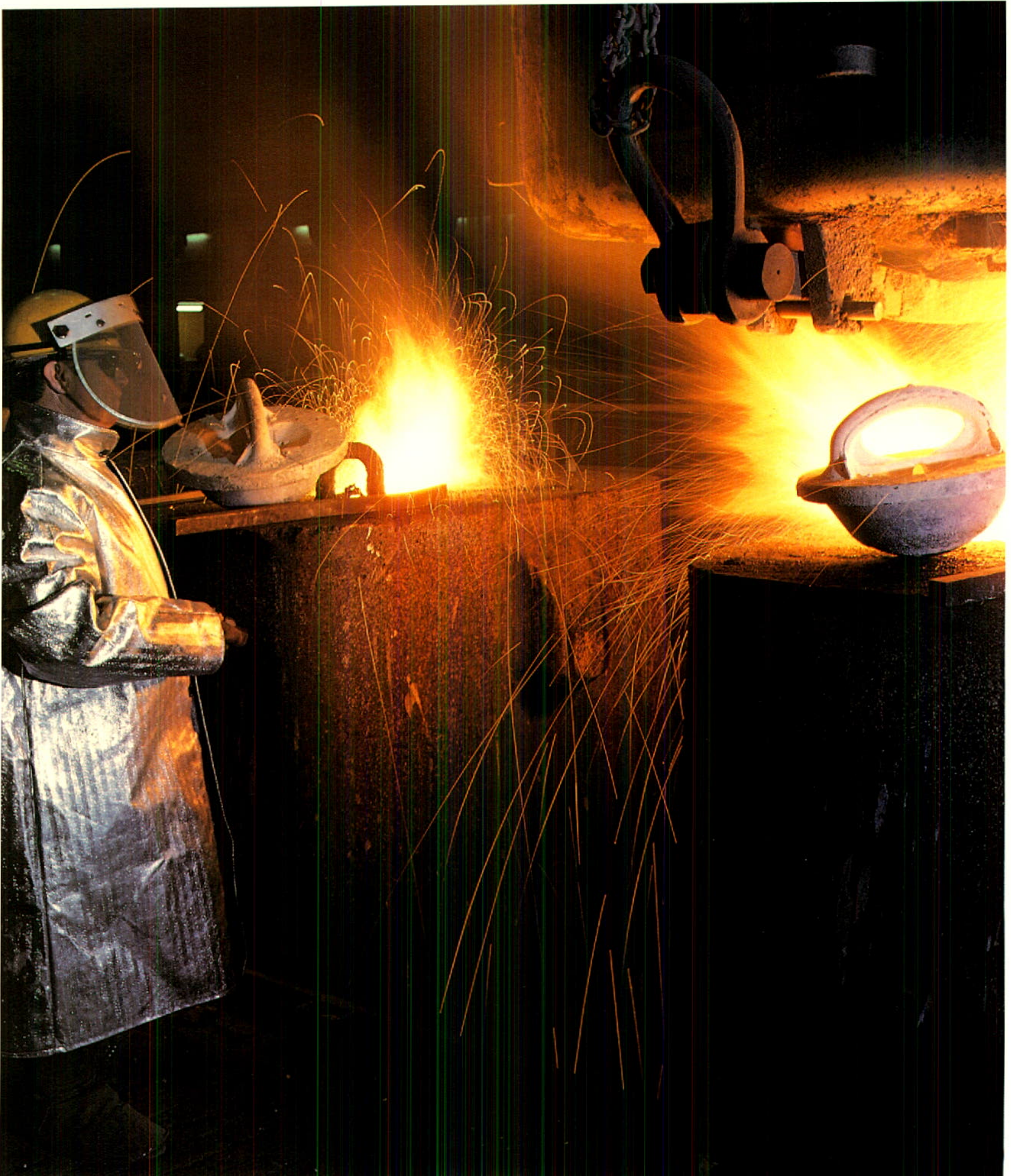
TransCanada is the manager of the Polar Gas Project, with Tenneco Inc. and Panarctic Oils Limited as partners. Polar Gas was formed to build a pipeline down the Mackenzie Valley from the Mackenzie Delta and Beaufort Sea to Alberta.

In 1989, the National Energy Board approved export licences for the shipment to the United States of up to 9.2 trillion cubic feet of gas reserves from the Mackenzie Delta and Beaufort Sea. The licences issued are subject to final approval by the Canadian federal cabinet, and are conditional on exports beginning between 1996 and 2000. The producers, Esso Resources Canada, Gulf Canada Resources and Shell Canada, and pipeline proponents including TransCanada, are considering a new joint venture to develop a common Mackenzie Valley Pipeline proposal.

TransCanada is also a 14 per cent participant in the Alaskan Northwest Natural Gas Transportation Company, formed to build the Alaska segment of the Alaskan Natural Gas Transportation System.

- **TransCanada PipeLines System**
- **Great Lakes Gas Transmission System**
- **Trans Québec & Maritimes Pipeline**
- **Foothills Pipe Lines (Sask.) System**
- **Northern Border Pipeline System**
- **Northern Border Purchase (Iowa Line)**
- **Proposed Northern Border Extension**
- **Iroquois Gas Transmission System**

Steel manufacturing relies on natural gas for economic, reliable fuel supply. Pipeline expansion, in turn, creates orders and supports jobs in Canadian steel mills.



A welder completes a tie-in, linking long sections of pipe together.

Gas Sales and Marketing

Western Gas Marketing Limited

Western Gas Marketing Limited (Western Gas) recorded 1990 total sales of 947 billion cubic feet of natural gas, a decline of 120 billion cubic feet, or 11.3 per cent, from 1989 sales volumes. Intensified competition from Canadian producers for domestic markets, coupled with the economic downturn and warm winter weather, accounted for the majority of the decline.

Sales to the United States declined by 25 billion cubic feet due to lower purchases by United States pipelines. Most of the decrease was attributable to suspension of receipts by a major pipeline customer under a long-term contract. The Company commenced litigation which was settled out of court in November 1990. Sales to this customer have since been restored and extended to 2001.

In spite of these results, Western Gas maintained its strategic position in 1990 as the largest marketer of Canadian natural gas and one of the largest aggregators in North America. The Company continued to find new opportunities to consolidate and expand its markets in Canada and the United States.

Completion of the TransCanada mainline expansion and the Iroquois Gas Transmission System will increase Western Gas sales by about 100 billion cubic feet per year, starting in 1992. In addition, completion of additional capacity on the Northern Border Pipeline in late 1991 will permit the Company to increase sales by 44 billion cubic feet per year into the Midwestern United States.

Western Gas will supply 9.1 billion cubic feet per year of gas to Ocean State Power, beginning in the fall of 1991, when the second phase of the partnership's Rhode Island power project goes into service.

Sales Agreements

During 1990, Western Gas concluded several new sales and price agreements and received various approvals for others, all of which will serve to consolidate, broaden and expand the Company's markets.

Western Gas obtained its first contract for sales into the California market of 18 billion cubic feet annually for 15 years commencing in 1993.

The Company also received approval for a licence to export natural gas to Michigan. The licence is for the sale of five billion cubic feet per year for 15 years.

The Alberta producer pool gave its approval for a new agreement with a major United States pipeline company for the sale of up to 62 billion cubic feet per year for the period November 1, 1990, to October 31, 2000. This agreement replaces an expiring contract and is the first major sales renewal to a midwestern pipeline company.

In May, gas started flowing under a long-term sales contract to a cogeneration plant in Michigan. Sales to this power generation project are five billion cubic feet per year.

Notices of Contract Expiry

Subsequent to year-end, Western Gas received notices from producers representing approximately 14 per cent of its dedicated supply pool that they may leave the pool in 1994, pursuant to contract provisions.

Western Gas does not anticipate that a reduction of resources in its existing gas supply pool 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 Western Gas can negotiate for new reserves. Western Gas is able to contract for new supplies when its

reserve life index falls to 10 years and its competitive flexibility is expected to improve at that time.

Take or Pay

Depending on a number of market factors such as the recession, gas-to-gas competition and the impact of weather on demand, Western Gas may be required to make take-or-pay payments to some producers in the four-year period 1991 to 1994. These obligations are contained in the 1982 and 1983 Topgas Programs, to which virtually all the contracted producers are a party.

Western Gas is entitled to full recovery upon delivery of prepaid gas. Therefore, although the potential prepayment is estimated to be approximately $300 million, any such prepayments will not materially affect the Company's financial position.

Additionally, contracted suppliers may elect to reduce or eliminate these prepayment obligations and certain suppliers have already waived the right to future prepayments. All suppliers' contracts are automatically extended beyond the date on which such contracts would otherwise expire until prepayments are fully recovered.

Other Businesses

Cancarb Limited

Cancarb Limited, the leading international producer and marketer of high-quality, thermal carbon black, achieved record sales in 1990. The wholly-owned subsidiary of TransCanada operates a production facility in Medicine Hat, Alberta. Its product, which is manufactured from natural gas feedstock, sells under the trade name Thermax.

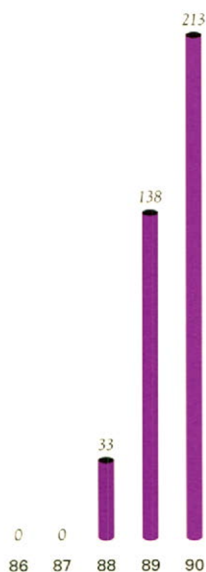
Sales to markets in Europe and Asia increased substantially over 1989 levels. The gains more than offset declining sales to the United States, where the economic slowdown and weak demand from the automotive sector has curbed demand.

Cancarb re-positioned itself in Europe in preparation for "Europe 1992". Marketing efforts in Eastern European countries have already produced results as carbon black shipments from the Soviet Union were reduced last year.

Cancarb's plant exceeds all environmental standards for air emissions, but in 1990 the Company continued to invest in research to bring carbon emissions closer to zero.

Capital Expenditures of Other Businesses

(millions of dollars)



The welded pipe is lowered into the ditch.

Ocean State Power

TransCanada has a major interest in Ocean State Power, a partnership which has developed a gas-fuelled, combined cycle electric power plant in Rhode Island.

Commercial operation of the first 250-megawatt unit commenced at year-end. Upon completion of the second 250-megawatt unit in the fall of 1991, the plant will double the state's electric power output. The project also opens a new market for 100 million cubic feet per day of Western Canadian natural gas.

The US $460 million facility is the largest industrial project in the history of Rhode Island, the first power generator built in the state in 50 years and the first major power plant in that region of the Northeast United States in 10 years.

Nipigon Power Project

Construction began in May 1990, on a $46-million, 36-megawatt electric power generating facility adjacent to TransCanada's compressor station near Nipigon, Ontario. The project is wholly-owned by the Company.

This facility, which is scheduled for commercial operation in early 1992, will generate power from burning natural gas, and by using waste heat from the compressor station.

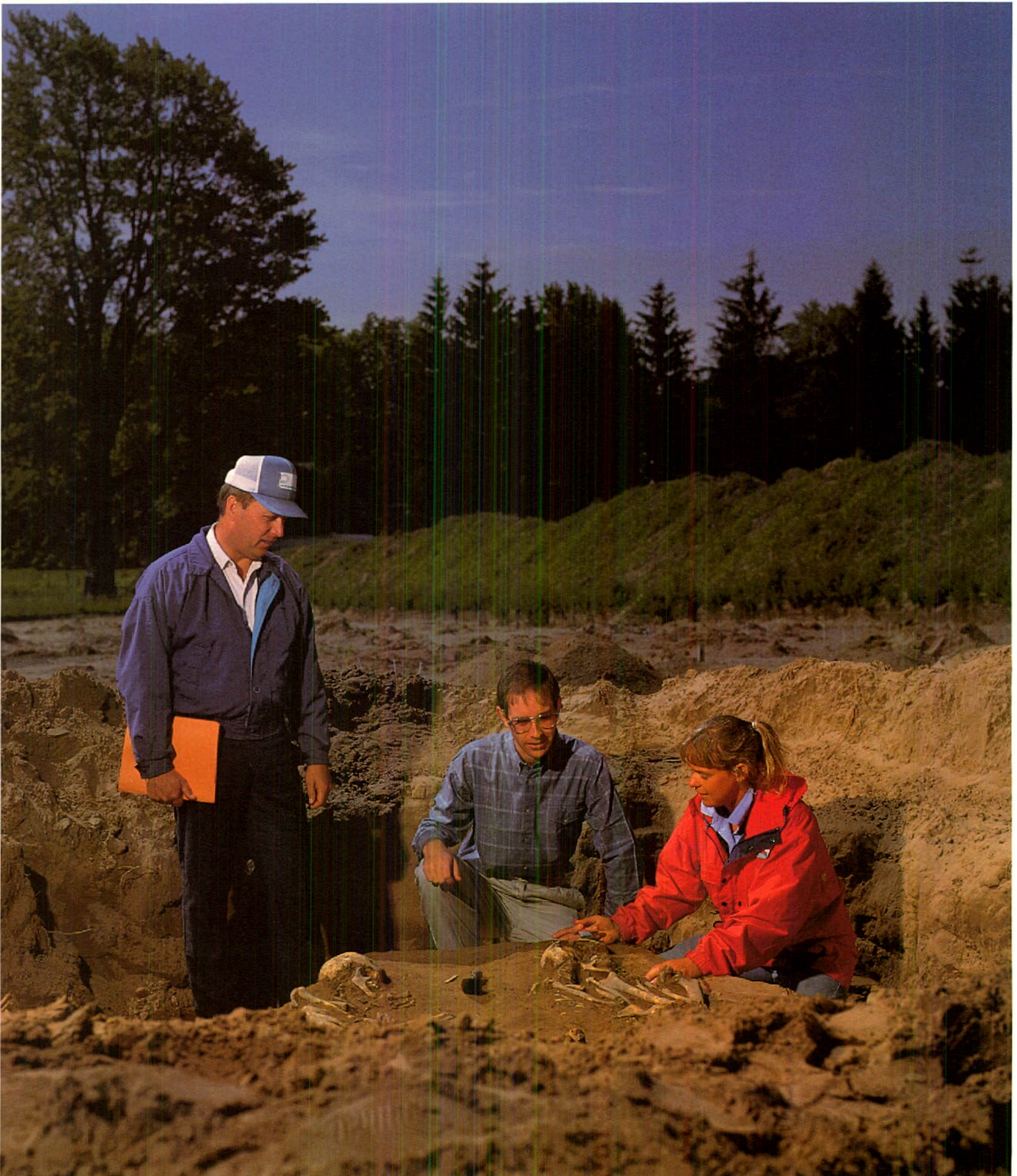
The electric power will be sold under contract to Ontario Hydro.

Empress II

TransCanada holds an undivided 50 per cent interest in the Empress II gas extraction plant located near Empress, Alberta. In 1990, the facility maintained its solid operating record as an efficient deep-cut facility removing ethane from natural gas in the pipeline stream.

TransCanada has an interest in Ocean State Power, a combined cycle electricity generating plant in Rhode Island.

Archaeologists, working together with TransCanada staff at the site of the Kirkwall lateral near Hamilton, Ontario, discover a burial site at an early sixteenth-century Indian village.



Social Responsibility

Pipeline forms a silent transportation link across the country.

TransCanada believes it has a responsibility to participate in social goals of communities in which it operates. Long-term business success requires looking beyond the bottom line to ensure that employees, customers and stakeholders live in communities that are successful in terms of all human values.

Corporate Donations

In 1990, TransCanada contributed $1.4 million to educational, medical, cultural and community projects across Canada through its corporate donations program.

Support for education is the chief priority of the program and 41 per cent of expenditures in 1990 were directed to universities and other educational institutions. The Company also began a review of other means to support the educational needs and objectives of Canadians.

Contributions to a wide range of medical, hospital, health and welfare projects accounted for 24 per cent of the budget.

Cultural activities received 18 per cent of TransCanada's social investment, including expenditures on the Arts Development Program. This venture, which has operated for four years, is dedicated to the development of young artists and the enhancement of Canadian culture.

In 1990, Arts Development support included apprenticeship programs for young dancers at the Royal Winnipeg Ballet and the National Ballet School, the Calgary Philharmonic Orchestra's staff conductor residency and the Canadian Opera Company's composer in residence.

In recognition of the success of the Arts Development Program, The Financial Post's 1990 Business in the Arts Awards program selected TransCanada as the winner in the Innovative Support category.

Environmental Management

During more than three decades of natural gas pipeline construction and operation, TransCanada has developed and maintained sound environmental standards. Company practices mitigate impact, reclaim and restore disturbed areas and protect the ecosystems traversed by the mainline system right-of-way.

Corporate environmental practices are laid down in a policy handbook. Comprehensive environmental impact assessments are required and are conducted by the National Energy Board for all new facilities. The Board also scrutinizes the Company's ongoing management of the right-of-way. TransCanada also cooperates and complies with provincial regulations that apply to Company operations.

Indian artifacts from the sixteenth century discovered on right-of-way.

Community Relations

There is a link between the preservation of the natural environment and the socio-economic well being of communities in which the Company operates. TransCanada has, over the years, established close relationships with local and provincial governments, public interest groups and landowners along its right-of-way.

In 1990, TransCanada began to work within a new framework for environmental and socio-economic management. The NEB introduced Early Public Notification, a community-based process in which the Company works with local authorities and residents to assess and mitigate environmental impacts, resolve local issues and maximize benefits created by proposed construction. TransCanada undertook on a voluntary basis to follow Early Public Notification for its 1991 and 1992 facilities expansion application and has gone beyond the requirements in several sensitive situations to ensure that community concerns are properly and fully addressed.

The Great Sand Hills

During November and December 1990, TransCanada applied its principles of environmental management and community relations to successfully resolve concerns regarding the Great Sand Hills of Southwest Saskatchewan. This semi-arid region of sand dunes and sparse vegetation is very sensitive to any disturbance. A portion of this area has been under a provincial government land development moratorium while a planning team, in consultation with Saskatchewan residents, develops a comprehensive land use plan and environmental standards for the area.

As a land user for more than 30 years, TransCanada has a commitment to the proper management and protection of the area. When it was permitted to construct a section of pipeline loop through the area during the moratorium, the Company gained strong endorsement from local ranchers and agricultural authorities for its advanced sand dune restoration and soil reclamation techniques. A community relations program to explain the construction and reclamation program was instrumental in eliminating potential conflict with land owners and interest groups who wanted to protect the vegetation and wildlife of the Great Sand Hills for recreation, tourism and agriculture.

After construction, reclamation ensures that the land is returned to its pre-construction condition.

Socio-Economic Benefits

The current expansion of Trans-Canada's mainline gas transmission system confers lasting economic benefits on communities across Canada. Investment of over $1 billion in 1989 and 1990 provided more than 2,000 construction jobs during peak activity, and large orders for steel, concrete and manufactured products.

The construction added to the tax base of municipalities in several provinces. For Western Canadian gas producers, the expansion to date has added 650 million cubic feet per day of new sales. The reinvestment of revenue netbacks to producers will create the opportunity for more than $250 million per year of economic activity, more than half of which is directed to the manufacturing sector.

The $2.6 billion expansion for 1991 and 1992, if fully approved by the NEB, will come at a time of economic downturn in other sectors of the economy. The manufacturing orders for the first $560 million of work, being done this winter in Ontario and Manitoba, started to ripple through the economy in 1990. At the peak, some 3,800 people will be employed on construction sites.

The expansion will enable Trans-Canada to deliver an additional 832 million cubic feet of natural gas per day, representing close to $1 billion a year in revenues for gas producers.

Discovering Archaeological Treasures

Responsibility for the environmental and socio-economic impacts of TransCanada's activities extends to the preservation of historical and cultural sites. All proposed pipeline construction undergoes an archaeological reconnaissance survey prior to any activity on the right-of-way. In 1990, preparation of the right-of-way for the Kirkwall lateral in the Hamilton-Wentworth region of Ontario, led to the discovery of an Indian village site believed to have been occupied in the early sixteenth century.

In cooperation with the Ontario Ministry of Culture and Communications and the Six Nations community, archaeologists conducted a dig which uncovered thousands of Indian artifacts. A European trade bead dating back to the early 1500's was one of the significant discoveries. The excavation of this small, cylindrical piece of glass provided vital new information about the early contact between Europeans and the Native people of Upper Canada. Other findings included burial sites for at least four humans, arrowheads, fragments of clay, tobacco pipes, pieces of pottery and beads of shell and bone.

Corporate Finance

TransCanada continued to manage its financial affairs in a prudent, effective manner and maintained fiscal stability, capability and flexibility. As a result, the Company is positioned to finance major expansion and to capitalize on new opportunities offered by expanding natural gas markets.

Financings

In 1990, TransCanada issued $600 million of debentures, $200 million of preferred shares and generated $297 million internally. This proved more than sufficient to meet all 1990 capital expenditure and investment requirements, retire long-term debt, fund preferred share retractions and pay dividends on preferred and common shares.

The debentures were issued in five series with interest rates ranging from 10.625 to 11.9 per cent. The preferred shares were placed in three series at initial dividend rates ranging from 8.125 per cent to 9 per cent.

Under a US $1 billion shelf registration statement filed with the United States Securities and Exchange Commission in 1990, TransCanada issued, in January 1991, US $400 million of 30 year debentures bearing an interest rate of 9.875 per cent per annum.

Subsequent to year-end, the Company also filed a short-form prospectus to establish a $500 million Medium Term Note Program in Canada. This permits the issuance, from time to time, of notes with maturities ranging from one year to 10 years.

Credit Ratings

In 1990, TransCanada received its first credit ratings from the major agencies in the United States. Moody's gave the Company's senior unsecured debt an A3 rating; Standard and Poor's gave a single A. These are comparatively strong ratings for a major North American long-line transmission company. As a result, the Company gained improved access to capital markets. In Canada, the Company's senior unsecured debt are rated single A by the Dominion Bond Rating Service; and A (low) by the Canadian Bond Rating Service.

Shareholder Affairs

In September 1990, BCE Inc. (BCE), TransCanada's major shareholder, announced it will sell its common share position in the Company. As the result of a successful issue of installment receipts and warrants, BCE's ownership was reduced from 48.8 per cent to 24.5 per cent. If all warrants are exercised before they expire on December 15, 1992, BCE will no longer be a significant shareholder in the Company.

In December 1990, the Company declared its 108th consecutive dividend on common shares. The quarterly dividend of 18 cents per share represented a one cent, or six per cent, increase from amounts paid in the prior quarters of the year.

More than 3,700 common and preferred shareholders participated in TransCanada's Dividend Reinvestment and Share Purchase Plan in 1990. This allowed the Company to raise more than $23.7 million in common equity at an average price of $15.44 per share.

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 applied on a consistent basis. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Board of Directors has appointed an Audit Committee consisting solely of directors who are not officers of the Company to review with Management and the independent auditors the annual consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit Committee also meets periodically during the year with Management and the internal and external auditors 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 37 outlines the scope of their examination and their opinion on the consolidated financial statements.

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 1990 and 1989 and it should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1989 and 1988 are highlighted. Note 20 to the financial statements describes significant differences between Canadian and United States generally accepted accounting principles.

Under a corporate restructuring completed on May 2, 1989, ownership of the Company's oil and gas operations was transferred to TransCanada's common shareholders. As a result, TransCanada reports financial results from its gas transmission, associated pipelines, marketing and other businesses as continuing operations and results of the former oil and gas business as discontinued operations.

Results from Continuing Operations

Net income applicable to common shares from continuing operations for 1990 was $189.5 million or $1.23 per share compared to $178.3 million or $1.18 per share for 1989 and 1988 results of $34.9 million or 24 cents per share. In 1990 and 1989, income tax benefits, resulting from the use of prior years' losses, contributed $27.3 million or 18 cents per share and $21.1 million or 14 cents per share, respectively. In 1988, the Company recorded a provision with respect to previously recognized U.S. income tax benefits which had the effect of reducing net income applicable to common shares from continuing operations by $43.2 million or 29 cents per share.

When comparing results for 1988 to 1989 and to some extent 1989 to 1990 the primary reason for improved earnings can be attributed to the investment of cash generated from the corporate restructuring. Earnings from continuing operations for 1988 were also negatively impacted by the previously mentioned U.S. income tax provision as well as investment and asset provisions in that year which amounted to an additional $29 million or 20 cents per share.

In addition, 1990 and 1989 reflect increased earnings from the Company's Gas Transmission segment resulting from increases in rate base in both years, as discussed more fully under the heading Gas Transmission Segment.

Funds generated from continuing operations increased to $341.1 million in 1990 from $289.7 million in 1989 and $286.5 million in 1988. The increase in 1990 compared to 1989 resulted from higher earnings which included higher non-cash expenses, such as depreciation and deferred income taxes. Dividends and distributions from associated pipeline investments have declined since 1988. In 1988, the Company received $77.2 million from these investments whereas 1989 dividends and distributions amounted to $41.9 million and in 1990 the Company received $32.2 million. The reduction between 1988 and 1989 resulted primarily from Great Lakes Gas Transmission Company not declaring dividends which helped to conserve capital to finance its construction program. This approach continued throughout 1990. The reduction in 1990 dividends and distributions, compared to 1989, was due to Northern Border Pipeline Company reducing its distribution level as a result of toll modifications and planned capital expenditures.

TransCanada reports its continuing 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, 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, through the Company's revenue, projected costs of transporting natural gas and to provide a fair and reasonable return on its investment. Tolls are based on a number of factors including estimates of the level of this segment's rate base, as well as operating and financing costs. Rate base is essentially the net book value of the Gas Transmission segment's gas plant in service plus working capital and deferred amounts. While changes in authorized rate base impact the contribution to net income by this segment, variations in volumes of gas delivered do not, by themselves, have an impact on net income.

In 1990, the Company continued to add significantly to its approved rate base by constructing $472 million of additional pipeline and compression facilities. The segment's approved average rate base for 1990 was $3,032.8 million however, for the first time, the return earned by the Company was subject to deferral for any variance from projected capital costs. The Company's actual average rate base for 1990 amounted to $3,005.7 million and the Company's earnings reflect that level of rate base. For 1989 and 1988, the segment's approved rate base amounted to $2,519.7 million and $2,359.9 million, respectively. The NEB set the segment's rate of return for 1990 at 13.25 per cent on a deemed common equity component of 30 per cent; the same return it had allowed for 1988. In 1989, the NEB set the return at 13.75 per cent, also on a deemed common equity component of 30 per cent. In addition to the return earned by the segment on its approved rate base, the NEB allows the Company to record an allowance for funds used during construction of gas transmission plant, which includes a return on equity.

Gas Transmission revenues in 1990 increased by 10 per cent or $88.8 million over revenues for 1989. This increase reflects a 6.5 per cent increase in total deliveries as well as higher toll charges. Gas Transmission revenues in 1989 were marginally lower than in 1988. Increased demand in both Canada and the United States caused the throughput on the gas transmission system to increase in both 1990 and 1989 over the previous year. Domestic deliveries increased by 2 per cent in 1990 and export deliveries increased by 18 per cent. In 1989, domestic deliveries increased by 2 per cent over 1988 levels and export deliveries increased by 15 per cent. While increased throughput does not affect net income currently, the demand for additional capacity on the gas transmission system has led to the Company's expansion program, which to the extent it increases rate base, should permit a related improvement in net income to the Company. The effect upon net income per common share will be dependent upon the amount of equity raised to assist in financing the expansion program.

The impact of inflation on the Company is minimized by the effect of the regulatory process on the Gas Transmission segment. The Company believes that to present financial statements on any other basis 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, pipeline inspection services, as well as general corporate overhead.

This segment's revenues represent primarily the sale of natural gas to the Company's customers. This segment's operating costs represent primarily the cost of purchasing the gas sold to customers. In determining the amount paid to producers for the purchase of gas ("the net-back price"), the Company deducts certain charges, as approved by the producers, including a marketing fee.

Western Gas has seen a steady erosion of its domestic market share over the past four years due to intense competition resulting from deregulation of natural gas prices. Domestic sales volumes decreased by 12 per cent in 1990 compared to the previous year and in 1989 had decreased by 3 per cent from 1988 levels. Domestic sales revenues decreased by 9 per cent in 1990 compared to 1989, reflecting the above decline in volumes, offset somewhat by slightly higher sales prices. Domestic revenues in 1989 decreased from 1988 levels by 11 per cent resulting from the lower sales volumes combined with a 10 per cent reduction in the average domestic sales price reflecting market sensitive pricing arrangements. While export sales volumes declined by 8 per cent in 1990 from 1989, export sales revenues increased by 3 per cent as a result of higher prices. In 1989, export sales volumes increased by 6 per cent resulting in a revenue increase of 5 per cent over 1988 levels.

Equity Income from Associated Pipelines and Projects

Equity income from the Company's investments in associated pipelines increased marginally in 1990 as compared to 1989, but in 1989 was $15.8 million less than 1988. The decrease in 1989 reflected the decline in the value of the United States dollar and its impact on the translation of the equity earnings of the Company's two United States associated pipelines, Northern Border Pipeline Company and Great Lakes Gas Transmission Company. In addition, during 1989, the Company recorded a lower return on its investment in Northern Border due to anticipated toll modifications which were finalized, retroactively, in 1990. Earnings from the Company's investments in associated Canadian pipelines in 1990 were comparable to previous years.

Other Income/(Expense)

This caption primarily represents interest earned on cash and term deposits and an Allowance for Funds Used During Construction ("AFUDC"). Interest and other income increased by $5.4 million in 1990 compared to 1989. This is a result of higher balances on deposit and slightly higher average interest rates.

Interest and other income increased by $39.8 million in 1989 over 1988. This was due principally to higher balances on deposit, including the $493 million return of investment TransCanada received in May 1989 from the oil and gas restructuring transactions. Reference should be made to Note 5 (a) to the financial statements with respect to the Company's cash and short-term investment positions in 1990 and 1989.

AFUDC is an allowance for the cost of funds used to finance construction of the Gas Transmission segment's assets which is capitalized and included in the cost of gas plant under construction. The rate employed in calculating this allowance is the NEB's approved rate of return on rate base. The increase in AFUDC from the 1988 levels reflects the level of construction activity during 1989 and 1990.

In 1988 the Company determined that the carrying value of certain assets should be reduced due to the uncertainty of their ultimate recovery. As a result, the Company recorded investment and asset provisions in its 1988 accounts totalling $29.0 million, before and after tax.

Financial Charges

Financial charges increased by $10.5 million in 1990 compared to 1989. Of this amount, non-regulated financial charges increased by $5.3 million and those attributable to the Gas Transmission segment increased by $5.2 million. The majority of the increase in non-regulated financial charges results from the completion, in early 1990, of the Swiss franc hedging program which effectively removed any further foreign exchange

exposure with respect to the Company's Swiss franc debt. In accordance with Canadian generally accepted accounting principles, the Company amortizes unrealized exchange losses over the remaining life of the individual debt issues. Until the Swiss franc debt was fully hedged, unhedged portions of such debt were translated at exchange rates prevailing at the balance sheet date. This led to fluctuations in amounts amortized to income in previous years. Financial charges attributable to the Gas Transmission segment have increased as a result of debt issued to finance the Company's construction programs.

Financial charges declined $5.1 million in 1989 when compared to 1988. Non-regulated financial charges declined $18.4 million reflecting not only the favorable effects of the Company's cash and debt management program, which also carried into 1990, but also variations in Swiss franc foreign exchange amortizations. Partially offsetting this was an increase of $13.3 million in Gas Transmission segment financial charges due mainly to debt issued to finance the 1989 construction program.

Income Taxes

Income taxes for 1990 in total changed marginally from 1989. In 1990, income tax expense was reduced by $27.3 million arising from the utilization of prior years' losses for income tax purposes. The comparable amount for 1989 was $21.1 million. The remainder of the change in income tax expense for 1990 compared to 1989 is due principally to the Large Corporations Tax instituted by the Federal Government in the last half of 1989. Income taxes declined in 1989 to $64.1 million from $159.2 million in 1988. In 1989, income tax expense was reduced by $21.1 million arising from the application of prior years' losses for income tax purposes. In addition, as the Company follows the taxes payable method of accounting for income taxes related to the operations of the Gas Transmission segment, the significant amount of construction that commenced in 1989 provided greater deductions for income tax purposes and therefore lower taxes payable in 1990 and 1989 when compared to 1988. In 1988, income taxes were also increased by the expensing of $43.2 million of previously recorded U.S. income tax benefits.

Discontinued Oil and Gas Operations

On May 2, 1989, the Company implemented its corporate restructuring pursuant to a Plan of Arrangement. Under the Plan of Arrangement, TransCanada combined its remaining oil and natural gas exploration, development and production business under one corporate entity, Encor Inc. The common shares of Encor Inc. were then distributed to the Company's common shareholders thereby eliminating the Company's investment.

Losses from discontinued oil and gas operations in the first four months of 1989 amounted to $13.4 million or 9 cents per share compared to a full year loss of $80.9 million or 55 cents per share in 1988. The loss of $80.9 million in 1988 included a loss of $52.7 million resulting from the sale of United States oil and gas assets effective July 1, 1988.

Liquidity and Capital Resources

In 1990, cash generated from operations amounted to $297.4 million and financing activities provided another $818.9 million. These sources of funds were more than sufficient to meet all 1990 capital expenditures and investment requirements, retire long-term debt, pay for preferred share retractions and pay dividends on preferred and common shares.

During 1990, the Company issued a total of $200 million of new preferred shares, in part to repay short-term indebtedness incurred to finance the retraction of $154.4 million of preferred shares and to finance a portion of the Company's 1990 and 1991 construction programs. Also during 1990, the Company issued $600 million of debentures, the proceeds of which were used to reduce short-term indebtedness incurred during the year to finance the Company's 1989 and 1990 construction programs. During 1989, as part of the Plan of

Arrangement, the Company received $493 million of cash as a return of its investment. 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 outlays in 1989 and almost double its cash balance from the December 31, 1988 level. As the $493 million was returned to the Company from a non-regulated investment these funds will be used, over time, to meet equity requirements related to the Company's investments in associated pipelines and projects and to retire non-regulated debt as it comes due.

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 1980's that served as a type of production loan to gas producers. 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 $91 million at December 31, 1990. Further, 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.

In December 1990, the Company increased its quarterly dividend to 18 cents per common share in recognition of increased profits. During 1989 and 1988, the Company's common share dividend was 17 cents per quarter.

In the fourth quarter of 1990 and in January 1991, the Company took several additional 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" in the United States to allow it to offer to the public up to U.S. $1 billion of debt securities during 1991 and 1992.

In January 1991, the Company issued U.S. $400 million of 30-year debentures utilizing this registration. Also, in January 1991, the Company filed a short-form prospectus with various 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.

Capital expenditures for the Company's mainline facilities and equity contributions to its investments and projects are expected to be $1.6 billion in 1991. The Gas Transmission segment's portion of these capital expenditures alone is estimated to be $1.4 billion. In addition, mandatory retirements of long-term debt for 1991 amount to $163.3 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

The Gas Transmission segment continues with its phased-in expansion of the gas transmission system to meet increased demand in both domestic and export markets. In late 1990, the NEB confirmed its position that rolled in tolls are the most appropriate way for the Company to recover the cost of expansion. However, the Company has been faced with delays, caused by regulatory lag, in receiving permission to construct, in 1991 and 1992, its estimated $2.6 billion of additional facilities needed to meet such demand. These delays have set back the timing, by approximately one year, under which the Company will be able to deliver full contracted volumes to the Iroquois pipeline. Partial delivery is expected to commence, however, on November 1, 1991.

The Company has, however, received approval to proceed with facilities that must be constructed during the winter of 1991 but it is now expected that the NEB's decision on the remainder of the application for additional facilities will not be received until April 1991. As rate base is the primary basis upon which the Company earns its profits, regulatory lag does impact the timing of earnings growth.

In December 1990, the Company filed its application with the NEB to establish the Company's tolls for 1991. Among other things, the Company is seeking an increase in its return on common equity to 14.50 per cent from the 13.25 per cent allowed in 1990, both on a deemed common equity component of 30 per cent. Also in December, the NEB fixed 1991 interim tolls for the Company pending its decision on the Company's application. A hearing on the application is expected to commence in May 1991.

Western Gas has seen the erosion of its Canadian market share due to the competitive effects of deregulation in the natural gas industry. This market erosion has led to the possibility that the Company may be required to make take-or-pay payments to its contracted suppliers. Depending on a number of factors, including the effect of the recession on the industrial and commercial sectors of both Canadian and U.S. markets, increased gas to gas competition and weather, the Company may be required to prepay its producers for volumes of gas that it is unable to take in the current year. The Company's estimate of total potential prepayments is approximately $300 million over the four-year period 1991 to 1994. Most of this amount would be concentrated in 1991 and 1992. The Company has no prepayment obligation after 1994.

The prepayment commitments are contained in the Topgas Programs to which virtually all contracted suppliers are parties. All of the contracts of any supplier receiving a prepayment will automatically be extended beyond the date on which such contracts would otherwise expire until the prepayments are fully recovered. The Company believes any such prepayments would not have a material effect upon the financial position of the Company as the Company is entitled to full recovery of the prepayments upon delivery of the prepaid gas and the Company expects that carrying costs for such additional prepaid volumes would be recovered pursuant to the pricing provisions of the gas purchase contracts. The Company further believes that its contracted suppliers may elect to reduce or eliminate these prepayment obligations. Certain of the Company's suppliers have already waived rights to future prepayments.

Commencing in late 1991 and continuing through the mid-1990's, the Company will begin new long-term deliveries to U.S. export markets as the construction of new pipeline facilities (of which the Iroquois pipeline system to the U.S. northeast is the most notable) is completed. These new deliveries are expected to result in significantly increased takes from the Company's Alberta suppliers. Over the longer term, the Company is well positioned to secure new sales to both the Canadian and U.S. markets.

At the end of December 1990, the first phase of the Ocean State Power Plant, in which the Company has a 40 per cent equity interest, commenced commercial production. As a result, the Company will begin recording its share of earnings from this investment in 1991. The Company expects to be involved in other power projects in the future and is currently constructing a 36 megawatt enhanced combined cycle power generation facility that will utilize waste heat from the Company's compressors near Nipigon, Ontario. This power plant is scheduled to commence operation in the first half of 1992, with the electricity sales to Ontario Hydro.

The Company will continue to seek these and other energy related opportunities to enhance shareholder value.

Consolidated Income

Year ended December 31 *(stated in millions of dollars except per share amounts)*	1990	1989	1988
Revenues *(Note 2)*	3,033.2	3,082.9	3,268.7
Costs and Expenses *(Note 2)*	2,586.2	2,654.9	2,801.1
Operating Income	447.0	428.0	467.6
Equity Income from Associated Pipelines and Projects *(Note 4)*	70.9	68.1	83.9
Other Income/(Expense)			
Interest and other income	82.1	76.7	36.9
Allowance for funds used during construction			
Debt	10.8	16.6	2.4
Equity	7.2	11.5	1.5
Investment and asset provisions *(Note 17)*	–	–	(29.0)
	100.1	104.8	11.8
Income before Financial Charges and Income Taxes	618.0	600.9	563.3
Financial Charges *(Note 7)*	337.2	326.7	331.8
Income before Income Taxes	280.8	274.2	231.5
Income Taxes *(Note 8)*	65.9	64.1	159.2
Income from Continuing Operations	214.9	210.1	72.3
Loss from Discontinued Oil and Gas Operations *(Note 18)*	–	(13.4)	(80.9)
Net Income/(Loss) for the Year	214.9	196.7	(8.6)
Dividends on Preferred Shares	25.4	31.8	37.4
Net Income/(Loss) Applicable to Common Shares	189.5	164.9	(46.0)
Per Common Share Data *(Note 10)*			
Income from Continuing Operations	$1.23	$1.18	$0.24
Loss from Discontinued Operations	–	(0.09)	(0.55)
Net Income/(Loss) for the Year	$1.23	$1.09	$(0.31)

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)*	1990	1989	1988
Cash Generated from Operations			
Income from continuing operations	214.9	210.1	72.3
Investment and asset provisions	–	–	29.0
Depreciation	128.8	111.7	109.8
Deferred income taxes	31.7	18.1	76.0
Equity income less dividends received from investments	(40.2)	(31.0)	(9.6)
Allowance for equity funds used during construction	(7.2)	(11.5)	(1.5)
Other	13.1	(7.7)	10.5
Funds generated from continuing operations	341.1	289.7	286.5
(Increase)/decrease in operating working capital from continuing operations *(Note 16)*	(43.7)	36.8	(8.8)
Cash generated from continuing operations	297.4	326.5	277.7
Cash generated from discontinued oil and gas operations	–	44.4	155.5
	297.4	370.9	433.2
Investment Activities			
Capital expenditures	482.2	671.0	146.4
Associated pipelines and projects	92.1	3.1	–
Deferred charges and other	89.0	21.2	79.3
Discontinued oil and gas operations			
Investment	–	72.1	355.9
Return of investment *(Note 18)*	–	(493.5)	–
Disposal of United States oil and gas properties	–	–	(141.5)
	663.3	273.9	440.1
Dividends Paid	130.1	142.3	144.3
Financing Activities			
Long-term debt issued	591.4	573.8	422.6
Reduction of long-term debt	(145.4)	(221.0)	(447.1)
Common shares issued	23.9	31.3	279.6
Preferred shares issued	198.3	74.6	–
Preferred shares retracted or redeemed	(154.4)	(175.1)	–
Decrease in notes payable	–	(44.0)	(245.1)
Sale of assets	5.3	103.5	142.3
	519.1	343.1	152.3
Increase in Cash and Short-Term Investments	23.1	297.8	1.1
Cash and Short-Term Investments – at beginning of year	615.1	317.3	316.2
Cash and Short-Term Investments – at end of year	638.2	615.1	317.3

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

Consolidated Financial Position

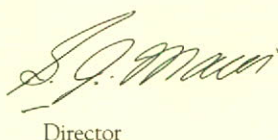
December 31 *(stated in millions of dollars)*

Assets	1990	1989
Current Assets		
Cash and short-term investments *(Note 5)*	638.2	615.1
Accounts receivable *(Note 14)*	296.6	255.9
Inventories – Line pack gas and gas stored underground	46.4	46.6
– Materials and supplies	43.0	40.8
Total current assets	1,024.2	958.4
Payments on Future Gas Supply *(Note 11)*	30.7	37.0
Investments in Associated Pipelines and Projects *(Note 4)*	439.2	318.4
Plant, Property and Equipment *(Notes 3 and 6)*	3,505.5	3,144.0
Deferred Charges and Other Assets *(Note 12)*	240.2	165.6
	5,239.8	4,623.4

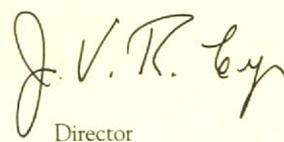
Liabilities and Shareholders' Equity	1990	1989
Current Liabilities		
Accounts payable *(Note 14)*	288.5	325.8
Income taxes payable	10.0	11.3
Interest accrued	137.3	124.7
Dividends payable	34.0	32.7
Long-term debt due within one year *(Note 6)*	163.3	114.5
Total current liabilities	633.1	609.0
Long-Term Debt *(Note 6)*	2,859.3	2,443.7
Deferred Income Taxes	77.7	57.8
Commitments and Contingencies *(Note 19)*		
Preferred Shares (redeemable) *(Note 9)*	389.3	343.7
Common Shareholders' Equity		
Common shares *(Note 10)*	424.1	400.2
Contributed surplus	271.6	271.6
Retained earnings	594.5	510.9
Foreign exchange adjustment	(9.8)	(13.5)
	1,280.4	1,169.2
	5,239.8	4,623.4

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)*	1990	1989	1988
Contributed Surplus			
Balance at beginning of year	271.6	277.8	282.0
Plan of Arrangement expenses *(Note 10)*	–	(5.7)	–
Share issue expenses	–	(0.5)	(4.2)
Balance at end of year	271.6	271.6	277.8
Retained Earnings			
Balance at beginning of year	510.9	448.3	596.0
Net income/(loss) for the year	214.9	196.7	(8.6)
	725.8	645.0	587.4
Dividends declared			
Preferred *(Note 9)*	25.4	30.9	37.4
Common	105.9	103.2	101.7
	131.3	134.1	139.1
Balance at end of year	594.5	510.9	448.3
Dividends per common share	$0.69	$0.68	$0.68

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

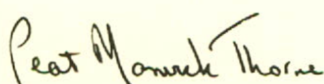
Auditors' Report

To the Shareholders of TransCanada PipeLines Limited

We have audited the consolidated statements of financial position of TransCanada PipeLines Limited as at December 31, 1990 and December 31, 1989 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, 1990. 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, 1990 and December 31, 1989 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, 1990 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Calgary, Canada
January 22, 1991

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 may differ from that otherwise expected under generally accepted accounting principles applicable to non-regulated companies. The associated pipelines 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.

Inventories

Inventories, including line pack gas, materials and supplies and gas stored underground, are recorded at cost and are charged to operations at average cost.

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% for pipelines, 3.5% for compressor stations and other transmission plant and various rates for general plant and equipment. 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. Certain long-term debt payable in foreign currencies is exchanged through swap agreements into other currencies. Such debt is accounted for using exchange rates applicable to the currencies into which 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 a fixed or ascertainable life extending beyond one year. These unrealized gains and losses are deferred and amortized to income over the remaining life of such assets or liabilities.

The accounts of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. The resulting translation adjustments are reflected in a separate component of shareholders' equity. The Company regards non-utility debt swapped into U.S. dollars as a partial hedge of its net investment in the United States.

In addition to hedges of long-term debt, the Company may, from time to time enter 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. For all other operations, including where applicable, income from investments, the Company follows the deferral method of tax allocation accounting.

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 March 1990, the NEB issued its tolls decision which, among other things, set the Company's rate of return on common equity for 1990 at 13.25% based on a deemed common equity of 30%.

(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, pipeline inspection services as well as the administration 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)*	1990	1989	1988
Revenues			
Gas Transmission			
Domestic deliveries	713.9	681.7	716.4
Export deliveries	262.2	202.5	185.5
Other revenues	2.2	5.3	6.4
	978.3	889.5	908.3
Gas Sales, Marketing and Other			
Domestic gas sales	1,380.2	1,523.2	1,707.6
Export gas sales	586.9	570.8	545.0
Other revenues	87.8	99.4	107.8
	2,054.9	2,193.4	2,360.4
Total Revenues	3,033.2	3,082.9	3,268.7
Costs and Expenses			
Gas Transmission			
Operating costs	418.6	370.5	344.3
Depreciation	118.7	101.0	95.0
	537.3	471.5	439.3
Gas Sales, Marketing and Other			
Cost of gas and operating costs	2,038.8	2,172.7	2,347.0
Depreciation	10.1	10.7	14.8
	2,048.9	2,183.4	2,361.8
Total Costs and Expenses	2,586.2	2,654.9	2,801.1
Operating Income			
Gas transmission	441.0	418.0	469.0
Gas sales, marketing and other	6.0	10.0	(1.4)
	447.0	428.0	467.6
Capital Expenditures			
Gas transmission	471.9	669.5	127.6
Less allowance for equity funds used during construction	7.2	11.5	1.5
	464.7	658.0	126.1
Gas sales, marketing and other	17.5	13.0	20.3
	482.2	671.0	146.4

December 31 *(millions of dollars)*	1990	1989	1988
Business Segment Assets			
Gas transmission	3,727.8	3,214.2	2,810.0
Gas sales, marketing and other	348.9	330.1	257.5
	4,076.7	3,544.3	3,067.5
Investments in associated pipelines and projects	439.2	318.4	310.2
Corporate assets	723.9	760.7	491.5
Discontinued operations	–	–	1,153.7
	5,239.8	4,623.4	5,022.9

Due to the regulatory process, variations in gas transmission 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)*	1990	1989	1988
The Consumers' Gas Company Ltd.	551.4	698.4	847.9
Gaz Métropolitain, inc.	299.0	308.1	285.3
Union Gas Limited	293.6	302.5	399.9
ICG Utilities (Ontario) Ltd.	282.5	319.2	309.8
Great Lakes System	150.0	153.2	200.6

Note 3 Plant, Property and Equipment

December 31 *(millions of dollars)*	1990	1989
Gas Transmission		
Gas plant in service	4,547.8	3,963.3
Gas plant under construction	172.5	301.6
	4,720.3	4,264.9
Gas Sales, Marketing and Other	149.4	135.6
	4,869.7	4,400.5
Accumulated depreciation	(1,364.2)	(1,256.5)
	3,505.5	3,144.0

Note 4 Investments in Associated Pipelines and Projects

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

(millions of dollars)	1990 Investment	1990 Equity Earnings	1989 Investment	1989 Equity Earnings	1988 Investment	1988 Equity Earnings
Great Lakes System	122.2	27.2	66.4	26.8	51.6	29.9
Northern Border Pipeline Company	190.4	29.3	181.6	27.6	190.1	39.0
Foothills Pipe Lines (Sask.) Ltd.	27.4	8.6	27.1	7.8	23.8	8.8
Trans Québec & Maritimes Pipeline	42.1	5.8	43.3	5.9	44.7	6.2
Ocean State Power Plant	57.1	–	–	–	–	–
	439.2	70.9	318.4	68.1	310.2	83.9

Dividends and distributions received from the investments in associated pipelines amounted to $32.2 million, $41.9 million and $77.2 million for the years ended December 31, 1990, 1989 and 1988, respectively. Consolidated retained earnings at December 31, 1990, includes $117.3 million (December 31, 1989 – $88.0 million), which represents undistributed earnings of investments accounted for by the equity method.

Great Lakes System

The Company owns 50% of Great Lakes Gas Transmission Company which operates a pipeline system extending from the Canada/United States border near Emerson, Manitoba through the United States to the vicinity of Sarnia, Ontario ("Great Lakes System"). During 1990, the Great Lakes System was conveyed into a limited partnership. The Great Lakes System, which became an open access pipeline in 1990, purchases gas from the Company for resale to United States customers and transports gas for the Company to eastern Canada.

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

December 31 *(millions of U.S. dollars)*	1990	1989
Natural gas transmission plant (net)	555.1	424.1
Current assets	110.0	47.9
Current liabilities	(225.3)	(206.1)
Deferred credits	(94.6)	(94.5)
Long-term debt	(136.8)	(53.5)
Equity	208.4	117.9

Year ended December 31 *(millions of U.S. dollars)*	1990	1989	1988
Operating revenues	227.8	245.1	280.3
Operating expenses	(168.2)	(194.0)	(223.5)
Interest	(12.8)	(6.3)	(7.9)
Income before income taxes	46.8	44.8	48.9

Northern Border Pipeline Company

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

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

December 31 *(millions of U.S. dollars)*	1990	1989
Natural gas transmission plant (net)	959.3	926.8
Current assets	60.0	79.9
Current liabilities	(32.0)	(85.7)
Deferred credits	(300.9)	(278.6)
Long-term debt	(440.0)	(394.3)
Equity	246.4	248.1

Year ended December 31 *(millions of U.S. dollars)*	1990	1989	1988
Operating revenues	171.3	230.8	209.6
Operating expenses	(48.3)	(102.9)	(80.4)
Interest	(39.1)	(48.2)	(41.0)
Income before income taxes	83.9	79.7	88.2

Foothills Pipe Lines (Sask.) Ltd.

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

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

December 31 *(millions of dollars)*	1990	1989
Natural gas transmission plant (net)	290.6	285.3
Current assets	9.9	11.3
Current liabilities	(7.7)	(3.2)
Deferred credits	(66.5)	(61.0)
Long-term debt	(156.1)	(162.3)
Equity	70.2	70.1

Year ended December 31 *(millions of dollars)*	1990	1989	1988
Operating revenues	57.3	58.9	56.4
Operating expenses	(18.6)	(21.7)	(22.3)
Interest	(19.1)	(19.6)	(15.7)
Income before income taxes	19.6	17.6	18.4

Trans Québec & Maritimes Pipeline

The Company owns 50% 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% interest.

The following sets out summarized financial information for TQM:

December 31 *(millions of dollars)*	1990	1989
Natural gas transmission plant (net)	371.5	385.6
Current assets	7.8	7.3
Deferred charges	3.2	1.4
Current liabilities	(18.2)	(9.3)
Bank loans	(0.2)	(7.0)
Long-term debt	(30.0)	–
First mortgage bonds	(239.0)	(281.0)
Equity	95.1	97.0

Year ended December 31 *(millions of dollars)*	1990	1989	1988
Operating revenues	69.4	70.7	119.9
Operating expenses	(22.5)	(22.1)	(69.6)
Interest	(36.0)	(37.6)	(38.6)
Income before income taxes	10.9	11.0	11.7

Ocean State Power Plant

The Company has a 40% equity interest in the partnership which owns the Ocean State Power combined cycle power generation plant ("Ocean State Plant") located in Rhode Island. On December 31, 1990, Phase I of the Ocean State Plant commenced commercial production. As a result, the Company has included its investment in that project in Investments in Associated Pipelines and Projects. The following sets out summarized financial information for the Ocean State Plant:

December 31 *(millions of U.S. dollars)*	1990
Plant, property and equipment (net)	204.6
Current assets	12.6
Deferred charges	6.6
Current liabilities	(15.4)
Long-term debt	(88.4)
Equity	120.0

Note 5 Cash and Debt Management

The Company, in managing its cash and short and long-term debt positions, uses forward contracts, options and swaps to manage interest rate and foreign exchange risks for the Company's net assets denominated in foreign currencies. Such net assets include cash and short-term investments, notes payable, long-term investments and long-term debt. An integral part of this management is the assessment of both price and credit risk inherent in the various instruments utilized by the Company in its cash and debt management. Price risk on these financial instruments is the exposure created by the fluctuations in interest and foreign exchange rates. Credit risk is the exposure to loss in the event that counterparties to the various financial instruments which the Company uses default on their obligations. Credit risk is controlled through credit approvals, credit limits and monitoring procedures.

At December 31, 1990, the credit risk exposure related to interest rate and foreign exchange instruments would represent all unrealized gains on contracts based on current market values. The cost to the Company should it have to replace all outstanding contracts for which there is a market gain would amount to $108.4 million for cross-currency and interest rate swaps, nil for other interest rate contracts and $10.4 million for other foreign exchange contracts. The Company believes that this credit risk has been minimized by dealing only with highly rated international financial institutions. There are 13 institutions with head offices in 5 countries in which the Company has a credit risk. The largest single institution risk is in the amount of $29.6 million of which a portion matures in January 1991.

At December 31, 1990, the Company had net assets denominated in United States dollars of approximately U.S. $460.5 million (December 31, 1989 – U.S. $409.9 million) comprised principally of cash and short-term investments and investments in United States associated pipelines. To reduce the effect of changes in the U.S./Cdn. dollar exchange rate on the Company's financial statements, short-term contracts to sell U.S. $235.8 million were outstanding at December 31, 1990 (December 31, 1989 – U.S. $243.2 million). 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 and notes payable as at December 31, 1990 and 1989:

(a) Cash and Short-Term Investments

	Balance at End of Year *(millions of dollars)*	Weighted Average Rate Per Annum End of Year	Average Amount Outstanding During the Year *(millions of dollars)*	Weighted Average Rate Per Annum During the Year
1990				
Term Deposits				
in Cdn.$ accounts	407.0	11.7%	141.4	12.6%
in U.S.$ accounts	166.7	11.9%	542.6	8.2%
Other	64.5	9.4%	43.2	9.3%
	638.2			
1989				
Term Deposits				
in Cdn.$ accounts	297.8	12.4%	30.2	12.2%
in U.S.$ accounts	270.1	8.7%	611.6	9.3%
Other	47.2	8.8%	45.0	8.7%
	615.1			

With respect to interest rate risk management, pertaining to cash and short-term investments set out in table (a) above, during 1990 the Company entered into forward rate agreements with notional principal amounts totalling approximately U.S. $51 million (1989 – U.S. $2.1 billion) and swapped interest obligations with notional principal amounts totalling approximately U.S. $300 million (1989 – U.S. $450 million) all of which have been closed out.

(b) Notes Payable

	Balance at End of Year *(millions of dollars)*	Weighted Average Rate Per Annum End of Year	Average Amount Outstanding During the Year *(millions of dollars)*	Weighted Average Rate Per Annum During the Year
1990				
Bank loans	–	–	27.0	12.3%
Commercial Paper	–	–	140.4	13.0%
1989				
Bank loans	–	–	165.2	12.2%
Commercial Paper	–	–	225.6	12.0%

The weighted average cost of bank loans are an average of United States dollar and Canadian dollar bank borrowing rates.

During 1990, the Company entered into forward rate agreements with notional principal amounts aggregating approximately $950 million as part of its management of short-term borrowing costs.

During 1989, the Company closed out interest rate swaps with notional principal amounts of $200 million which were entered into in the last half of 1988 to hedge interest rates pertaining to notes payable as set out in table (b) above. The cost of these transactions amounted to $1.3 million and was included in financial charges in 1989. In addition, during 1989 the Company entered into forward rate agreements with notional principal amounts aggregating approximately $2.3 billion. These transactions were also closed out in 1989 for settlement over periods ending in 1990.

The Company had unused lines of credit of $1,142.6 million at December 31, 1990 (1989 – $382.4 million) for the purpose of supporting the Company's commercial paper program and for general corporate needs. These borrowing arrangements are generally available to the Company at prime rates of Canadian chartered banks and on other pricing bases. The cost to the Company to maintain the unused portion of the lines of credit for the year ended December 31, 1990 was approximately $0.5 million.

The Company has certain long-term debt and related interest payable in foreign currencies (reference should be made to Note 6) which, as at December 31, 1990, had been swapped into the equivalent of Canadian $785.2 million (December 31, 1989 – $634.1 million). Of this amount, $526.4 million relates to the Company's program of hedging the foreign exchange risk relating to its Swiss franc debt.

At the end of January 1990, the Company completed its Swiss franc hedging program thereby removing any further foreign exchange exposure with respect to its Swiss franc debt. During 1990, the Company recorded $21.9 million of foreign exchange losses in financial charges with respect to the hedged Swiss franc debt. The balance of the unamortized Swiss franc losses as at December 31, 1990 is $42.9 million and is included under the caption Deferred Charges and Other Assets. In accordance with Canadian generally accepted accounting principles, these unrealized losses are being amortized over the remaining life of the individual debt issues. The remaining amortization, on an after tax basis, will approximate: 1991 – $15 million, 1992 – $14 million, 1993 – $9 million, 1994 – $4 million and 1995 – $1 million.

Note 6 Long-term Debt

Classification	Maturity Dates	1990 Outstanding December 31 (1)	1990 Average Interest Rate (2)	1989 Outstanding December 31 (1)	1989 Average Interest Rate (2)
Gas Transmission Segment					
First Mortgage Pipe Line Bonds					
Denominated in Canadian dollars	1992 and 1993	26.7	9.1%	38.6	9.1%
Denominated in United States dollars *(1990 U.S. $340.9; 1989 U.S. $370.3)*	1996 and 1997	395.5	16.2%	428.8	16.2%
Denominated in Pounds Sterling *(1990 £25.0; 1989 £25.0)*	2007	56.1	16.5%	46.7	16.5%
Debentures (Series D to H and J to U)					
Denominated in Canadian dollars	1992 to 2020	1,640.9	11.2%	1,084.4	11.0%
Notes					
Denominated in New Zealand dollars *(1990 NZ $125.0; 1989 NZ $125.0)* (4)	1993	104.1	14.9%	104.1	15.3%
		2,223.3		1,702.6	
Foreign exchange differential recoverable through the tollmaking process		(1.6)		10.3	
Total		2,221.7		1,712.9	
Other					
Debentures (Series I)					
Denominated in Canadian dollars	1993	100.0	11.7%	100.0	11.7%
Notes					
Denominated in Swiss francs *(1990 SFr. 759.2; 1989 SFr. 788.5)* (3)	1991 to 1995	584.4	10.0%	596.5	8.9%
Denominated in Australian dollars *(1990 Nil; 1989 A. $40.0)*	–	–	–	32.1	8.5%
Denominated in New Zealand dollars *(1990 NZ $175.0; 1989 NZ $175.0)* (4)	1993	116.2	14.7%	116.2	15.2%
Other Debt	–	0.3	–	0.5	–
Total		800.9		845.3	
Total long-term debt		3,022.6		2,558.2	
Less: due within one year		163.3		114.5	
		2,859.3		2,443.7	

(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) In 1990, 29.3 million Swiss franc notes were repurchased. As at December 31, 1990, 655.2 million Swiss francs have been exchanged through swap agreements into Cdn. $526.4 million (December 31, 1989 – 424.7 million Swiss francs into Cdn. $343.3 million) and 104 million Swiss francs have been exchanged through a swap agreement into U.S. $50 million (December 31, 1989 – 104 million Swiss francs into U.S. $50 million).

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

First Mortgage Pipe Line Bonds

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

Debentures

During 1990 and 1989, the Company issued $600 million and $505 million, respectively, aggregate principal amount of debentures. The proceeds from the debentures issued have been used to reduce notes payable incurred to finance the Gas Transmission segment's construction program. The terms of the debentures are as follows:

Issue	Principal Amount *(millions of dollars)*	Maturity Date	Interest Rate
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
1989			
Series N	$125	June 20, 2014	11.10% paid annually
Series O	$130	August 20, 2010	10.50% paid semi-annually
Series P	$100	March 20, 2019	10.50% paid semi-annually
Series Q	$150	October 20, 2009	10.625% paid semi-annually

The Series D to H debentures are subject to mandatory annual sinking fund provisions. The terms of the Series D to G debentures also 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.

In November 1990, the Company announced plans to offer the public up to U.S. $1 billion of debt securities during 1991 and 1992. Net proceeds will be used for general corporate needs, including financing of the Company's Gas Transmission segment's construction program. In January 1991, the Company issued U.S. $400 million of 30-year debentures bearing an interest rate of 9.875% per annum paid semi-annually and maturing January 1, 2021. These debentures rank equally with other debentures.

Notes

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

In January 1991, the Company filed a short-form prospectus to establish a $500 million Medium Term Note Program which allows the issuance, from time to time, within one year, of notes with maturities ranging from one year to 10 years. Proceeds from the issue of the notes will be added to the general funds of the Company and will be available to finance a portion of the Company's Gas Transmission segment's construction program.

Mandatory Retirements

In addition to purchase fund requirements which are applicable in certain circumstances, mandatory retirements of all long-term debt of the Company, as a result of maturities and sinking fund obligations, approximate: 1991 – $163.3 million; 1992 – $131.5 million; 1993 – $614.3 million; 1994 – $126.3 million and 1995 – $151.5 million.

Note 7 Financial Charges

Year ended December 31 *(millions of dollars)*	1990	1989	1988
Interest on long-term debt	331.9	273.6	277.3
Amortization of foreign exchange contract premiums	(31.4)	(21.0)	(10.6)
	300.5	252.6	266.7
Regulatory deferrals and amortizations	(2.4)	20.4	20.5
Non-regulatory foreign exchange losses	20.8	16.9	25.4
Short-term interest and other financial charges	18.3	36.8	19.2
	337.2	326.7	331.8

The Company made interest payments of $349.0 million, $301.6 million and $284.1 million for the years ended December 31, 1990, 1989 and 1988, respectively.

Note 8 Income Taxes

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

Year ended December 31 *(millions of dollars)*	1990	1989	1988
Canada	170.3	160.9	185.6
Foreign	110.5	113.3	45.9
	280.8	274.2	231.5

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

Year ended December 31 *(millions of dollars)*	1990	1989	1988
Current			
Canada	34.1	42.8	84.5
Foreign	0.1	3.2	(1.3)
	34.2	46.0	83.2
Deferred			
Canada	23.0	6.1	16.4
Foreign	8.7	12.0	59.6
	31.7	18.1	76.0
	65.9	64.1	159.2

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

Year ended December 31 *(millions of dollars)*	1990	1989	1988
Capital cost allowance in excess of depreciation	1.1	8.8	10.8
Previously recorded tax benefits	–	–	43.2
Deferred amounts	28.4	12.2	27.4
Unrealized foreign exchange losses	0.1	(3.4)	(10.1)
Other	2.1	0.5	4.7
	31.7	18.1	76.0

(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)*	1990	1989	1988
Income before income taxes	280.8	274.2	231.5
Less:			
Income not subject to tax currently (f)	(76.6)	(78.3)	(33.4)
	204.2	195.9	198.1
Federal statutory tax rate	38.8%	38.8%	42.4%
Expected income tax expense	79.2	76.0	84.0
Non-deductible capital losses	–	8.0	6.4
Net difference between the federal statutory tax rate and rates of provincial, state and foreign authorities	1.0	(1.8)	11.2
Utilization of prior years' operating losses	(27.3)	(21.1)	–
Previously recorded tax benefits (1)	–	–	43.2
Non-deductible expenses	–	–	12.3
Large Corporations Tax	7.3	2.9	–
Other	5.7	0.1	2.1
Actual income tax expense	65.9	64.1	159.2

(1) In 1988, the Company expensed $43.2 million of certain previously recorded deferred U.S. income tax benefits.

(e) At December 31, 1990, United States subsidiaries of the Company had accumulated net operating losses carried forward of approximately U.S. $136.0 million for which the future tax benefits have not been recorded. The related tax benefits can be carried forward and, subject to certain limitations, offset against income tax expense arising in future periods up to the year 2003.

(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 $450.1 million to December 31, 1990 (December 31, 1989 – $420.6 million) would have been recorded and recovered in tolls to date through the tollmaking process. Certain minor investments, in which the Company has an interest, also follow the taxes payable method.

(g) The Company made income tax payments of $33.2 million, $61.8 million and $79.4 million during the years ended December 31, 1990, 1989 and 1988, respectively.

Note 9 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)*	1990	1989	1988
First Preferred Shares (1)			
Cumulative redeemable shares			
$2.80 Series (1990 and 1989 – 574,868; 1988 – 578,468)	28.7	28.7	28.9
Cumulative redeemable retractable shares			
Series E (1990 and 1989 – nil; 1988 – 1,500,000)	–	–	75.0
Series H (1990 – 40,091; 1989 and 1988 – 1,000,000)	2.0	50.0	50.0
Series I (1990 – 71,020; 1989 and 1988 – 2,200,000)	3.6	110.0	110.0
Series J (1990, 1989 and 1988 – 1,600,000)	80.0	80.0	80.0
Series N (1990 – 1,500,000; 1989 and 1988 – nil)	75.0	–	–
Cumulative redeemable perpetual shares			
Series K (1990 and 1989 – 150; 1988 – nil)	75.0	75.0	–
Series L (1990 – 100; 1989 and 1988 – nil)	50.0	–	–
Series M (1990 – 150; 1989 and 1988 – nil)	75.0	–	–
Cumulative redeemable convertible shares			
Series G (1990 and 1989 – nil; 1988 – 1,000,000)	–	–	100.0
	389.3	343.7	443.9

(1) During 1990, 1989 and 1988, nil, 3,600 and 2,213 shares respectively were purchased by the Company for cancellation.

Additional information pertaining to the Company's preferred shares outstanding as at December 31, 1990 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)
$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 after July 31, 1990 at the stated value per share	Not applicable	3% of aggregate stated capital amount outstanding on August 2, 1990
Series I	$50	$3.90	redeemable after October 31, 1990 at the stated value per share	Not applicable	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 (3)	redeemable after October 31, 1994 at the stated value per share	Not applicable	None
Series L	$500,000	$40,625 (3)	redeemable after December 1, 1995 at the stated value per share	Not applicable	None
Series M	$500,000	$42,750 (3)	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

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

(2) The Company will be required to set aside in purchase fund accounts up to a maximum of $0.7 million in each of the years 1991 to 1995.

(3) The dividend rate per share on the Series K, Series L and Series M will be established 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.

In August 1990, the holders of the Company's Cumulative Redeemable Retractable First Preferred Shares, Series H, retracted all but 40,091 of such outstanding shares at a price of $50 per share. In September 1990, the Company issued $50 million of Cumulative Redeemable Retractable Perpetual First Preferred Shares, Series L, to repay short-term debt incurred to finance the retraction of the Series H shares. In November 1990, the holders of the Company's Cumulative Redeemable Retractable First Preferred Shares, Series I, retracted all but 71,020 of such outstanding shares at a price of $50 per share. In addition, the Company issued $75 million of Cumulative Redeemable Perpetual First Preferred Shares, Series M, in November 1990 to repay short-term debt incurred to finance the retraction of the Series I shares. In December 1990, the Company issued $75 million of Cumulative Redeemable Retractable First Preferred Shares, Series N, to finance a portion of the Company's 1990 and 1991 Gas Transmission segment's construction program.

In November 1989, the Company issued $75 million of Cumulative Redeemable Perpetual First Preferred Shares, Series K, the proceeds of which were used to redeem all outstanding Cumulative Redeemable Retractable First Preferred Shares, Series E, at a price of $500,000 per share.

In June 1989, the Company redeemed the $100 million Cumulative Redeemable Convertible First Preferred Shares, Series G, at par.

Note 10 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, 1988	129,233,939	763.7
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	2,457,660	32.6
Under public offering and concurrent sale to BCE Inc.	18,870,000	247.3
Cancellation of common shares	(21,753)	(0.3)
Outstanding – December 31, 1988	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

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.

Equity Issue

On March 2, 1988, the Company completed a public offering of 9,567,000 common shares at a price of $13.25 per common share. The Company concurrently sold 9,303,000 common shares to BCE Inc. ("BCE") at the same price. Gross proceeds from the public offering and sale to BCE were $250.0 million.

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, 1990, 1989 and 1988 are 153,554,906, 151,740,962 and 146,297,633, 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 1990, 1989 and 1988, 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 10 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 $23.8 million, $29.9 million and $35.2 million at December 31, 1990, 1989 and 1988, respectively. During 1990, 1989 and 1988, nil, nil and 21,300 shares respectively issued under the KESIP were purchased by the Company for cancellation.

(ii) Stock Option Feature In 1988, KESIP was amended to permit 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% 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, 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, 1989	307,700	$14.70	nil
Granted	284,900	$16.75	
Exercised	(240)	$14.70	
Outstanding at December 31, 1989	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

Certain officers of the Company who received stock options also received share appreciation rights totalling 483,743 shares.

Common Shares Reserved

The maximum number of common shares of the Company that may be issued under KESIP is 15,000,000 shares subject to an annual limitation of 1,200,000 shares. In addition to the above options, as at December 31, 1990, 115,950 common shares have been set aside and reserved for future issuance under KESIP. At December 31, 1990 there were also 550,000 common shares reserved for future issuance to the Employee Savings Plan.

Note 11 Payments on Future Gas Supply

The majority of the Company's gas purchase contracts include provisions which require payments by the Company when it is unable to nominate for delivery specified minimum annual quantities of gas. The contracted supply exceeded demand in past years, and the Company has outstanding direct payments ("take-or-pay payments") of $30.7 million (1989 – $37.0 million) to producers for gas to be delivered in future years. Costs associated with financing such payments are being recovered by the Company through producers' agreements or pursuant to regulations made under the Take-or-Pay Costs Sharing Act (Alberta). Reference should be made to Note 19 (a) for other indirect take-or-pay financing arrangements.

Note 12 Deferred Charges and Other Assets

December 31 *(millions of dollars)*	1990	1989
Deferred Amounts		
Subject to regulation	157.2	52.1
Not subject to regulation:		
Unamortized foreign exchange losses	42.9	53.9
Other deferred amounts	5.4	1.3
	205.5	107.3
Other Assets		
Development projects	17.9	10.3
Other investments	16.8	48.0
	34.7	58.3
	240.2	165.6

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

Note 13 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)*	1990	1989	1988
Pension costs for benefits earned during the current period	9.8	9.9	9.2
Amortization of transition amount and other	2.9	3.0	2.6
Net pension expense	12.7	12.9	11.8

The Company contributes annually to the 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 funded status of the Company's pension plan is as follows:

December 31 *(millions of dollars)*	1990	1989
Accumulated benefits based on service to date and current compensation:		
Vested	119.1	116.1
Non-vested	14.7	14.7
Accumulated benefit obligation	133.8	130.8
Additional amounts related to projected salary increases	50.0	49.6
Actuarial present value of current accumulated pension benefits	183.8	180.4
Pension plan assets	155.2	145.9
Deficit	28.6	34.5

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 obligations was 8.5%. The rate of the return on pension plan assets was estimated to be 8.5% per annum.

Note 14 Related Party Transactions

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

Year ended December 31 *(millions of dollars)*	1990	1989	1988
Gas Sales and Gas Transmission Services			
Great Lakes System	150.0	153.2	200.6
TQM	–	–	42.3
Charges for Gas Transmission Services			
Great Lakes System	138.7	125.8	132.0
TQM	69.3	70.7	72.5

Amounts due from and to related parties were as follows:

December 31 *(millions of dollars)*	1990	1989
Accounts receivable	3.5	2.7
Accounts payable	19.1	16.6

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. In 1990 and 1989, TQM did not buy gas directly from the Company.

Reference should be made to Note 10 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. In the event all of the warrants are exercised, BCE's ownership in the Company will be reduced to less than 0.1 per cent.

Note 15 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, 1990, under the most restrictive provisions, approximately $320 million was available for the payment of dividends on common shares.

Note 16 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)*	1990	1989	1988
(Increase)/decrease in accounts receivable	(15.7)	25.7	33.0
Increase in inventories	(2.0)	(3.8)	(5.6)
(Decrease)/increase in accounts payable	(37.3)	24.6	34.5
Decrease in income taxes payable	(1.3)	(20.0)	(63.4)
Increase/(decrease) in interest accrued	12.6	10.3	(7.3)
	(43.7)	36.8	(8.8)

Note 17 Investment and Asset Provisions

In 1988, the Company determined that the carrying value of certain assets should be reduced due to the uncertainty of their ultimate recovery and as a result recorded a provision totalling $29.0 million or 20 cents per share before and after income taxes.

Note 18 Discontinued Oil and Gas Operations

In 1988, the Company sold all of its United States oil and gas properties for a total consideration of approximately U.S. $125 million. This disposition resulted in a loss, before and after income taxes, of $52.7 million.

On May 2, 1989, the Company completed a Plan of Arrangement. Under the terms of the Plan of Arrangement, the Company combined its remaining 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 *(millions of dollars)*	1990	1989	1988
Operating revenues	–	107.4	324.1
Costs and expenses	–	120.8	352.3
Operating loss	–	13.4	28.2
Loss on disposal	–	–	52.7
Net loss	–	13.4	80.9

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 take-or-pay payments incurred up to and including the contract year ended October 31, 1983. Pursuant to the Topgas Programs, Alberta corporations controlled by the banking syndicates (the "Topgas Companies") advanced approximately $2.7 billion to these producers in respect of these take-or-pay payments. Pursuant to contractual arrangements, recovery of the advances commenced in 1984 and is being effected in instalments by the nomination for delivery of prepaid gas. Scheduled recovery of the prepaid gas for the Topgas Programs will be completed not later than 1994. As at December 31, 1990, approximately $0.9 billion ($1.2 billion as at December 31, 1989) remained outstanding. Interest costs associated with the advances are being recovered by the Company through producers' agreements or pursuant to regulations made under the Take-or-Pay Costs Sharing Act (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 reason for the refinancing was 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% of the advances outstanding and $25 million. As of December 31, 1990, the indemnities total approximately $91 million.

During the remaining term of the Topgas Programs, from 1991 to 1994, the Company may be required to make further take-or-pay payments if it is unable to nominate for delivery certain minimum quantities of natural gas. The amount, if any, of prepaid gas resulting from such take-or-pay payments is dependent upon a number of future factors which cannot be precisely quantified at the present time.

(b) Guarantee of Debt of Encor

Prior to the Plan of Arrangement (see Note 18), the Company had guaranteed a portion of the outstanding debt of Encor. As at December 31, 1990, approximately $69 million (1989 – $69 million) of this debt continues to be guaranteed by the Company. The Company receives a guarantee fee on the aggregate amount of such indebtedness outstanding from time to time until maturity.

(c) Foothills Pipe Lines (Sask.) Ltd.

Pursuant to a Transportation Service Agreement, the Company may be required to pay certain minimum charges in connection with the Foothills (Sask.) system until October 31, 1997. Current transportation contracts, extending to or beyond October 31, 1997, are above the level at which the Company could be called upon to perform under this Agreement.

(d) Relocation Expenses

During 1990, the Company relocated its offices from Toronto to Calgary. The Company estimates the cost to be approximately $50 million before tax. The Company has applied to the NEB to recover $41 million of these costs through tolls. The remaining $9 million, before tax, of these costs has been expensed in 1989 and 1990.

(e) Capital Expenditures

The Company expects to spend the following in 1991.

(millions of dollars)	
Gas Transmission segment	1,395
Great Lakes System	90
Iroquois Gas Transmission System	21
Ocean State Power Project	45
Nipigon Power Generation Project	30

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/(loss) in accordance with U.S. GAAP:

Year ended December 31 *(millions of dollars except per share amounts)*	1990	1989	1988
Income from continuing operations as reported	214.9	210.1	72.3
U.S. GAAP adjustments:			
Foreign currency translation (i)	11.0	40.1	158.7
Income taxes (ii)	(27.3)	(21.1)	43.2
Other	–	–	1.7
Income from continuing operations in accordance with U.S. GAAP	198.6	229.1	275.9
Loss from discontinued operations in accordance with U.S. GAAP (iii)	–	(3.0)	(79.4)
Income before extraordinary item	198.6	226.1	196.5
Reduction of income taxes from the application of prior years' losses (ii)	27.3	21.1	–
Net income for the year in accordance with U.S. GAAP	225.9	247.2	196.5
Net income applicable to common shares in accordance with U.S. GAAP	200.5	215.4	159.1
Per common share data:			
Income from continuing operations	$1.13	$1.30	$1.63
Loss from discontinued operations	–	(0.02)	(0.54)
Income before extraordinary item	1.13	1.28	1.09
Extraordinary item	0.18	0.14	–
Net income	$1.31	$1.42	$1.09

(i) Under Canadian GAAP, the Company defers unrealized foreign exchange 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 in 1990 and 1989. Under Canadian GAAP the Company expensed $43.2 million in 1988 with respect to deferred U.S. tax benefits previously recorded. Under U.S. GAAP no benefits had been recorded and therefore no provision was necessary.

(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:

	Amounted reported under Canadian GAAP		Amount as adjusted to conform with U.S. GAAP	
December 31 *(millions of dollars)*	1990	1989	1990	1989
Deferred Charges and Other Assets	240.2	165.6	197.9	112.4
Common Shareholders' Equity	1,280.4	1,169.2	1,214.4	1,086.1

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

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

(ii) 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, 1991. 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) 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.

(iv) 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)*	1990	1989	1988
Current service cost	7.1	6.4	5.9
Interest on accrued benefits	15.3	14.4	13.1
Expected return on pension assets	(12.6)	(10.9)	(9.8)
Amortization of prior service cost	2.1	2.4	8.7
Amortization of transition amount	(0.3)	(0.3)	(0.5)
Net pension expense	11.6	12.0	17.4

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 plan for U.S. GAAP purposes is as follows:

December 31 *(millions of dollars)*	1990	1989
Projected benefit obligation	183.8	180.4
Pension assets-market value	152.1	157.1
Deficit	(31.7)	(23.3)
Unrecognized net loss/(gain)	0.3	(11.3)
Unrecognized prior service cost	20.9	27.2
Unrecognized net transitional assets	(5.9)	(6.2)
Pension liability	(16.4)	(13.6)

The amount of deficit reported above is less 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 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 1990 and 1989 in millions of dollars except for per share amounts. Revenues and operating income include only those of continuing operations.

Three Months Ended	Mar. 31	June 30	Sept. 30	Dec. 31
1990				
Revenues	877.2	701.0	655.5	799.5
Operating income	115.2	109.2	107.7	114.9
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
1989				
Revenues	920.4	677.5	686.2	798.8
Operating income	110.1	103.9	110.6	103.4
Net income	34.0	44.8	63.8	54.1
Net income applicable to common shares	24.7	36.2	56.7	47.3
Per common share data:				
Net income applicable to common shares	$0.16	$0.24	$0.38	$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:

	The Toronto Stock Exchange		New York Stock Exchange	
	High (Cdn.$)	Low	High (U.S.$)	Low
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
1989				
First Quarter	$16.25	$14.50	$13.63	$12.00
Second Quarter				
(before the Encor Inc. distribution)	16.63	15.88	14.00	13.38
(after the Encor Inc. distribution)	15.00	13.88	12.63	11.75
Third Quarter	17.50	14.25	14.63	12.00
Fourth Quarter	17.75	16.13	15.25	13.75

Registered Common Shareholders and Dividends

As of March 1, 1991 there were 18,715 registered holders of common shares.

Quarterly dividends of $0.17 per common share were paid in each quarter of 1989 and in the first three quarters of 1990. On December 6, 1990 an increase in the dividend on common shares was declared. The final 1990 quarterly dividend, which was paid on January 31, 1991, was increased to 18 cents.

Declaration of dividends on both preferred and common shares is restricted under certain preferred share provisions and under several debt instruments. At December 31, 1990, under the most restrictive provisions, approximately $320 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	1990	1989	1988	1987	1986
Ratio of earnings to fixed charges (1)	1.8	1.8	1.6	1.8	1.8

(1) The ratio of earnings to fixed charges is determined by dividing the financial charges incurred by the Company (before capitalized interest) into its income from continuing operations before financial charges and income taxes, excluding undistributed income of less than 50% 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	1990	1989	1988	1987	1986
Ratio of earnings to fixed charges	1.9	2.0	3.1	1.5	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

(millions of dollars except where indicated)	1990	1989	1988	1987	1986
Financial					
Operating Results					
Revenues	3,033.2	3,082.9	3,268.7	3,161.1	3,964.6
Operating income	447.0	428.0	467.6	521.0	518.3
Income from continuing operations	214.9	210.1	72.3	171.4	197.5
Loss from discontinued operations	–	(13.4)	(80.9)	(11.4)	(145.3)
Net income/(loss) for the year	214.9	196.7	(8.6)	160.0	52.2
Net income/(loss) applicable to common shares	189.5	164.9	(46.0)	121.4	9.4
Assets					
Plant, property and equipment *(net)*					
Gas transmission	3,404.9	3,055.4	2,485.5	2,459.4	2,474.9
Gas sales, marketing and other	100.6	88.6	89.5	120.9	103.5
Total assets	5,239.8	4,623.4	5,022.9	5,356.6	5,332.8
Capitalization					
Long-term debt	2,859.3	2,443.7	2,137.2	2,308.8	2,077.0
Preferred shares					
Subject to mandatory redemption	155.0	240.0	315.0	315.0	315.0
Not subject to mandatory redemption	234.3	103.7	128.9	129.0	129.4
Common shareholders' equity	1,280.4	1,169.2	1,766.1	1,678.3	1,649.5
Cash Flow Data					
Funds generated from continuing operations	341.1	289.7	286.5	246.2	376.7
Capital expenditures	482.2	671.0	146.4	96.2	72.2
Common Share Statistics					
Net income/(loss) per common share					
Income from continuing operations	$ 1.23	$ 1.18	$ 0.24	$ 1.05	$ 1.40
Loss from discontinued operations	–	$ (0.09)	$ (0.55)	$ (0.09)	$ (1.31)
Net income/(loss) for the year	$ 1.23	$ 1.09	$ (0.31)	$ 0.96	$ 0.09
Dividends declared per common share	$ 0.69	$ 0.68	$ 0.68	$ 1.12	$ 1.12
Funds generated from continuing operations per average common share	$ 2.22	$ 1.91	$ 1.96	$ 1.95	$ 3.42
Outstanding – year end *(millions)*	154.2	152.6	150.5	129.2	123.2
– weighted average *(millions)*	153.6	151.7	146.3	126.3	110.2
Number of shareholders, December 31	17,733	19,254	22,636	24,062	24,259
Common equity per share at year end	$ 8.30	$ 7.66	$ 11.73	$ 12.99	$ 13.39
Number of Regular Employees, December 31	1,757	1,765	1,939	2,016	2,026
In Accordance with U.S. GAAP					
Income from continuing operations	198.6	229.1	275.9	99.5	107.0
Loss from discontinued operations	–	(3.0)	(79.4)	(183.0)	(379.3)
Net income/(loss) for the year	225.9	247.2	196.5	(83.5)	(272.3)
Net income/(loss) applicable to common shares	200.5	215.4	159.1	(122.1)	(315.1)
Net income/(loss) per common share					
Income from continuing operations	$ 1.13	$ 1.30	$ 1.63	$ 0.48	$ 0.58
Loss from discontinued operations	–	$ (0.02)	$ (0.54)	$ (1.45)	$ (3.44)
Net income/(loss) for the year	$ 1.31	$ 1.42	$ 1.09	$ (0.97)	$ (2.86)
Common shareholders' equity	1,214.4	1,086.1	1,088.7	781.6	988.5
Common equity per share at year end	$ 7.88	$ 7.12	$ 7.23	$ 6.05	$ 8.02
Operating					
Gas transmission volumes delivered *(billions of cubic feet)*					
Annual	1,509.6	1,418.0	1,345.6	1,152.0	1,167.9
Maximum per day	5.1	5.0	5.0	4.3	4.6
Kilometres of pipeline – including loop line	11 400	11 039	10 675	10 600	10 593
Compressor power *(kilowatts)*	1 210 700	1 059 400	1 027 400	1 023 200	1 020 500

Directors and Officers

Directors

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

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
Director, Canadian Imperial Bank
of Commerce, Toronto

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

Thomas E. Kierans
President, C.D. Howe Institute,
Toronto

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

Gordon P. Osler
Corporate Director,
Toronto

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

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

Stuart J. Spalding
Business Consultant,
Montréal

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

Officers

H.F. Button
Vice-President

D.J. Cohen
Vice-President, Information Systems

G.J. Couper
Senior Vice-President

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

A.A. Douloff
Vice-President,
Transportation and System Planning

M. Durnin
Vice-President,
Engineering and Operations

M. Feldman
Vice-President,
Transmission Systems Planning

D.E. Henwood
Senior Vice-President

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

G.M. Hugh
Chief Operating Officer

S. Jakymiw
Vice-President, Rates

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

G.J. Maier
President and Chief Executive Officer

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

C.K. Orr
Group Vice-President

G.G. Penrose
Assistant Treasurer

D.E. Reid
Vice-President, Engineering

D. Russell
Vice-President

W.A. Scotland
Vice-President, Public Affairs

L.W. Sloan
Assistant Secretary

R.T. Smith
Vice-President and Controller

J.W. Stinson
Vice-President, Human Resources

G.W. Watson
Chief Financial Officer

P.R. Wigle
Vice-President, Transportation

A.A. Wilkins
Vice-President, Gas Reserves

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

Wholly-Owned Subsidiaries

Western Gas Marketing Limited

R.G. Caughey
Vice-President, Canadian Sales

R. Craig-Murphie
Vice-President and Controller

C.R. Frew
President

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

B.G. Luft
Vice-President, Gas Supply

G.J. Maier
Chairman

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

M.A. Ross
Vice-President, U.S. Sales, Marketing

L.W. Sloan
Vice-President and General Counsel

Cancarb Limited

R.D. Hale
President

TCPL Holdings B.V.

Corporate Offices

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Telephone: (416) 869-2111

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TCPL Holdings B.V.

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Western Gas Marketing Limited

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Telephone: (403) 269-5611

Western Gas Marketing USA Ltd.

Suite 2230
600 North Pearl Street
LB 127
Dallas, Texas 75201
Telephone: (214) 954-1788

Other Subsidiaries

Cancarb Limited
Iroquois Pipeline Operating Company
TCPL Power Ltd.
TransCanada Border PipeLine Ltd.
TransCanada GL, Inc.
TransCanada Iroquois Ltd.
TransCan Northern Ltd.
TransCanada PipeLine USA Ltd.
Western Gas Marketing Limited
Western Gas Marketing USA Ltd.
472876 Alberta Ltd.

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

Montreal Trust Company is also Custodian and Transfer Agent for common shares evidenced by instalment receipts.

Preferred Shares

Transfer Agent and Registrar:

$2.80 cumulative redeemable first preferred shares:

National Trust Company, Montréal, Toronto, Winnipeg, Calgary and Vancouver

Cumulative redeemable retractable first preferred shares series H, series I and series J:

The Royal Trust Company, Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver

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

Cumulative redeemable retractable first preferred shares series N:

Montreal Trust Company, Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Bonds

Trustee:

National Trust Company, Toronto

Registrar Canadian Series:

9¼% and 8⅞% first mortgage pipe line bonds, National Trust Company, Montréal, Toronto, Winnipeg, Calgary and Vancouver

Co-registrars U.S. Series:

16% and 16¾% first mortgage pipe line bonds, National Trust Company and Morgan Guaranty Trust Company of New York

Co-Registrars U.K. Series:

16½% first mortgage pipe line bonds, 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

10% series A sinking fund,
9¾% series B sinking fund,
9% series C sinking fund,
8⅞% series D sinking fund,
9% series E sinking fund,
11½% series F sinking fund,
9.60% series G sinking fund,
18% series H sinking fund,
11.70% series I,
11.40% series J,
10.45% series K,
10.80% series L,
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

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

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

Si vous désirez vous procurer un exemplaire de ce rapport en français, veuillez vous adresser à TransCanada PipeLines, l'Administration du Capital-Action et de la Dette.

Investment Information For Foreign Investors

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

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

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

Dividend Reinvestment and Share Purchase Plan

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

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

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

The portion of this annual report from page 27 to 66 is printed on recycled paper.

TransCanada PipeLines Limited
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