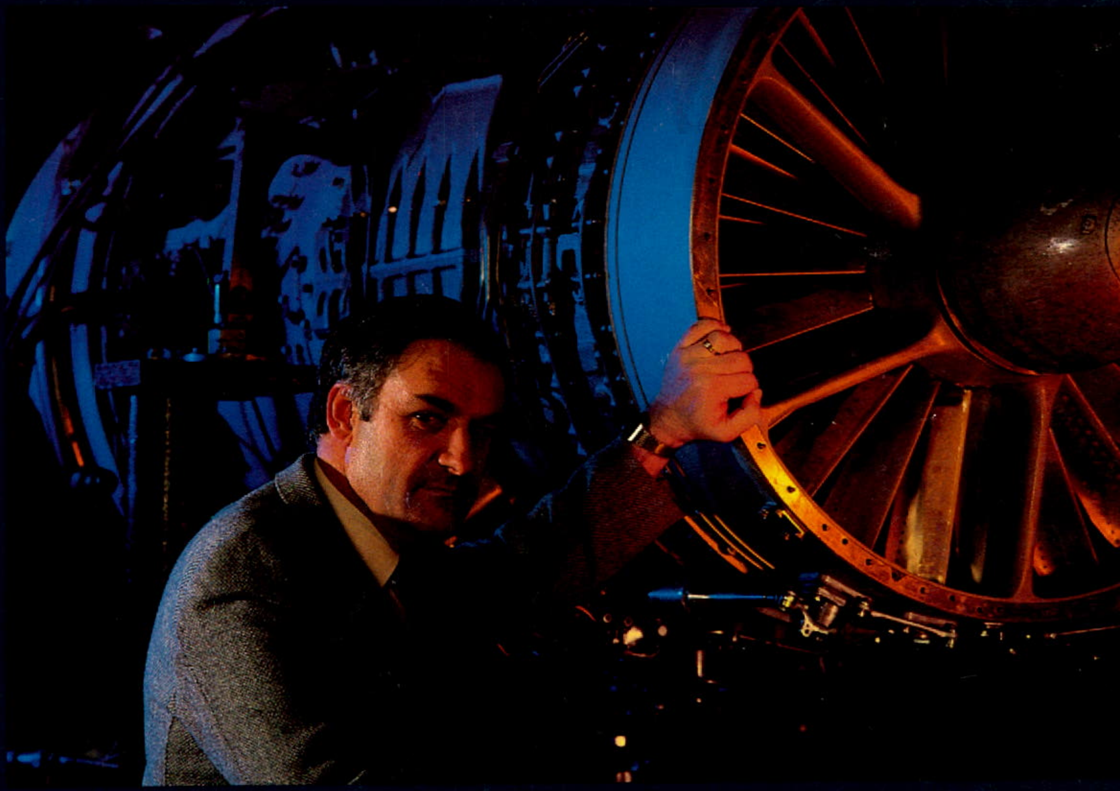
TransCanada PipeLines



ANNUAL REPORT 1985

Cover

Ian Langham, a senior technician in the Pipeline Division's compression facilities department, stands beside one of the jet engines used to power the pipeline's massive compressors. The engine was at the manufacturer's service facility where it was undergoing routine performance analysis. Mr. Langham is one of many TransCanada specialists who oversee operation and maintenance of the pipeline's compressor engines to ensure the delivery of natural gas to customers in Canada and the U.S.

The Annual Meeting of Shareholders will be held at the Jane Mallett Theatre at the St. Lawrence Centre, 27 Front Street East, Toronto, Ontario, on Wednesday, April 30, 1986, commencing at 10:00 a.m. Eastern Daylight Time.

Si vous désirez vous procurer un exemplaire de ce rapport en français, veuillez vous adresser au Secrétaire, TransCanada PipeLines, C.P. 54, Commerce Court West, Toronto, Ontario, M5L 1C2.

This report uses the Imperial System of Units for natural resources operations and the International System of Units (metric) for pipeline operations. Approximate conversions can be calculated using the following table:

from	to	multiply by
kilometres	miles	× 0.62
millimetres	inches	× 0.04
kilowatts	horsepower	× 1.34
gigajoules	million British thermal units	× 0.95
cubic metres	cubic feet	× 35.30
kilopascals	pounds per square inch	× 0.15
cubic metres (liquid measure)	barrels	× 6.29

Indonesian Operations (continued)

Negotiations between Pertamina, the Indonesian state oil company, and neighboring contract owners have temporarily delayed development of the Mengkapan field. Appraisal drilling was underway on the Melibur field at year end. Development work for both of these Malacca Strait fields is scheduled for 1986.

The 1985 exploratory program resulted in another oil discovery in the Malacca Strait PSC which tested at a combined rate of 14,500 barrels per day. The company plans to participate in further exploratory wells in the Malacca Strait PSC in 1986.

Australian Operations

During 1985, TCPL Resources opened an office in Sydney and acquired interests in five onshore blocks in the Eromanga Basin area in Queensland and in South Australia. The company's interests in two offshore and eight onshore blocks in Australia now total 1.6 million net acres.

The company owns a 4.7 per cent interest in the Bodalla South, Kenmore and Glenvale oil fields on block ATP 269(1) in Australia. Net production to TCPL Resources was 230 barrels per day at the end of 1985. The Kenmore and Glenvale fields, which were discovered in 1985, will undergo further evaluation and development drilling in 1986.

The company expects in 1986 to participate in the drilling of further exploratory wells in Australia.

Australian Operations
In Australia, TransCanada's production and exploration activities are managed through its office in Sydney.

Natural Resources

Netherlands Operations

TCPL Resources has a 0.9 per cent interest in an oil field in the Netherlands sector of the North Sea where net production to the company of 225 barrels of oil per day is expected by mid-1986.

The company also has minor interests in three other blocks on which two gas discoveries and one oil discovery have been made.

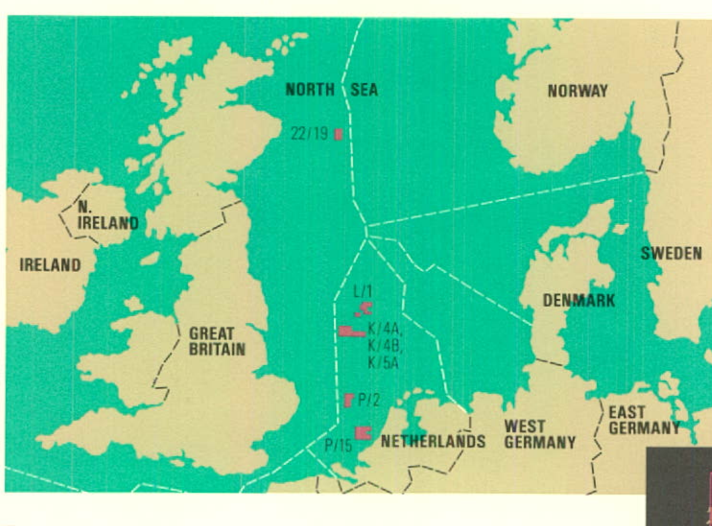
United Kingdom Operations

Following a gas and condensate discovery in the U.K. sector of the North Sea 22/19 block in 1984, an exploratory well was drilled in 1985 on a separate structure. However, it failed to yield hydrocarbons and was abandoned. Further exploration is planned for the block, in which the company continues to hold a 15.65 per cent interest.

Italian Operations

The company acquired interests in nine permits in 1985 in the Adriatic Sea, off the coast of Sicily, and onshore in the northern and southern Appennines.

TCPL Resources participated in the drilling of the Aretusa No. 1 well on block CR 100 in which it holds an 11.25 per cent interest. Hydrocarbons were encountered, but the well was abandoned as non-commercial. However, additional seismic studies and drilling are planned for 1986.



North Sea Operations
TransCanada has exploration and development interests in the Netherlands sector and the U.K. sector of the North Sea.

The only way to find oil and gas is to drill. Knowing exactly where to drill saves money and time. We use tools such as seismic profiles to create geophysical maps of the subsurface. By analyzing the seismic data, along with information gathered by others on the exploration team, we can detect geological structures to determine the best drilling sites for greater probability of locating oil and gas reserves.

— JAY CARROLL,
Manager of Geophysics,
TCPL Resources U.S.A., Denver.

Daily Sales Volume Summary

	1985				1984			
	Canada	**U.S.A.**	**Indonesia & Other Foreign**	**Total**	Canada	U.S.A.	Indonesia & Other Foreign	Total
Oil and Natural Gas Liquids (barrels)								
Conventional	**11,138**	**1,687**	**3,500**	**16,325**	11,043	817	1,991	13,851
Synthetic	**801**	**–**	**–**	**801**	541	–	–	541
Natural Gas Liquids	**3,117**	**43**	**–**	**3,160**	2,364	50	–	2,414
Total Oil and Natural Gas Liquids	**15,056**	**1,730**	**3,500**	**20,286**	13,948	867	1,991	16,806
Natural Gas (millions of cubic feet)	**87.3**	**12.0**	**–**	**99.3**	80.0	5.3	–	85.3
Sulphur (long tons)	**187**	**–**	**–**	**187**	172	–	–	172

Note: Sales volumes for Canada are gross and include all volumes attributable to the company's working interests before the deduction of royalties. Sales volumes for the United States are net of royalties. Sales volumes for Indonesia are attributable to the company's gross working interests before government takes.
Daily sales volume is calculated by dividing total sales for the respective year by the number of days in that year.

Drilling Summary

For the year ended December 31, 1985
(includes participation and farm-out wells)

	Oil		Gas		D & A*		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory								
Canada	153	10.31	89	5.56	133	9.98	375	25.85
U.S.A.	10	2.80	10	1.71	65	19.26	85	23.77
Foreign	10	.47	1	.02	17	1.81	28	2.30
TOTAL	173	13.58	100	7.29	215	31.05	488	51.92
Development								
Canada	784	16.91	199	5.82	107	6.78	1,090	29.51
U.S.A.	21	5.95	23	5.62	17	2.98	61	14.55
Foreign	14	.22	1	.02	11	.11	26	.35
TOTAL	819	23.08	223	11.46	135	9.87	1,177	44.41
Exploratory and Development								
Total	992	36.66	323	18.75	350	40.92	1,665	96.33

*Dry and abandoned

Related Pipelines

Great Lakes Gas Transmission Company

TransCanada owns 50 per cent of Great Lakes Gas Transmission Company, which transports Alberta natural gas through a 2 100-kilometre pipeline from the Manitoba border, through Minnesota, Wisconsin and Michigan to Sault Ste. Marie and Sarnia, Ontario. Great Lakes also serves U.S. customers.

To increase capacity on its Sault Ste. Marie lateral line, Great Lakes completed construction of a new pipeline loop in 1985 at a cost of (U.S.) $4 million.

The Great Lakes pipeline is well located to connect with other U.S. pipelines and expects, therefore, to play an expanding role in the export of Canadian natural gas. During 1985, 7.08 billion cubic metres were redelivered to TransCanada and 3.58 billion cubic metres were delivered to Great Lakes' U.S. customers.

Northern Border Pipeline Company

TransCanada holds a 30 per cent interest in Northern Border Pipeline Company, which owns a 1 300-kilometre pipeline that carries mainly Alberta natural gas from Monchy, Saskatchewan, to Ventura, Iowa.

In the 1984/85 contract year, Northern Border's pipeline volumes increased by 47.5 per cent to 5 496 million cubic metres compared with 3 725 million cubic metres in 1983/84.

As a result of withdrawal of support for the Can Am project by certain of its sponsors late in 1985, Northern Border is considering alternative plans to move more Canadian gas through its pipeline

Northern Border Pipeline Company (continued)

system. An application, filed with the U.S. Federal Energy Regulatory Commission, to extend the pipeline about 467 kilometres from Ventura, Iowa, to Sandwich, Illinois, may be further amended or withdrawn depending on the ultimate course of these plans.

Trans Québec & Maritimes Pipeline Inc.

Trans Québec & Maritimes Pipeline (TQM), 50 per cent owned by TransCanada, operates a 342-kilometre pipeline that connects with the TransCanada system near Montreal and ends at Quebec City. In 1985, TQM increased its deliveries of gas in Quebec markets by 29.3 per cent to 2 380 million cubic metres. At the same time, TQM's peak day deliveries rose 16.7 per cent to 10.1 million cubic metres from the peak day of 8.6 million cubic metres in 1984.

Foothills Pipe Lines (Sask.) Ltd.

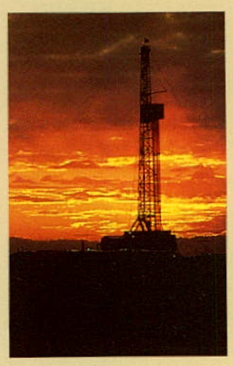
TransCanada operates and owns a 44 per cent interest in Foothills' 257-kilometre pipeline, which runs from the Alberta border to Monchy, Saskatchewan where it connects with the Northern Border pipeline in the U.S.

TransCanada PipeLines
Foothills Pipe Lines (Sask.) Ltd.
Northern Border Pipeline

Northern Border and Foothills Pipelines
TransCanada has a 30 per cent interest in the Northern Border pipeline and a 44 per cent interest in Foothills Pipe Lines (Sask.) Ltd.

Assessing the potential of an oil discovery is a team effort. Our role is to collect geological information from the field and interpret it to determine whether the area warrants further development expenditure. Making the best use of TransCanada's exploration budget is a big responsibility. As a professional geologist, I find it exciting when our contribution results in a new discovery.

— GREGORY BERKO,
Manager of Geology,
TCPL Resources, Calgary.



Proposed Pipelines

TransNiagara Project

In 1985, TransCanada filed an application with the National Energy Board for approval to expand its facilities in order to transport additional Canadian gas to the northeastern United States. The TransNiagara Project proposal would see gas from Alberta being transported through the TransCanada system to an export point at Niagara Falls, Ontario.

The TransNiagara Project also contemplates construction of the Niagara Interstate Pipeline from Niagara Falls to Leidy, Pennsylvania, and expansion of facilities of Great Lakes Gas Transmission Company.

Polar Gas Project

During 1985, the Polar Gas Project, which is managed by TransCanada, filed additions to its 1984 application with the National Energy Board to build a $3.3 billion natural gas pipeline from the Mackenzie Delta to connect with existing pipeline systems carrying gas to southern Canadian and U.S. markets. Recent discoveries in the Mackenzie Delta and active marketing of gas by producers in the region have reinforced interest in a Mackenzie Valley energy corridor.

Sable Gas Systems

In September 1985, Sable Gas Systems, a partnership of TransCanada and Crown-owned Nova Scotia Resources Limited, notified the National Energy Board of its intention to apply to build a hydrocarbon transmission system that would deliver gas that has been discovered offshore Nova Scotia to the United States border. The application will proceed when natural gas producers exploring offshore complete their gas export applications with the NEB.

Iroquois Gas Transmission System

TransCanada is participating in a study of the Iroquois Gas Transmission System, a project to transport additional western Canadian gas to the northeastern United States. The project envisages construction of a new pipeline which would link with TransCanada's system near Iroquois, Ontario, about half way between Brockville and Cornwall, and run through New York State to Connecticut and Long Island.

Other participants include Brooklyn Union Gas Company, Northeast Utilities, Southern Connecticut Gas Company, Connecticut Natural Gas Company and J. Makowski and Associates, a Boston consulting firm.

Cancarb Limited

Cancarb Limited, a wholly owned subsidiary, is a producer of high quality grades of thermal carbon black marketed around the world. Cancarb implemented a successful marketing program in 1985 that highlighted its product quality, reliability of supply and the availability of technical assistance.

Cancarb completed a 50 per cent expansion of its Medicine Hat, Alberta, plant ahead of schedule and customers have responded to the expansion with long-term commitments to purchase carbon black. Despite cyclical demand, Cancarb expects steady growth in its share of market in the coming year.

International PipeLine Engineering Limited

IPEL is a wholly owned subsidiary that markets pipeline technology and consulting services internationally. The company is building on a major market development program initiated in 1985. IPEL signed an agreement early in 1985 with the Alyeska Pipeline Service Company, operators of the Trans-Alaska Pipeline, to design and construct a sophisticated 48-inch pipeline inspection tool.

Major contracts signed for work to be undertaken in 1986 include inspection of a 1 300-kilometre pipeline in Australia and a 330-kilometre pipeline originating offshore in the Danish sector of the North Sea.

Empress Extraction Plant

The Empress II extraction plant, in which TransCanada holds a 50 per cent interest, completed its first full year of operation in 1985. The plant, which extracts natural gas liquids and ethane from natural gas, is operated on a cost-of-service basis.

Finance

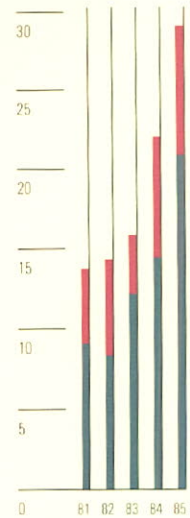
In 1985, the company redeemed its Series B and D preferred shares and replaced them with a $50 million Series H issue and a $110 million Series I issue of preferred shares which carry lower dividend rates. To help finance the pipeline system, TransCanada issued Series J debentures and agreed late in the year to issue Series K debentures on a partly paid basis. In January 1986, the company received $25 million as the 20 per cent first instalment of the Series K issue. The remaining $100 million, to be received in October 1986, will be used to redeem a high coupon Eurodollar issue.

During the year, the company issued notes for 150 million Swiss francs, due 1995 with a coupon of 5.75 per cent. A portion of the funds was used to refinance an existing issue and the balance for other non-utility purposes.

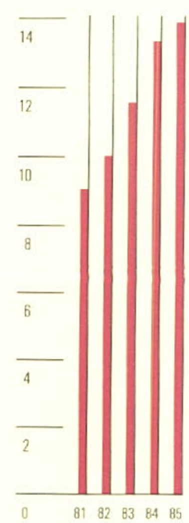
In October, TransCanada issued $40 million (Australian) Euronotes, due 1990 with a coupon of 13.5 per cent. The Australian funds were subsequently swapped with a bank to give TransCanada floating rate U.S. dollars at a lower rate than the London Inter Bank Offered Rate. The swap eliminated TransCanada's Australian dollar foreign exchange risk.

Three additional interest rate swap transactions for a total of (U.S.) $140 million reduced the coupon cost of certain TransCanada debt obligations.

During 1985, the common shares of TransCanada were listed on the New York Stock Exchange, reflecting both the company's growing presence in world financial markets and its role as an emerging force in the North American energy sector.



High/Low Share Price
(dollars)



Shareholders' Equity per Common Share
(dollars)

Financing Activities

Issue	Maturity	Interest/Dividend Rate (%)
150 million Swiss Francs	1995	5.75
$50 million Series H First Preferred Shares	retractable 1990	8.70
$75 million Series J Debentures	2005 (retractable 1995)	11.40
$110 million Series I First Preferred Shares	retractable 1990	7.80
$A40 million Euro-Notes	1990	13.50
$125 million Series K Debentures	1996	10.45

The Gas Contracts Department plays a critical role in the flow of gas from Alberta to customers in Canada and the U.S. We administer about 2,700 contracts with more than 650 producers in western Canada. We prepare agreements and monitor changes during the life of contracts–which can span many years–to ensure that they continue to serve the interests of all parties.

— JILL HALLIWELL,
Manager of Gas Contracts,
Western Gas Marketing, Calgary.

Banking

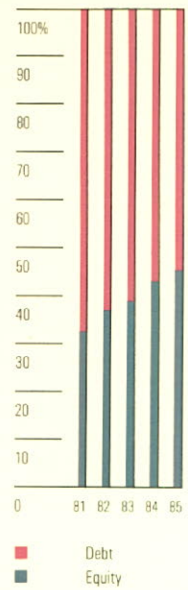
The company's commercial paper program was expanded from $250 million to $400 million in 1985.

The average cost of short-term borrowings during the year was 9.72 per cent on average daily Canadian dollar outstandings of $259.7 million and 8.59 per cent on average daily United States outstandings of (U.S.) $170.3 million.

In short-term investments, the company earned 9.49 per cent on average daily Canadian investments of $18.2 million and 8.26 per cent on average daily United States dollar investments of (U.S.) $415.3 million.

Dividend Reinvestment and Stock Dividend Plans

More than 330 shareholders joined the company's dividend plans in 1985 to bring the total to over 3,000 participants at the end of 1985. During the year the company raised over $77.7 million in common equity through the plans at an average price of $22.18 per share. Through the share purchase plan, shareholders paid almost $1.5 million to purchase additional shares in 1985. Reinvested dividends contributed $76.2 million to the company's equity.



Debt/Equity Ratio
(excluding non recourse loans)

Geographic Distribution of Common Shares

(as at December 31, 1985)	Number of Shareholders	Number of Shares
Canada	19,267	96,423,544
U.S.A.	1,717	2,359,865
Other Countries	159	119,688
Total Non-Resident	1,876	2,479,553
Overall Total	21,143	98,903,097

Financial Review

Financial Review

The following pages of this annual report contain the Report of Management, the Financial Statement Review, the Consolidated Financial Statements of the Company, Financial Statement Narratives, The Notes to the Consolidated Financial Statements and Supplementary Financial and Operating Data, including Five-Year Financial and Operating Highlights and other Corporate Information.

The Financial Statement Review is a discussion by management of the financial results of the Company. The bold headings employed throughout the Narrative relate to the specific financial statement captions on each of the referenced statements.

As noted on the bottom of each statement, the accompanying notes to consolidated financial statements are an integral part of these financial statements.

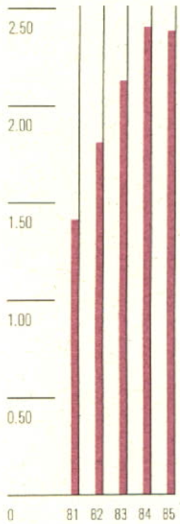
Report of Management

The accompanying consolidated financial statements and all information 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, after giving retroactive effect to the changes in the method of accounting for its investment in oil and gas joint ventures and in the application of the full cost method of accounting for oil and gas operations as explained, respectively, in Notes 1 and 3 to the consolidated financial statements. These principles also conform in all material respects with International Accounting Standards on an historical cost basis. Financial information contained elsewhere in the Annual Report is consistent with the consolidated financial statements.

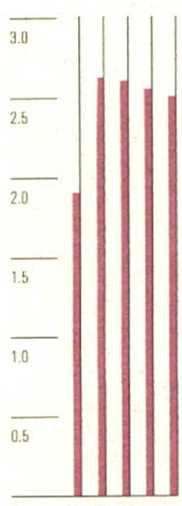
The Board of Directors has appointed an Audit Committee consisting solely of directors who are not officers of the Company to review with management and the independent auditors the annual financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit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

The independent auditors, Peat, Marwick, Mitchell & Co., have been appointed by the shareholders to express an opinion as to whether the consolidated financial statements present fairly 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 48 outlines the scope of their examination and their opinion on the consolidated financial statements.



Net Income per Common Share
(dollars before investment and asset provisions)



Plant, Property and Equipment
Pipeline
(billions of dollars)

The following discussion by management of the financial results of the Company is primarily a comparison of the Company's overall financial performance between 1985 and 1984 and should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1984 and 1983 are highlighted.

Two accounting changes took place during 1985. The first change, which had no impact on reported net income in 1985 or prior years, was the change from the equity method of accounting for oil and gas joint ventures to the proportionate consolidation method. As discussed in Note 1 on page 49, this change more appropriately reflects the increasing significance of the Company's oil and gas operations. As a result of this change, the Company's financial reporting includes disclosure of its two principal business operations in Note 2 on page 50.

The second accounting change, as outlined in Note 3(c) on page 52, was the adoption of the country-by-country basis of accounting for oil and gas operations with two cost centres in Canada, rather than on a single cost centre basis as previously employed. This change, applied retroactively, resulted in after tax asset provisions totalling $43.7 million in 1985, $4.6 million in 1984, $9.6 million in 1983 and $21.9 million in 1982.

In addition, as discussed in Note 3, certain other investment and asset provisions totalling $71.9 million after tax were made in 1985, including a provision for the Company's investment in Cyprus Anvil Mining Corporation. In 1984 a provision of $13.4 million, after tax, was made for the Company's investment in the Alaskan Northwest Natural Gas Transportation Company.

Due to changes in circumstances, the Company also reverted to the unit-of-production method for calculating depletion and revised its accounting for unaccounted for gas, as more fully described in Notes 1 and 18 on pages 49 and 63, respectively.

The Company's net income in 1985 was $278.1 million before deducting the investment and asset provisions compared to net income before provisions of $265.9 million in 1984 and $228.1 million in 1983. Net income applicable to common shares after provisions was $117.7 million in 1985 compared to the restated amounts of $206.4 million in 1984 and $182.3 million in 1983 after deducting from net income dividends on preferred shares of $44.8 million in 1985, $41.5 million in 1984 and $36.2 million in 1983. On a per share basis, earnings were $2.40 in 1985 compared to $2.41 in 1984 and $2.13 in 1983 prior to investment and asset provisions. After investment and asset provisions, earnings per share were $1.21 in 1985, $2.22 in 1984 and $2.03 in 1983. Earnings per share calculations are based upon weighted average common shares outstanding of 97.0 million in 1985, 93.0 million in 1984 and 89.9 million in 1983.

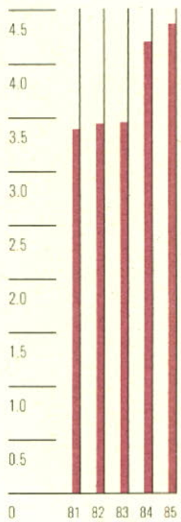
The Company's Pipeline System ("Pipeline segment") together with investments in other pipeline systems continue to be the most significant contributors to consolidated net income. These operations are subject to the jurisdiction of various regulatory bodies with respect to matters such as rates, construction, operations and accounting.

The Company's Pipeline segment's tolls are set by the National Energy Board ("NEB") to permit the Company the opportunity to recover projected costs of handling and transporting natural gas and to provide a fair and reasonable return on its investment. Tolls are based on a number of factors including projected estimates of the level of the Pipeline segment's rate base, operating costs and financing costs. Rate base is essentially the net book value of the Pipeline segment's plant, property and equipment plus an allowance for working capital. The plant, property and equipment component of rate base has decreased over the past three years due to the fact that depreciation has exceeded capital expenditures. If, in the period during which rates are effective, variations occur between the actual and estimated amounts of certain costs, the Company may earn more or less than the approved return on its rate base. Changes in rate base will also impact the contribution to net income by this segment. Variations in sales volumes, however, do not impact net income by virtue of the regulatory process.

The impact of inflation on the Company is, to a large extent, minimized by the regulatory process. The Company believes that to present financial statements in any form other than historical cost would be misleading in that such statements would not depict the economics of its regulated operations.

Over 90% of the Company's total revenues result from sales by the Pipeline segment. These revenues are based on approved tolls in effect at the time of the sale and can be affected by the amount of natural gas sold and the geographic location of the sale.

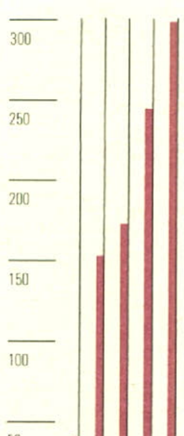
The table below sets out the changes in the Pipeline segment's gas sales and transportation revenues and related volumes for 1985 compared to 1984 and 1984 compared to 1983.



Revenues
Pipeline
(billions of dollars)

Year Ended December 31	Increase in Gas Sales and Transportation 1985 Over 1984		
	Domestic	Export	Total
Revenues – in millions of dollars	$65.4	$104.7	$170.1
– percentage change	1.9%	13.1%	4.1%
Volumes – in millions of cubic metres	332	879	1 211
– percentage change	1.3%	13.1%	3.7%

Year Ended December 31	Increase in Gas Sales and Transportation 1984 Over 1983		
	Domestic	Export	Total
Revenues – in millions of dollars	$583.4	$165.4	$748.8
– percentage change	20.8%	26.2%	21.8%
Volumes – in millions of cubic metres	2 733	1 613	4 346
– percentage change	11.7%	31.5%	15.2%



Revenues
Natural resources
and other
(millions of dollars)

In 1985 domestic gas sales and transportation volumes set a new record and the Company finished the year with its pipeline system fully utilized. Rate increases effective August 1, 1984 and November 1, 1985 also served to increase revenues in 1985 compared to 1984. The effect on revenues of increased export volumes was partially offset by lower export gas prices in 1985 compared to 1984. In 1984 gas sales volumes in both domestic and export markets increased significantly as a result of a return to normal weather and improving markets.

Natural resources revenues represent the revenues, net of royalties, received from the sale of crude oil, natural gas and natural gas liquids. Revenues from the Natural resources segment have been influenced significantly by the pricing mechanisms established by the Government of Canada's National Energy Program and agreements between the governments of Canada and the western producing provinces. By the signing of the Western Accord in March 1985, the governments of Canada and of the western producing provinces agreed to deregulate the price of oil in Canada effective June 1, 1985. In October 1985, the same parties signed the Agreement on Natural Gas Markets and Prices under which natural gas prices are to be deregulated by November 1, 1986.

Natural resources revenues, net of royalties, have increased significantly over the last three years. Net revenues in 1985 increased by $53.8 million or 24% over 1984 which had in turn increased by $65.6 million or 40% over 1983. These increases are mainly a result of higher production. Increased production resulted primarily from the full impact in 1985 of the mid-1984 acquisition of the assets of Wessely Energy Corporation and the bringing into production of certain Indonesian interests during 1984.

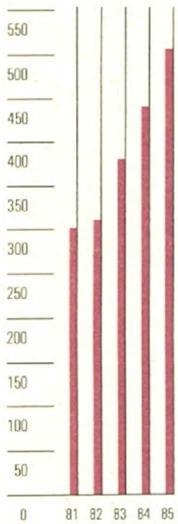
The most significant component of costs and expenses in the Pipeline segment is the cost of gas sold. The increases in each of the years 1984 and 1985 were a direct result of the level of sales volumes and the higher prices paid to producers. Cost of sales for the Natural resources and other segment increased by $9.0 million in 1985 and $27.2 million in 1984. These costs include lifting costs which generally bear a direct relationship to the volume of oil and natural gas sold by that segment. The 1984 increase over 1983 also included additional costs resulting from programs to improve production capabilities.

Transmission, operating and general expenses increased in 1985 by $56.1 million and in 1984 by $65.1 million. The increase in 1985 was principally due to the amortization of costs previously deferred. The deferral and amortization of such costs is prescribed by the NEB in order to achieve a proper matching of revenues and expenses. The increase in 1984 in Transmission, operating and general expenses was principally a result of the higher cost of natural gas used as fuel for the Company's compressor units.

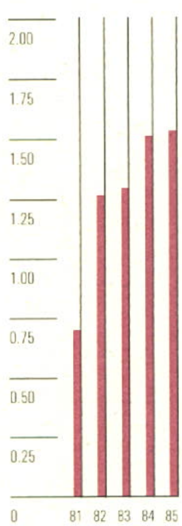
The decrease in Income from Investments – Pipelines from $98.7 million in 1984 to $80.2 million in 1985 resulted principally from lower earnings related to the Company's investment in the Northern Border Pipeline Company. The lower earnings reflect, among other things, a decision by Northern Border to improve its competitive position by temporarily reducing transportation tolls through deferral of a portion of its allowed return on equity.

Income from interest-bearing deposits and other investments increased significantly from $16.8 million in 1983 to $50.0 million in 1984 as a result of the level of funds invested pending long-term acquisitions. The decrease of $5.0 million in 1985 resulted principally from reduced short-term interest rates.

Financial charges decreased by $30.4 million from $387.5 million in 1984 to $357.1 million in 1985 as a result of several factors including reduced levels of non-recourse loans and notes



Funds Generated from Operations
(millions of dollars)



Plant, Property and Equipment
Natural resources and other
(billions of dollars)

payable and lower interest rates. Increased levels of notes payable and long-term debt together with somewhat higher effective interest rates accounted for the $54.3 million increase to $387.5 million in 1984 from $333.2 million in 1983.

The increase in income taxes of $63.2 million from $91.8 million in 1984 to $155.0 million in 1985 was due principally to the income taxes of the Pipeline segment. As these taxes are recovered in tolls, they do not affect the net income of the Company.

In 1985, internally generated funds totalled $510.9 million and financing proceeds provided an additional $211.5 million. These funds totalled $722.4 million which, together with a minor reduction of cash on hand, were sufficient to make expenditures on investment activities primarily in the Natural resources segment, reduce long-term debt and non-recourse loans and pay dividends on preferred and common shares.

Investment activities of the Company in 1984 amounted to $376.5 million and included the acquisition of the assets of Wessely Energy Corporation. Corresponding activities in 1985 amounted to $216.9 million and reflected the repayment by an affiliate of a (U.S.) $50 million loan in 1985.

Financing activities in 1985 were $498.3 million lower than those of 1984. This results primarily from the level of short-term indebtedness established in 1984 to enable the Company to have funds available for long-term investments. In addition, although the Company did issue preferred shares during 1985 the proceeds of these issues were used to finance the redemption of earlier issues.

Capital expenditures in 1986 are budgeted to be $53.8 million for the Pipeline segment and $203.4 million for the Natural resources and other segment. In addition, the scheduled retirement of certain long-term debt and non-recourse loans will require an additional $168.3 million. Such cash requirements are expected to be met by way of internally generated funds and external financing.

The current oversupply of natural gas in Canada and the United States together with the emerging deregulation of natural gas prices in Canada is expected to result in intense competition among natural gas producers for markets and place downward pressure on prices in 1986. Continued erosion of international oil prices could also bring further downward pressure on natural gas prices.

In the Natural resources segment lower oil and natural gas prices are expected to reduce revenues and income in 1986. If oil and natural gas prices are significantly lower at the end of December 1986 than those at the end of December 1985, the Company may be faced with further write downs of its investments in oil and gas properties. This would result from limiting capitalized costs under generally accepted accounting principles to the value of future net revenues from estimated production of proved reserves at current prices and costs.

As discussed previously, the Agreement on Natural Gas Markets and Prices provides for the negotiation of prices of natural gas directly between buyers and sellers effective November 1, 1986. In the agreement, the governments asked the NEB to address the issue of fair and equitable sharing of take or pay charges when reviewing its policy regarding the availability of transportation service on TransCanada's line. Reference should be made to Notes 13 and 22 on pages 62 and 65, respectively, for additional details regarding take or pay charges.

Management believes that the Company's Pipeline segment will continue to be regulated by the NEB and that it will continue to have the opportunity to earn a fair and reasonable return on its rate base.

Consolidated Income

Year Ended December 31 (stated in millions of dollars except per share amounts)	1985	1984	1983
		(restated – Notes 1 and 3)	
Revenues			
Pipeline	**4,382.5**	4,214.3	3,459.7
Natural resources and other	**299.4**	245.3	173.6
	4,681.9	4,459.6	3,633.3
Costs and Expenses			
Cost of sales			
Pipeline	**3,225.1**	3,145.5	2,486.9
Natural resources and other	**92.2**	83.2	56.0
Transmission, operating and general	**538.2**	482.1	417.0
Depreciation and depletion	**180.0**	170.7	145.6
	4,035.5	3,881.5	3,105.5
Income from Operations	**646.4**	578.1	527.8
Income from Investments			
Pipelines (Note 5)	**80.2**	98.7	84.6
Interest-bearing deposits and other investments	**45.0**	50.0	16.8
	125.2	148.7	101.4
Other Income	**18.6**	18.4	17.6
Income before the Undernoted Items	**790.2**	745.2	646.8
Financial Charges (Note 19)	**357.1**	387.5	333.2
Income before Income Taxes	**433.1**	357.7	313.6
Income Taxes (Note 10)	**155.0**	91.8	85.5
Income before Provisions	**278.1**	265.9	228.1
Investment and Asset Provisions (Note 3)	**115.6**	18.0	9.6
Net Income for the Year	**162.5**	247.9	218.5
Net Income per Common Share (Note 12)			
– before provisions	**$2.40**	$2.41	$2.13
– after provisions	**$1.21**	$2.22	$2.03

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

The Statements of Consolidated Income summarize revenues and expenses for the last three years.

The accounting changes to the proportionate consolidation method for oil and gas joint ventures and to a country-by-country basis of accounting for oil and gas properties have necessitated a restatement of prior years' financial statements. The restatement for the change to proportionate consolidation affects the Statements of Consolidated Income by separating revenues and expenses that previously were netted in one line captioned Income From Investments – Natural resources to the specific captions included in the Statement of Income. This restatement has no impact on previously reported net income. The change to the country-by-country cost centre basis has increased the investment and asset provisions and has reduced the net income after such provisions.

- **Revenues** represent principally the sale of natural gas from the Pipeline segment. Also included in revenues are the sales from the Natural resources segment net of royalties paid to provincial, state and federal governments as well as others.

- **Costs and Expenses** include the costs of the natural gas sold by the Pipeline segment and the costs of producing the crude oil, natural gas and related products sold by the Natural resources segment. In addition, costs and expenses include the transmission costs incurred in transporting natural gas through the transmission system and the operating and general expenses related to the Pipeline segment and other operations of the Company.

- **Income from Investments** includes the Company's proportionate share of income from investments in regulated pipelines and also earnings from interest-bearing deposits and other investments.

- **Other Income** includes the Company's miscellaneous income as well as the allowance for funds used during construction.

- **Financial Charges** represent the interest costs of borrowing long-term and short-term funds as well as the related costs of issuing those funds. Reference should be made to Note 19 on page 64 for further detail.

- **Income Taxes** represent taxes which the Company will incur based upon the earnings of the respective years as explained in more detail in Note 10 on page 59.

- **Investment and Asset Provisions** are explained in detail in Note 3 on page 52. As previously noted certain of these provisions result from a change in accounting policy and therefore require restatement of prior years' income to ensure that the income related to those years is presented on a comparative basis.

Consolidated Changes in Financial Position

Year Ended December 31 (stated in millions of dollars)	1985	1984	1983
		(restated – Note 1)	
Cash Generated Internally			
Income before provisions	278.1	265.9	228.1
Depreciation and depletion	180.0	170.7	145.6
Deferred income taxes	83.1	85.3	82.3
Equity income from investments net of dividends received	(10.2)	(23.8)	(15.8)
Amortization of deferred charges and other assets	(25.5)	(57.8)	(59.3)
Funds generated from operations	505.5	440.3	380.9
Decrease/(increase) in operating working capital (Note 20)	5.4	–	(71.0)
	510.9	440.3	309.9
Investment Activities			
Capital expenditures	217.4	349.0	169.7
Pipeline investments (repayments)	(68.4)	1.2	13.4
Deferred charges and other	67.9	26.3	50.9
	216.9	376.5	234.0
Reduction of Long-term Debt and Non-recourse Loans	383.2	166.0	192.8
Dividends Paid	153.1	128.5	96.4
Financing Activities			
Long-term debt – new financing	194.7	220.3	234.0
Common shares issued	85.4	66.7	17.1
Preferred shares issued	157.1	98.9	–
Preferred shares redeemed	(157.0)	–	–
(Decrease)/increase in notes payable	(68.7)	323.9	85.5
	211.5	709.8	336.6
(Decrease)/Increase in Cash and Interest-Bearing Deposits	(30.8)	479.1	123.3
Cash and Interest-Bearing Deposits – at beginning of year	702.9	223.8	100.5
Cash and Interest-Bearing Deposits – at end of year	672.1	702.9	223.8

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

The Statements of Consolidated Changes in Financial Position provide a reconciliation of the Company's position with respect to cash and interest-bearing deposits for 1985, 1984 and 1983.

This statement links the Statements of Consolidated Income and Consolidated Financial Position. It details the components of cash generated internally, the investment expenditures made by the Company, the amount by which long-term debt and non-recourse loans was reduced, the dividends paid by the Company to its preferred and common shareholders and the financing activities of the Company. The change to the proportionate consolidation method of accounting for oil and gas joint ventures has also affected this statement by increasing the reportable funds generated from operations.

• **Cash Generated Internally** represents cash generated from operations of the Company's business segments adjusted for changes in operating working capital as set out in Note 20 on page 64. It is greater than the restated net income in the respective periods principally due to items included in net income which do not require current cash outlays such as investment and asset provisions, depreciation and depletion, amortization of deferred amounts and deferred income taxes.

• **Investment Activities** represent the capital outlays which the Company has made during the respective fiscal years primarily in the Natural resources segment.

• **Reduction of Long-term Debt and Non-recourse Loans** reflects the repayment during 1985 of certain term loans as well as the scheduled reduction of other long-term debt and non-recourse financing.

• **Dividends Paid** include $109.0 million paid to common shareholders in 1985. Dividends per share for the year were $1.12 compared to $1.00 per share in 1984.

• **Financing Activities** sets out the various external sources of cash that the Company has utilized including issuance of long-term debt, common and preferred shares as well as short-term borrowings.

• **The Decrease or Increase in Cash and Interest-Bearing Deposits** in the respective years is the net result of all of the above.

Consolidated Financial Position

December 31 (stated in millions of dollars)	1985	1984
Assets		(restated – Notes 1 and 3)
Current Assets		
Cash and interest-bearing deposits (Note 9)	672.1	702.9
Accounts receivable	624.7	601.6
Inventories	124.9	143.9
Total current assets	1,421.7	1,448.4
Payments on Future Gas Supply (Note 13)	81.7	66.4
Investments		
Pipelines (Notes 3 and 5)	401.7	450.6
Other (Notes 3 and 6)	88.6	122.4
	490.3	573.0
Plant, Property and Equipment		
Pipeline (Notes 4 and 7)	2,515.7	2,567.7
Natural resources and other (Notes 3, 4 and 8)	1,528.1	1,509.3
	4,043.8	4,077.0
Deferred Charges and Other Assets (Notes 3 and 14)	284.3	126.5
	6,321.8	6,291.3

Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (Note 9)	540.7	609.4
Accounts payable	533.3	530.1
Interest accrued	127.4	121.1
Dividends payable	38.8	38.3
Long-term debt and non-recourse loans due within one year (Notes 7 and 8)	168.3	111.2
Total current liabilities	1,408.5	1,410.1
Deferred Revenues	26.7	30.8
Long-term Debt (Note 7)	2,215.0	2,276.4
Non-recourse Loans (Note 8)	398.0	441.0
Deferred Income Taxes (Note 10)	455.1	422.0
Shareholders' Equity		
Preferred shares (Note 11)	445.0	442.9
Common shares (Note 12)	274.1	191.3
Contributed surplus (Note 12)	273.3	276.3
Retained earnings (Notes 3(c), 17 and 18)	731.7	739.3
Foreign exchange adjustment (Note 21)	94.4	61.2
	1,818.5	1,711.0
Commitments and Contingencies (Note 22)		
	6,321.8	6,291.3

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

On behalf of the Board:

, Director

, Director

The Statements of Consolidated Financial Position present the Company's assets, liabilities and shareholders' equity at the end of the last two years.

The change to the proportionate consolidation method for oil and gas joint ventures has transferred related assets and liabilities previously netted in one line captioned Investments – Natural resources to the captions included in the 1985 Statement of Consolidated Financial Position.

Assets are captioned principally in order of liquidity (the ease of converting the assets into cash).

- **Current Assets** include cash and interest-bearing deposits. Reference should be made to Note 9 on page 59 for restrictions applicable to (U.S.) $164.7 million included therein.

- **Payments on Future Gas Supply** represent amounts advanced to producers as explained in Note 13 on page 62.

- **Investments**, as detailed in Notes 5 and 6, on pages 54, 55 and 56 include the Company's investments in related pipeline systems, an extraction plant and certain mining properties.

- **Plant, Property and Equipment** The Pipeline segment plant, property and equipment is primarily the investment upon which that segment earns its regulated return. The Natural resources segment plant, property and equipment is primarily oil and gas properties. Reference should be made to Note 4 on page 53 for more detail.

- **Deferred Charges and Other Assets** represent costs and expenditures set aside in the Company's accounts for amortization to the Statement of Consolidated Income or reclassification to other balance sheet accounts at later dates. Note 14 on page 63 summarizes these amounts.

Liabilities are set out in the order that they are expected to be discharged.

- **Current Liabilities** have not changed significantly between the end of 1985 and the end of 1984. The Company maintains short-term lines of credit with several banks and has issued commercial paper to finance short-term cash requirements.

- **Long-term Debt** represents the amounts borrowed by the Company to finance long-term investments. The amount outstanding at the end of any particular period can be affected by new borrowings and repayments as well as exchange rates applicable to foreign currency borrowings.

- **Non-recourse Loans** are secured only by the Company's interest in certain oil and gas properties.

- **Deferred Revenues** represent payments received by a subsidiary of the Company subject to delivery of certain natural gas volumes in the future.

- **Deferred Income Taxes** represent the provision for future income taxes payable with respect to operations other than the Pipeline segment.

Shareholders' Equity represents the investment that preferred and common shareholders have in the Company and in total represents the sum of total assets less liabilities. Of this amount, preferred shareholders have contributed $445.0 million and the balance of $1,373.5 million is attributable to common shareholders as at December 31, 1985.

Retained Earnings is supported by a separate financial statement and represents the cumulative net income of the Company less dividends on preferred and common shares. Retained earnings are reinvested in the Company.

Consolidated Retained Earnings

Year Ended December 31 (stated in millions of dollars)	**1985**	1984	1983
Balance at beginning of year as previously reported	**775.4**	658.6	534.5
Prior period adjustment (Note 3(c))	**(36.1)**	(31.5)	(21.9)
As restated	**739.3**	627.1	512.6
Other (Note 18)	**(16.5)**	–	–
Net income for the year	**162.5**	247.9	218.5
	885.3	875.0	731.1
Dividends declared			
Preferred	**44.6**	42.2	36.3
Common	**109.0**	93.5	67.7
	153.6	135.7	104.0
Balance at end of year	**731.7**	739.3	627.1

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

PEAT MARWICK

Auditors' Report

To the Shareholders of TransCanada PipeLines Limited

We have examined the statement of consolidated financial position of TransCanada PipeLines Limited as at December 31, 1985 and December 31, 1984 and the statements of consolidated income, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements which appear on pages 42, 44, 46 and 48 present fairly the financial position of the Company as at December 31, 1985 and December 31, 1984 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, 1985 in accordance with generally accepted accounting principles applied on a consistent basis, after giving retroactive effect to the changes, with which we concur, in the method of accounting for its investment in oil and gas joint ventures and in the application of the full cost method of accounting for oil and gas operations as explained, respectively, in Notes 1 and 3 to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Canada
January 21, 1986

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 principles also conform in all material respects with International Accounting Standards on an historical cost basis. The significant accounting policies are summarized below:

Principles of consolidation The consolidated financial statements include the accounts of the Company, its subsidiaries and the proportionate share of the assets, liabilities, revenues and expenses of its oil and gas joint ventures.

Effective January 1, 1985, the Company changed its method of accounting for its investment in oil and gas joint ventures from the equity method to the proportionate consolidation method. This method more appropriately reflects the increasing significance of the Company's oil and gas operations. Prior years' financial statements have been restated to conform with this new presentation. This change has no effect on current and previously reported net income.

Regulation The Company is subject to the authority of certain regulatory bodies with respect to the determination of tolls and related accounting as further described in Note 2. In order to achieve a proper matching of revenues and expenses, the timing of recognition of certain expenses may differ from that otherwise expected under generally accepted accounting principles applicable to non-regulated companies.

Investments The Company uses the equity method of accounting for its pipeline investments and its interest in an extraction plant. Under this accounting method these investments are carried at cost plus the related equity in earnings reduced by dividends received. Consolidated retained earnings at December 31, 1985, includes $113.7 million which represents undistributed earnings of investees accounted for by the equity method.

Plant, property and equipment

Pipeline Plant, property and equipment of the Company's natural gas transmission system (the "Pipeline segment") is carried at cost.

Depreciation is calculated on a straight-line basis using rates approved by the National Energy Board ("NEB"). Effective August 1, 1984, the NEB approved the following depreciation rates – 2.5% for pipelines, 3.5% for compressor stations and other transmission plant and various rates for general plant and equipment. Previously, an approved rate of 2.75% was used to calculate depreciation for pipelines.

Natural resources The Company uses the full cost method of accounting for its oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized in individual cost centres. A separate cost centre is established for each country in which the Company operates including two cost centres for Canada, Western Canada and Frontier. Reference should be made to Note 3(c) related to a change in accounting for these costs. Capitalized costs include all acquisition, exploration and development costs, including interest and other carrying charges of non-producing properties and costs of drilling both productive and non-productive wells. Such costs are generally limited to the value of future net revenues from estimated production of proved reserves at current prices and costs and the cost of unproven properties.

In 1985, the Company reverted to the unit-of-production method to calculate depletion. This was a result of the impact of the Western Accord on prices of oil and gas in Canada. For the purpose of calculating depletion, natural gas production and reserves are converted to equivalent units of crude oil based on the relative energy content of each commodity. Previously, during the period of regulated oil and gas prices in Canada, the Company calculated depletion using the revenue method.

Costs of unusually significant acquisitions of non-producing properties are initially not depleted but are brought into the applicable cost centre for depletion purposes on a straight-line basis over the anticipated period that exploration of those properties will be undertaken.

Interest is capitalized on the costs of acquiring and evaluating unusually significant acquisitions of unproven oil and gas properties and major development projects until such time as development activities have proceeded to the point where proved reserves are capable of being produced or it is determined that there are no economically proved reserves associated with the properties. Interest is also capitalized on unusually significant acquisitions of oil and gas properties which, at the date of acquisition, were capable of but had not commenced production. Capitalization of interest on these properties ceases when production commences.

Note 1.
Accounting Policies
(continued)

Translation of foreign currency Transactions and accounts in a currency other than a domestic currency are translated into the domestic currency using the temporal method. Foreign exchange gains and losses on Pipeline segment related debt are included in net income as they are dealt with in the ratemaking 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.

Income taxes The Company follows the taxes payable method of accounting for those taxes related to the regulated operations of the Pipeline segment. This method is as prescribed by the NEB for ratemaking 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 the Company follows the deferral method of tax allocation accounting.

The Company uses the cost reduction method of accounting for investment tax credits. Prior to January 1, 1985, the Company used this method to account for investment tax credits for pipeline investments and the flow through method for all other activities.

Inventories Inventories include line pack gas and gas stored underground which are valued and charged to operations in accordance with the regulatory process. The accounting treatment for price fluctuations is subject to the jurisdiction of regulatory authorities as well. Materials and supplies are valued at actual cost and charged to operations at average cost.

Comparative figures Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

**Note 2.
Segmented and
Other Information**

The Company operates principally in two segments of the energy industry:

(i) Pipeline segment:
The Company owns a natural gas transmission system which extends from Alberta to Quebec. The Pipeline segment purchases, transports and sells 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 Pipeline segment are subject to the jurisdiction of certain regulatory bodies. Pipeline tolls are determined by the NEB on a net plant rate base, rate of return and cost of service basis.

(ii) Natural resources and other segment:
The Company is engaged in exploration, development and production of oil, natural gas and natural gas liquids in Western Canada, offshore areas of Canada and in the United States, Indonesia, Australia, Italy, United Kingdom and the Netherlands (the "Natural resources segment"). Other operations include the sale of sulphur and the manufacturing and sale of thermal carbon black.

Note 2.
Segmented and
Other Information
(continued)

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

(a) **Business Segments**

Year Ended December 31 (millions of dollars)	1985	1984	1983
Pipeline segment			
Gas sales – domestic	3,421.2	3,364.5	2,790.9
– export	826.9	727.1	568.4
Gas transportation and other	134.4	122.7	100.4
	4,382.5	4,214.3	3,459.7
Costs and expenses			
Cost of sales	3,225.1	3,145.5	2,486.9
Transmission, operating and general	506.7	451.8	398.5
Depreciation	89.1	92.7	95.8
	3,820.9	3,690.0	2,981.2
Pipeline segment operating income	561.6	524.3	478.5
Natural resources and other segment			
Oil and natural gas liquids	232.8	192.0	147.5
Natural gas	102.2	90.9	62.4
Other products	12.7	7.9	4.2
Less: Royalties	(65.8)	(62.7)	(51.6)
	281.9	228.1	162.5
Other operations	17.5	17.2	11.1
	299.4	245.3	173.6
Costs and expenses			
Cost of sales	92.2	83.2	56.0
General	31.5	30.3	18.5
Depletion and depreciation	90.9	78.0	49.8
	214.6	191.5	124.3
Natural resources and other segment operating income	84.8	53.8	49.3
Income from operations	646.4	578.1	527.8
Capital Expenditures			
– Pipeline	44.2	53.7	74.8
– Natural resources and other	173.2	295.3	94.9
	217.4	349.0	169.7

December 31 (millions of dollars)	1985	1984
Business Segment Assets		
– Pipeline	3,397.1	3,365.3
– Natural resources and other	1,762.6	1,644.5
	5,159.7	5,009.8
Investments	490.3	573.0
Other	671.8	708.5
	6,321.8	6,291.3

As at December 31, 1985, over 90% of the Company's assets identifiable with its business segments were located in Canada.

Note 2.
Segmented and
Other Information
(continued)

(b) Principal Customers
The following table sets forth the Company's revenue generated by the Pipeline segment from natural gas sales under long-term contracts to its six principal customers:

Year Ended December 31 (millions of dollars)	1985	1984	1983
The Consumers' Gas Company Ltd.	**1,206.2**	1,244.7	971.4
Union Gas Limited	**958.8**	958.3	833.2
Gaz Metropolitain, inc.	**506.7**	463.9	384.8
Northern and Central Gas Corporation Ltd.	**438.9**	421.1	371.4
Midwestern Gas Transmission Company	**376.2**	295.7	206.8
Great Lakes Gas Transmission Company	**245.2**	243.0	244.6

Note 3.
Investment and Asset Provisions

The following provisions have been made in the accounts of the Company and the impact of such provisions on Consolidated Income is as follows:

Year Ended December 31 (millions of dollars)	1985	1984	1983
(a) Mining investments	**32.1**	–	–
(b) Undeveloped oil sands properties	**30.6**	–	–
(c) Change in method of applying full cost accounting			
(i) Frontier properties	**20.8**	–	–
(ii) United States and Indonesia properties	**22.9**	4.6	9.6
(d) Other investments	**9.2**	13.4	–
	115.6	18.0	9.6

(a) The Company owns an interest in Cyprus Anvil Mining Corporation ("Cyprus Anvil"). Substantially all the assets of Cyprus Anvil were sold in 1985 with the Company retaining a net profits interest. Since income will not be available to the Company in the foreseeable future, a provision has been made for the full amount of the investment in Cyprus Anvil and related mining properties totalling $32.1 million net of related income taxes of $6.4 million.

(b) In 1982, the Company acquired interests in certain undeveloped oil sands properties. Due to weakening oil prices and the substantial capital outlay that would be required to develop these properties, the Company has made a full provision of $30.6 million against the carrying value of these investments. These properties were acquired with no tax basis.

(c) The Company follows the full cost method of accounting for its oil and gas operations. All costs of exploring for and developing oil and gas and related reserves were capitalized in a single cost centre. The Company has determined that it is more appropriate to account for these costs on a country-by-country basis with two cost centres in Canada, Western Canada and Frontier. This change in accounting has resulted in (i) a provision of $20.8 million net of related income taxes of $5.4 million in respect to the Frontier properties, and (ii) provisions totalling $59.0 million, net of related income taxes of $28.9 million, in respect to the carrying value of properties in the United States and Indonesia, including a provision of $22.9 million in 1985 and prior period adjustments amounting to $4.6 million, $9.6 million and $21.9 million for each of the years 1984, 1983 and 1982 respectively.

(d) The Company has made certain other provisions in its accounts for investments from which limited future economic benefits will be realized. These provisions total $9.2 million net of related income taxes of $7.1 million.

The Company has a partnership interest in the Alaskan Northwest Natural Gas Transportation Company. As a result of the uncertainty of the ultimate recovery of this investment due to changes in the economic environment, the Company made provision for this investment in its 1984 accounts of $13.4 million net of related income taxes of $11.8 million.

Note 4. Plant, Property and Equipment

December 31 (millions of dollars)	1985			1984		
	Cost	Accumulated Depreciation and Depletion	Net	Cost	Accumulated Depreciation and Depletion	Net
Pipeline						
Gas transmission plant	3,387.2	871.5	2,515.7	3,360.6	792.9	2,567.7
Natural resources and other						
Oil and gas properties	1,823.2	348.7	1,474.5	1,661.5	227.2	1,434.3
Oil sands and other	67.3	13.7	53.6	90.8	15.8	75.0
	1,890.5	362.4	1,528.1	1,752.3	243.0	1,509.3
	5,277.7	1,233.9	4,043.8	5,112.9	1,035.9	4,077.0

Reference should be made to Note 3(c) for the change in method of applying full cost accounting for oil and gas operations.

Costs of oil and gas properties which are excluded from the depletion calculation at December 31, 1985, are as follows:

Year of Expenditure (millions of dollars)	Total	1985	1984	1983	Prior to 1983
Acquisition costs	65.0	14.5	12.6	–	37.9
Exploration costs	24.0	15.4	4.4	3.0	1.2
Capitalized interest	35.0	11.0	12.8	10.9	0.3
	124.0	40.9	29.8	13.9	39.4

These oil and gas properties are currently under various stages of exploration and development and it is anticipated that approximately 75% of these costs will be included in the depletion calculation by 1987. The remainder of these costs will be either included in the depletion calculation or amortized not later than 1992.

Depletion per dollar of net revenue from production for the years ended 1985, 1984 and 1983 was $0.3174, $0.3246 and $0.3050 respectively.

Note 5.
Investments – Pipelines

The Company's pipeline investments at December 31, 1985, 1984 and 1983 and its share of the earnings from those investments for the years then ended are in millions of dollars:

	1985		1984		1983	
	Investment	**Equity Earnings**	Investment	Equity Earnings	Investment	Equity Earnings
Great Lakes Gas Transmission Company						
– shares	**111.9**	**16.4**	89.7	17.0	68.2	9.8
– loan	**–**	**–**	66.1	–	62.2	–
Northern Border Pipeline Company	**209.5**	**50.5**	192.4	64.2	179.4	59.0
Alaskan Northwest Natural Gas Transportation Company	**–**	**–**	–	–	25.8	–
Foothills Pipe Lines (Sask.) Ltd.	**29.9**	**5.8**	34.5	5.7	31.2	5.7
Trans Québec & Maritimes Pipeline Inc.	**50.4**	**7.5**	67.9	11.8	74.7	10.1
	401.7	**80.2**	450.6	98.7	441.5	84.6

Dividends received from pipeline investments amounted to $66.4 million in 1985, $73.6 million in 1984, and $69.3 million in 1983.

Great Lakes Gas Transmission Company
The Company owns 50% of Great Lakes Gas Transmission Company ("Great Lakes") 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 purchases gas from the Company for resale to United States customers and transports gas for the Company for sale in eastern Canada.

In March 1985, Great Lakes repaid an interest-bearing loan of (U.S.) $50 million to the Company.

The following sets out summarized financial information for Great Lakes:

December 31 (millions of U.S. dollars)	**1985**	1984
Natural gas transmission plant	**299.1**	308.2
Current assets	**73.6**	76.4
Current liabilities	**(55.5)**	(46.2)
Deferred credits	**(82.2)**	(65.5)
Long-term debt	**(70.4)**	(133.6)
Shareholders' equity	**164.6**	139.3

Year Ended December 31 (millions of U.S. dollars)	**1985**	1984	1983
Operating revenues	**286.6**	294.4	312.3
Operating expenses	**(232.1)**	(227.5)	(263.1)
Interest	**(9.2)**	(15.4)	(18.3)
Income taxes	**(20.1)**	(23.9)	(13.4)
Net income	**25.2**	27.6	17.5

Note 5.
Investments – Pipelines
(continued)

Northern Border Pipeline Company
The Company has a 30% interest in the 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)	**1985**	1984
Natural gas transmission plant	**1,114.3**	1,144.1
Current assets	**74.5**	95.5
Current liabilities	**(87.7)**	(105.0)
Deferred credits	**(156.1)**	(111.6)
Long-term debt	**(602.8)**	(652.9)
Partners' equity	**342.2**	370.1

Year Ended December 31 (millions of U.S. dollars)	**1985**	1984	1983
Operating revenues	**243.7**	306.8	384.4
Operating expenses	**(60.1)**	(84.0)	(136.4)
Interest	**(68.0)**	(88.5)	(87.0)
Income before income taxes	**115.6**	134.3	161.0

Alaskan Northwest Natural Gas Transportation Company
Reference should be made to Note 3(d) related to a provision made in 1984 for this investment.

Foothills Pipe Lines (Sask.) Ltd.
The Company 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 which connects with the pipeline owned by the Northern Border Pipeline Company.

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

December 31 (millions of dollars)	**1985**	1984
Natural gas transmission plant	**316.8**	332.5
Current assets	**13.5**	19.7
Current liabilities	**(4.1)**	(13.4)
Deferred credits	**(46.8)**	(30.5)
Long-term debt	**(202.4)**	(220.5)
Shareholders' equity	**77.0**	87.8

Year Ended December 31 (millions of dollars)	**1985**	1984	1983
Operating revenues	**76.7**	81.5	74.7
Operating expenses	**(23.9)**	(22.6)	(17.3)
Interest expense	**(24.1)**	(31.6)	(31.4)
Deferred income taxes	**(15.5)**	(14.1)	(13.0)
Net income	**13.2**	13.2	13.0

Note 5.
Investments – Pipelines
(continued)

Trans Québec & Maritimes Pipeline Inc.
The Company owns 50% of the issued shares of Trans Québec & Maritimes Pipeline Inc. ("TQM"). TQM is the agent of a partnership, in which the Company is an equal partner, formed to operate a natural gas transmission system extending from the vicinity of Montreal to Quebec City.

The following sets out summarized financial information for TQM:

December 31 (millions of dollars)	1985	1984
Natural gas transmission plant	**446.7**	453.8
Current assets	**18.0**	19.5
Deferred charges	**7.4**	17.8
Current liabilities	**(16.8)**	(15.3)
Bank loans	**(55.0)**	(140.0)
First Mortgage Bonds	**(285.0)**	(200.0)
Partners' equity	**115.3**	135.8

Year Ended December 31 (millions of dollars)	1985	1984	1983
Operating revenues	**135.9**	124.2	80.6
Operating expenses	**(82.5)**	(59.4)	(23.0)
Interest	**(38.7)**	(41.2)	(37.0)
Net income	**14.7**	23.6	20.6

Note 6.
Investments - Other

December 31 (millions of dollars)	1985	1984
Empress extraction plant	**70.8**	74.5
Mining investments	**17.8**	47.9
	88.6	122.4

The Company owns a 50% interest in a natural gas liquids and ethane extraction plant at Empress, Alberta. Equity earnings amounted to \$10.9 million in 1985 and \$8.1 million in 1984.

Reference should be made to Note 3(a) related to a provision made for the Company's investment in Cyprus Anvil in 1985. As a result, Mining investments have been reduced by \$38.5 million before provision for income taxes.

During 1985, the Company increased its investment by \$8.4 million in Les Mines Selbaie, a copper, gold and silver mine located in northwest Quebec. This amount represented an increase in the Company's direct working interest from 4.17% to 10% and ongoing operating and capital requirements.

Note 7.
Long-Term Debt

Classification (2)	Repayment Dates	1985 Outstanding December 31 (2)	1985 Average Interest Rate (3)	1984 Outstanding December 31 (2)	1984 Average Interest Rate (3)
Utility (1)					
First Mortgage Pipe Line Bonds					
– Denominated in Canadian dollars	1992 to 1993	**81.8**	**9.1%**	90.5	9.1%
– Denominated in United States dollars (1985 U.S. $503.7; 1984 U.S. $538.3)	1987 to 1997	**704.0**	**15.9%**	711.3	15.8%
– Denominated in Pounds Sterling (1985 £25.0; 1984 £25.0)	2007	**50.5**	**16.5%**	38.2	16.5%
Debentures (Series A to H and J)					
– Denominated in Canadian dollars	1990 to 2005	**377.6**	**11.6%**	326.5	11.5%
Notes					
– Denominated in United States dollars (1985 U.S. $271.9; 1984 U.S. $272.8)	1988 to 1992	**380.0**	**16.5%**	360.5	16.5%
Subordinated Debentures					
– Denominated in Canadian dollars	1987	**23.4**	**5.9%**	24.3	5.9%
– Denominated in United States dollars (1985 U.S. $8.7; 1984 U.S. $9.1)	1987	**12.1**	**5.6%**	12.0	5.6%
		1,629.4		1,563.3	
Less: Exchange differential recoverable through the ratemaking process		**136.6**		72.3	
		1,492.8		1,491.0	
Non-Utility					
Debentures (Series I)					
– Denominated in Canadian dollars	1993	**100.0**	**11.7%**	100.0	11.7%
Notes					
– Denominated in Canadian dollars	1989 and 1994	**76.2**	**12.6%**	75.0	12.6%
– Denominated in Swiss francs (1985 SFr. 750.0; 1984 SFr. 650.0)	1986 to 1995	**509.0**	**6.0%**	330.2	6.0%
– Denominated in Australian dollars (1985 - $40.0; 1984 - nil) (4)	1990	**38.7**	**8.2%**	–	–
Term Loans					
– Denominated in Canadian dollars (5)	1999	**29.9**	**10.1%**	219.4	11.1%
– Denominated in Swiss francs (1985 - nil; 1984 SFr. 46.9)		**–**	**–**	23.8	6.9%
– Denominated in Dutch guilders (1985 - nil; 1984 Dfl. 112.5)		**–**	**–**	41.7	7.9%
– Denominated in United States dollars (1985 U.S. $22.0; 1984 - nil)	1996	**30.8**	**8.5%**	–	–
Term Promissory Notes					
– Denominated in Canadian dollars	1986	**5.0**	**15.5%**	5.0	15.5%
– Denominated in United States dollars (1985 U.S. $40.0; 1984 U.S. $45.0)	1986 to 1987	**55.9**	**16.7%**	59.5	16.5%
		845.5		854.6	
		2,338.3		2,345.6	
Less: Due Within One Year		**123.3**		69.2	
		2,215.0		2,276.4	

(1) Utility long-term debt of the Company finances the Pipeline segment.
(2) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in other than Canadian dollars are stated in millions.
(3) Weighted average interest rates are stated as at the respective outstanding dates.
(4) The amount denominated in Australian dollars was exchanged through a swap into United States dollars of $27.7 million.
(5) Interest is payable at floating rates approximating Canadian chartered bank prime rates.

Note 7.
Long-Term Debt
(continued)

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 Pipeline segment's gas transportation, 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 stated amounts of each series during prescribed periods prior to maturity.

Debentures

The Series A to H debentures are subject to mandatory sinking fund provisions. The terms of the Series A to G sinking fund 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 and J debentures rank equally with the sinking fund debentures but are not subject to sinking or purchase funds.

Notes, Term Loans and Term Promissory Notes

The notes payable, the term loans and the term promissory notes rank equally with the debentures and prior to the subordinated debentures.

The notes denominated in Canadian dollars were issued with warrants exercisable into $75 million of additional notes. The warrants entitle the warrant holder to subscribe on or before December 6, 1989 for additional notes bearing interest at 12-5/8% and having a term ending in 1994. As at December 31, 1985, 1,160 warrants have been exercised resulting in the issuance of $1.2 million principal amount of notes due 1994.

In October 1985, the Company issued notes denominated in Australian dollars, the net proceeds of which were exchanged for U.S. funds through a currency and interest rate swap agreement with a bank. Under the terms of this agreement the Company pays approximately the six month London Interbank Offered Rate based on the U.S. dollar equivalent of the net proceeds.

In addition to purchase fund requirements, mandatory retirements of all long-term debt of the Company, as a result of maturities and sinking fund obligations, approximate: 1986 - $123.3 million; 1987 - $181.0 million; 1988 - $210.8 million; 1989 - $322.8 million; and 1990 - $137.7 million.

Note 8. Non-Recourse Loans

		1985		1984	
Classification (1)	Repayment Dates	Outstanding December 31 (1)	Average Interest Rate (2)	Outstanding December 31 (1)	Average Interest Rate (2)
Denominated in Canadian dollars	1992	112.5	13.1%	483.0	12.3%
Denominated in United States dollars (1985 U.S. $236.5)	1992	330.5	9.3%	–	–
		443.0		483.0	
Less: Due Within One Year		45.0		42.0	
		398.0		441.0	

(1) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in United States dollars are stated in millions.
(2) Weighted average interest rates are stated as at the respective outstanding dates.

The non-recourse loans are production loans secured by fixed and floating charges on the Company's interests in certain oil and gas properties held through a partnership.

The interest rate on $112.5 million of the loans denominated in Canadian dollars has been fixed under interest rate swap agreements until 1989 at an average interest rate of 13.1%. The balance of the loans bear interest at rates not exceeding 1% above the London Interbank Offered Rate.

Repayments on these loans over the next five years are estimated to be: 1986 - $45.0 million; 1987 - $43.0 million; 1988 - $54.0 million; 1989 - $62.0 million; and 1990 - $75.0 million.

Note 9.
Notes Payable

December 31 (millions of dollars)	1985	1984
Bank loans	**236.0**	487.7
Commercial paper	**304.7**	43.7
Other	–	78.0
	540.7	609.4

The weighted average cost of bank loans and commercial paper was: 1985–9.15% and 9.26% respectively; 1984–11.30% and 11.25% respectively; and 1983–11.24% and 9.48% respectively. The 9.15% and 11.30% rates for 1985 and 1984 respectively are an average of United States dollar and Canadian dollar bank borrowing rates.

Notes payable includes an amount of U.S. $164.7 million (Cdn. $230.2 million) at December 31, 1985 (December 31, 1984–Cdn. $217.7 million). This amount is secured by an interest-bearing deposit of U.S. $164.7 million held by a bank.

Note 10.
Income Taxes

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

Year Ended December 31 (millions of dollars)	1985	1984	1983
Canada	**263.4**	188.7	215.4
Foreign	**169.7**	169.0	98.2
	433.1	357.7	313.6

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

Year Ended December 31 (millions of dollars)	1985	1984	1983
Current			
Canada	**62.6**	4.6	(3.9)
Foreign	**9.3**	1.9	7.1
	71.9	6.5	3.2
Deferred			
Canada	**67.1**	54.4	69.4
Foreign	**16.0**	30.9	12.9
	83.1	85.3	82.3
Total	**155.0**	91.8	85.5

(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)	1985	1984	1983
Capital cost allowance deducted for income tax purposes in excess of depreciation	**22.9**	27.3	4.4
Exploration and development expenditures deducted for income tax purposes in excess of depreciation and depletion	**18.5**	8.6	23.0
Capitalized interest on oil and gas properties	**5.8**	13.9	17.4
Tax benefit of income tax losses	**(13.1)**	–	27.7
Deferred charges deducted currently for income tax purposes	**37.4**	37.2	2.6
Other	**11.6**	(1.7)	7.2
	83.1	85.3	82.3

Note 10.
Income Taxes
(continued)

(d) Total 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)	1985	1984	1983
Income before income taxes	433.1	357.7	313.6
Less:			
Canadian pipeline income not subject to tax currently (e)	(44.5)	(64.6)	(70.6)
Equity in undistributed after tax net income of investments	(35.5)	(41.3)	(25.6)
	353.1	251.8	217.4
Federal statutory tax rate	46.9%	46.0%	46.9%
Expected income tax expense	165.6	115.8	102.0
Investment tax credits	–	(4.6)	(5.0)
Non-deductible royalties and payments to governments net of allowances	13.5	12.2	9.4
Non-deductible depreciation and depletion	10.2	7.5	4.1
Net difference between the federal statutory tax rate and rates of provincial, state and foreign authorities	(39.2)	(35.4)	(19.2)
Other	4.9	(3.7)	(5.8)
Actual income tax expense	155.0	91.8	85.5

(e) As mentioned in Note 1, the Company follows the taxes payable method of accounting for those income taxes related to the regulated operations of the Pipeline 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 $351 million would have been recorded and recovered to date through the ratemaking process.

Note 11.
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:

	Authorized and Outstanding as at					
December 31	1985		1984		1983	
	Shares	Amount[1]	Shares	Amount[1]	Shares	Amount[1]
First Preferred Shares						
Cumulative redeemable –$2.80[2]	600,377	30.0	618,251	30.9	639,376	32.0
Cumulative redeemable retractable						
–$4.50 Series B[3]	—	—	940,840	47.0	941,640	47.1
–Series D	—	—	2,200,000	110.0	2,200,000	110.0
–Series E	1,500,000	75.0	1,500,000	75.0	1,500,000	75.0
–Series F	1,600,000	80.0	1,600,000	80.0	1,600,000	80.0
–Series H	1,000,000	50.0	–	–	–	–
–Series I	2,200,000	110.0	–	–	–	–
Cumulative redeemable convertible –Series G	1,000,000	100.0	1,000,000	100.0	–	–
		445.0		442.9		344.1

[1] Stated in millions of dollars.
[2] During 1983, 1984 and 1985 20,970; 21,125; and 17,874 shares respectively were purchased by the Company for cancellation.
[3] During 1983 and 1984 3,200 and 800 shares respectively were purchased by the Company for cancellation.

Note 11.
Preferred Shares
(continued)

Additional information pertaining to the Company's preferred shares outstanding as at December 31, 1985 is as follows:

Preferred Share Issue	Stated Value Per Share	Dividend Rate Per Share	Redemption Premium Per Share	Retraction Date (1)	Annual Purchase Fund Requirement (2)
$2.80 First Preferred Shares	$ 50.00	$2.80	$0.50	Not applicable	2% of aggregate stated value of shares outstanding on previous December 31
Series E	$ 50.00	$5.16	reducing from $5.16 to nil over periods to 1989	November 1, 1989	3% of aggregate stated capital amount outstanding on December 31, 1989
Series F	$ 50.00	$7.18	$2.00 from May 1, 1987 to May 1, 1988; nil thereafter	May 1, 1988	3% of aggregate stated capital amount outstanding on May 2, 1984
Series G (3)	$100.00	$9.00	not redeemable prior to June 1, 1989; nil thereafter	Not applicable	None
Series H	$ 50.00	$4.35	not redeemable prior to August 1, 1990; nil thereafter	August 1, 1990	3% of aggregate stated capital amount outstanding on August 2, 1990
Series I	$ 50.00	$3.90	not redeemable prior to November 1, 1990; nil thereafter	November 1, 1990	3% of aggregate stated capital amount outstanding on November 2, 1990

(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 on its books in purchase fund accounts up to a maximum of $3.0 million in each of the years 1986 to 1989 and $10.0 million in 1990.

(3) Dividends are payable at a fixed rate of $9.00 per share per annum until May 31, 1989 and thereafter the rate fluctuates based on a formula measured against the prime rate of a Canadian chartered bank. These preferred shares may at any time after May 31, 1989, subject to certain provisions, be redeemed in whole or in part by the Company on payment of $100 per share. Holders have the right at any time after May 31, 1990, subject to certain limitations, to convert any or all of the Series G shares into common shares on the basis of four common shares for each preferred share, which conversion basis may be adjusted in specified circumstances.

In March 1985, the Company issued $50 million of Cumulative Redeemable Retractable First Preferred Shares, Series H. The proceeds were used to finance the redemption of all the outstanding Cumulative Redeemable Retractable $4.50 First Preferred Shares, Series B.

In November 1985, the Company issued $110 million of Cumulative Redeemable Retractable First Preferred Shares, Series I. The proceeds of this issue were used to finance the redemption of all the outstanding Cumulative Redeemable Retractable First Preferred Shares, Series D.

Note 12.
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
		(millions of dollars)
Outstanding–January 1, 1983	89,579,702	107.5
Issued for cash or cash equivalent		
–Under the dividend reinvestment and share purchase plan	626,876	8.2
–Under the stock dividend and share purchase plan	61,022	0.8
–Under employee stock purchase plans	652,200	8.1
Outstanding–December 31, 1983	90,919,800	124.6
Issued for cash or cash equivalent		
–Under the dividend reinvestment and share purchase plan	3,766,357	58.0
–Under the stock dividend and share purchase plan	72,922	1.1
–Under employee stock purchase plans	473,250	7.6
Outstanding–December 31, 1984	95,232,329	191.3
Issued for cash or cash equivalent		
–Under the dividend reinvestment and share purchase plan	**3,424,790**	**75.9**
–Under the stock dividend and share purchase plan	**81,061**	**1.8**
–Under employee stock purchase plans	**385,000**	**7.7**
Cancellation of common shares	**(220,083)**	**(2.6)**
Outstanding–December 31, 1985	**98,903,097**	**274.1**

Net Income per Common Share
Net income per common share is calculated after provision for dividends on preferred shares using the weighted average number of common shares outstanding during the respective fiscal year. The calculation of net income per common share on a fully diluted basis assumes conversion of all securities and exercise of all rights if such action would result in dilution of earnings per share. In 1985, 1984 and 1983, the effect of potential dilution was immaterial.

Employee Stock Purchase Plan
The Company has a Key Employee Stock Incentive Plan ("KESIP") under which the Company provides interest-free loans through a trustee to certain key employees, some of whom are also directors, to purchase common shares of the Company. These loans are repayable within ten years. The outstanding balance of these loans totalled $33.7 million and $31.3 million at December 31, 1985 and 1984 respectively. During 1985, 220,000 shares issued under the KESIP were purchased by the Company for cancellation. The excess of the purchase price over the original issue price was $3.2 million and has been charged to Contributed Surplus.

Common Shares Reserved
At December 31, 1985, 428,550 common shares were reserved for issuance under the KESIP. In addition, 4,000,000 common shares were reserved for issuance upon conversion of the Cumulative Redeemable Convertible First Preferred Shares Series G.

Note 13.
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. As the contracted supply has exceeded the demand in recent years, the Company has made direct payments ("take or pay payments") to producers totalling $81.7 million as at December 31, 1985. Costs associated with financing such payments are included in the Company's Alberta Cost of Service. Reference should be made to Note 22 for further information pertaining to other take or pay financing arrangements.

Note 14.
Deferred Charges and Other Assets

December 31 (millions of dollars)	1985	1984
Deferred Amounts		
–subject to regulation	159.6	99.4
–not subject to regulation:		
unamortized foreign exchange losses/(gains)	89.2	(38.1)
other deferred charges	(3.0)	34.8
	245.8	96.1
Other Assets		
Pipeline development projects	24.6	18.1
Other	13.9	12.3
	38.5	30.4
	284.3	126.5

Deferred amounts subject to regulation are amortized and recovered in future periods through the ratemaking process.

Note 15.
Pension Plans

The Company has a non-contributory pension plan which covers all employees who have completed one year of service. This plan provides a defined benefit pension based on length of service and total earnings.

Pension expense in 1985, 1984 and 1983 was $5.3 million, $5.6 million and $4.9 million respectively.

Pension costs are actuarially computed using the attained age normal method. Since the Company has no unfunded past service liability in respect of accrued benefits, the Company's annual contributions represent the current service cost.

In addition, the Company has a Supplemental Retirement Plan ("SRP") which provides a supplemental pension benefit to executive officers of the Company upon retirement. Any difference between pension plan benefits and supplemental benefits calculated under the SRP is paid by the Company.

Note 16.
Related Party Transactions

The Company, with respect to its Pipeline segment operations, sells gas to and/or incurs charges for gas transmission services for its affiliates Great Lakes and TQM. The Company also has contracts for the purchase of natural gas to which one of its subsidiaries is an indirect party. The Pipeline segment of the Company comes under the scrutiny of various regulatory authorities which establish, among other things, the terms and conditions with respect to the purchase, transportation and sale of natural gas under which the Company deals with these and other parties.

Reference should be made to Note 12 regarding loan transactions between the Company and certain of its employees for the purchase of common shares.

As at December 31, 1985, Bell Canada Enterprises Inc. held approximately 47.8% of the Company's outstanding common shares and was a participant in the Company's Dividend Reinvestment Plan.

Note 17.
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, 1985, under the most restrictive provisions, approximately $340 million was available for the payment of dividends on common shares.

Note 18.
Retained Earnings Adjustment

For ratemaking purposes an allowance for unaccounted for gas is included in the Company's cost of service. In its 1985 Tolls Decision the NEB established the allowance based on the Company's historical experience using a three-year average. The Company is, with retroactive effect from August 1, 1985, matching the toll making process in its accounts for unaccounted for gas, and accordingly, all unaccounted for gas gains or losses are being deferred and amortized over three years. The retroactive application in the Company's accounts of this matching of the toll making process resulted in a $16.5 million reduction of retained earnings.

Note 19.
Financial Charges

December 31 (millions of dollars)	1985	1984	1983
Interest			
– long-term debt	307.7	309.5	288.1
– non-recourse loans	48.3	65.4	68.7
	356.0	374.9	356.8
Less – interest capitalized on oil and gas properties	(12.2)	(26.6)	(30.3)
	343.8	348.3	326.5
Foreign exchange gains	(18.1)	(7.3)	(4.5)
Short-term interest and other financial charges (net)	31.4	46.5	11.2
	357.1	387.5	333.2

Note 20.
Changes in Operating Working Capital

Year Ended December 31 (millions of dollars)	1985	1984	1983
Accounts receivable	(23.1)	(7.2)	42.6
Inventories	19.0	(19.2)	(4.7)
Accounts payable	3.2	25.5	(132.6)
Interest accrued	6.3	0.9	23.7
Decrease/(increase)	5.4	–	(71.0)

Note 21.
Foreign Exchange Adjustment

December 31 (millions of dollars)	1985	1984
Balance at beginning of year	61.2	21.8
Translation adjustments during the year	33.2	39.4
Balance at end of year	94.4	61.2

Note 22. Commitments and Contingencies

Legal Proceedings
By a judgment dated July 12, 1985, the Saskatchewan Court of Queen's Bench dismissed a claim brought by Saskatchewan Power Corporation ("Sask. Power") against the Company. On August 7, 1985, Sask. Power filed a notice of appeal.

The claim arises from alleged overpayments made under protest for gas sold to Sask. Power by the Company, and is in the amount of $59.2 million plus accrued interest. Counsel to the Company is of the opinion that the Company should be successful in upholding the trial judgment.

Contractual Guarantees
(a) Gas Supply During 1982 and 1983, the Company concluded arrangements (referred to as the "Topgas Programs") with syndicates of Canadian and foreign 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 advanced approximately $2.7 billion to these producers in respect of these take or pay payments. As at December 31, 1985, approximately $2.3 billion of these advances was outstanding. 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 all the prepaid gas will be completed not later than 1994. Interest costs associated with the advances are being included in the Company's Alberta Cost of Service and remitted to the banking syndicates.

Under the agreements with the banking syndicates, the Company will indemnify the banking syndicates up to a combined maximum of $360 million for any losses arising due to the inability or failure of a producer to deliver gas covered by this arrangement. The Company will also indemnify the banking syndicates for any losses suffered as a result of a breach by the Company of its obligations or by reason of the failure of the banking syndicates to recover their interest costs in the Company's Alberta Cost of Service or from any other source.

Advances made to producers under the Topgas Programs together with interest are being recovered in an orderly fashion from the revenues generated by gas deliveries. Under the terms of the October 1985 Agreement on Natural Gas Markets and Prices between the governments of Canada and the producing provinces, the price of natural gas will cease to be regulated effective November 1, 1986, and will be determined by negotiation between buyers and sellers. One of the underlying principles of the agreement is that direct sellers and buyers of natural gas should be allowed appropriate access to TransCanada's pipeline system. While interest charges related to the advances associated with the Topgas Programs are being recovered from the Alberta Cost of Service under the regulated pricing system, the adoption of the new system raises the issue of the appropriate sharing of take or pay charges among users of the pipeline. Accordingly, the NEB was directed in the October 1985 Agreement to consider "the fair and equitable sharing of take or pay charges" and, for this purpose, a hearing commenced in Ottawa on January 13, 1986.

Management anticipates that reasonable measures will be taken as a result of the NEB hearing and of other governmental actions such that the obligations of the Company under the Topgas Programs are not expected to be materially adversely affected as a result of the October 1985 Agreement.

(b) Financing of Northern Border Pipeline Company The debt financing of the Northern Border pipeline was provided by a syndicate of banks in a total amount of (U.S.) $874 million. As at December 31, 1985, (U.S.) $243 million has been repaid.

Under the terms of this debt financing the Company may be required to make available to the Northern Border partnership funds sufficient to enable the partnership to fully amortize the outstanding balance at the final maturity date in 1996. If the Company were required to make any payment pursuant to the foregoing it would have recourse against the other partners.

Supplementary Data: Oil and Gas Producing Activities (Unaudited)

The following financial information presents additional disclosure related to oil and gas producing activities. The Company's interests in synthetic oil projects are not reflected in this information.

(i) **Capitalized costs** (millions of dollars):

December 31	1985	1984
		(restated – Note 3)
Oil and gas properties		
Proved	**1,561.2**	1,351.2
Unproven	**262.0**	310.3
	1,823.2	1,661.5
Less accumulated depletion and depreciation	**(348.7)**	(227.2)
Net capitalized costs	**1,474.5**	1,434.3

(ii) **Costs incurred** (millions of dollars):

	Acquisition				
Year Ended December 31	Proved	Unproven	Exploration	Development	**Total**
1985					
Canada	**–**	**10.2**	**39.0**	**16.9**	**66.1**
United States	**10.5**	**19.7**	**25.9**	**15.0**	**71.1**
Indonesia	**–**	**–**	**13.3**	**0.8**	**14.1**
Other Foreign	**0.5**	**1.3**	**10.5**	**2.2**	**14.5**
Total	**11.0**	**31.2**	**88.7**	**34.9**	**165.8**
1984					
Canada	–	–	27.6	32.9	60.5
United States	146.8	10.3	22.1	18.0	197.2
Indonesia	–	–	5.5	17.5	23.0
Other Foreign	–	–	8.0	0.3	8.3
Total	146.8	10.3	63.2	68.7	289.0
1983					
Canada	–	–	31.3	26.7	58.0
United States	2.2	–	10.0	5.8	18.0
Indonesia	–	–	7.3	5.6	12.9
Other Foreign	–	–	1.5	1.4	2.9
Total	2.2	–	50.1	39.5	91.8

Supplementary Data: Oil and Gas Producing Activities (Unaudited) (continued)

(iii) Oil and gas reserves data:
The Company's proved developed and undeveloped oil and gas reserves data for the years 1985, 1984 and 1983 were determined by the Company, Dome Petroleum Limited and others.

Oil (including natural gas liquids) is measured in thousands of barrels. Gas is measured in billions of cubic feet.

	Canada		United States		Indonesia and Other Foreign		Total	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
Proved developed and undeveloped reserves:								
January 1, 1983	69,046	907.9	687	5.1	1,445	–	71,178	913.0
Revisions of previous estimates	(4,771)	(13.4)	(281)	(1.5)	–	–	(5,052)	(14.9)
Purchases of minerals in place	–	–	31	1.8	–	–	31	1.8
Extensions and discoveries	2,467	17.5	901	0.8	3,852	–	7,220	18.3
Production	(4,006)	(22.2)	(106)	(0.5)	(441)	–	(4,553)	(22.7)
Sales of minerals in place	(36)	–	–	–	–	–	(36)	–
December 31, 1983	62,700	889.8	1,232	5.7	4,856	–	68,788	895.5
Revisions of previous estimates	6,263	21.2	(609)	(2.4)	13	–	5,667	18.8
Purchases of minerals in place	–	–	2,104	70.5	–	–	2,104	70.5
Extensions and discoveries	2,714	23.0	1,127	14.8	1,155	–	4,996	37.8
Production	(4,698)	(28.1)	(317)	(2.0)	(729)	–	(5,744)	(30.1)
Sales of minerals in place	(18)	(9.3)	–	–	–	–	(18)	(9.3)
December 31, 1984	66,961	896.6	3,537	86.6	5,295	–	75,793	983.2
Revisions of previous estimates	**927**	**(29.0)**	**(98)**	**(17.6)**	**209**	**–**	**1,038**	**(46.6)**
Purchases of minerals in place	**–**	**–**	**1,622**	**2.0**	**21**	**–**	**1,643**	**2.0**
Extensions and discoveries	**3,206**	**21.5**	**1,797**	**14.9**	**1,386**	**–**	**6,389**	**36.4**
Production	**(5,014)**	**(30.9)**	**(632)**	**(4.4)**	**(1,296)**	**–**	**(6,942)**	**(35.3)**
Sales of minerals in place	**–**	**–**	**(55)**	**(0.4)**	**–**	**–**	**(55)**	**(0.4)**
December 31, 1985	**66,080**	**858.2**	**6,171**	**81.1**	**5,615**	**–**	**77,866**	**939.3**
Proved developed reserves:								
January 1, 1983	53,102	581.3	521	3.4	1,445	–	55,068	584.7
December 31, 1983	50,535	595.3	898	5.5	1,468	–	52,901	600.8
December 31, 1984	56,528	641.7	2,214	35.7	3,615	–	62,357	677.4
December 31, 1985	**54,871**	**599.2**	**3,897**	**40.2**	**3,151**	**–**	**61,919**	**639.4**

There have been no major discoveries since December 31, 1985 that would cause a significant change from the proved reserves reported. Reserve quantities do not reflect any adjustments for changes in the price of oil and gas since December 31, 1985.

Proved reserves in Canada are determined by the deduction of freehold and overriding royalties but before the deduction of provincial royalties. Proved reserves in the United States are net of all royalties. Proved reserves in Indonesia and other foreign jurisdictions are attributable to the Company's gross working interest before host government takes.

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 1985 and 1984 in millions of Canadian dollars except for per share amounts:

Three Months Ended	Mar. 31	June 30	Sept. 30	Dec. 31
1985				
Revenues	**1,261.3**	**1,133.8**	**1,044.9**	**1,241.9**
Income from operations	**168.7**	**157.4**	**154.4**	**165.9**
Net income (loss)				
– before investment and asset provisions	**73.6**	**71.0**	**64.4**	**69.1**
– after provisions	**73.6**	**71.0**	**64.4**	**(46.5)**
Net income (loss) applicable to common shares				
– before investment and asset provisions	**62.3**	**59.7**	**53.1**	**58.2**
– after provisions	**62.3**	**59.7**	**53.1**	**(57.4)**
Per share data				
Net income (loss)				
– before investment and asset provisions	**$0.65**	**$0.62**	**$0.54**	**$ 0.59**
– after provisions	**$0.65**	**$0.62**	**$0.54**	**$(0.60)**
1984 (1)				
Revenues	1,267.6	1,050.1	983.5	1,158.4
Income from operations	142.7	135.5	150.1	149.8
Net income				
– before investment and asset provisions	59.3	60.8	72.1	73.7
– after provisions	59.3	60.8	72.1	55.7
Net income applicable to common shares				
– before investment and asset provisions	50.3	50.9	60.8	62.4
– after provisions	50.3	50.9	60.8	44.4
Per share data				
Net income				
– before investment and asset provisions	$0.55	$0.55	$0.65	$0.66
– after provisions	$0.55	$0.55	$0.65	$0.47

(1) Reference should be made to Notes 1 and 3 of the Notes to the Consolidated Financial Statements related to restatement of 1984.

(b) Price range of common shares

The Company's common shares are listed on the Vancouver, Alberta, Winnipeg, Toronto, Montreal and New York stock exchanges. The Toronto and Montreal stock exchanges are the principal markets 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, Montreal Exchange and New York Stock Exchange respectively:

	Toronto Stock Exchange		**Montreal** Exchange		**New York** Stock Exchange (1)	
	High	Low	High	Low	High	Low
	(Cdn. $)		(Cdn. $)		(U.S. $)	
1985						
First Quarter	**$24.75**	**$21.00**	**$24.75**	**$21.00**	**$ –**	**$ –**
Second Quarter	**29.00**	**24.00**	**28.88**	**24.13**	**21.13**	**18.88**
Third Quarter	**28.00**	**24.00**	**28.00**	**24.00**	**20.75**	**17.63**
Fourth Quarter	**25.88**	**20.75**	**25.75**	**20.75**	**18.88**	**15.00**
1984						
First Quarter	$17.00	$15.25	$17.00	$15.25	–	–
Second Quarter	17.38	14.63	17.38	14.63	–	–
Third Quarter	18.88	15.88	18.75	15.88	–	–
Fourth Quarter	21.88	17.25	21.75	17.38	–	–

(1) The Company's common shares commenced trading on the New York Stock Exchange on May 30, 1985.

Investment Information For Foreign Investors

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

Dividends, including stock dividends, paid by the Company to United States shareholders and shareholders in other countries where Canadian tax treaties apply are generally subject to a 15% Canadian non-resident withholding tax. 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.

Under the terms of the Company's Dividend Reinvestment and Share Purchase Plan and Stock Dividend and Share Purchase Plan, shareholders resident in the United States, its territories or possessions are eligible to elect to receive stock dividends but are not eligible to reinvest dividends or make optional cash payments.

FIVE-YEAR FINANCIAL AND OPERATING HIGHLIGHTS

(millions of dollars except where indicated)

Financial	1985	1984	1983	1982	1981
Revenues					
Pipeline	**$4,382.5**	$4,214.3	$3,459.7	$3,453.9	$3,401.2
Natural resources and other	**299.4**	245.3	173.6	153.0	40.5
	$4,681.9	$4,459.6	$3,633.3	$3,606.9	$3,441.7
Operating Income	**$ 646.4**	$ 578.1	$ 527.8	$ 552.3	$ 437.6
Income from Investments	**$ 125.2**	$ 148.7	$ 101.4	$ 61.3	$ 28.4
Net Income for the Year	**$ 162.5**	$ 247.9	$ 218.5	$ 177.0	$ 154.1
Net Income Applicable to Common Shares	**$ 117.7**	$ 206.4	$ 182.3	$ 139.3	$ 125.6
Net Income per Average Common Share					
Basic–before provision	**$ 2.40**	$ 2.41	$ 2.13	$ 1.81	$ 1.43
–after provision	**$ 1.21**	$ 2.22	$ 2.03	$ 1.56	$ 1.43
Funds Generated from Operations	**$ 505.5**	$ 440.3	$ 380.9	$ 311.0	$ 303.1
Per average common share	**$ 5.21**	$ 4.73	$ 4.24	$ 3.49	$ 3.44
Assets					
Plant, property and equipment					
Pipeline	**$2,515.7**	$2,567.7	$2,614.6	$2,636.5	$1,920.3
Natural resources and other	**$1,528.1**	$1,509.3	$1,295.3	$1,263.4	$ 699.2
Investments–pipeline	**$ 401.7**	$ 450.6	$ 441.5	$ 394.9	$ 344.4
–other	**$ 88.6**	$ 122.4	$ 117.1	$ 49.3	–
Total assets	**$6,321.8**	$6,291.3	$5,529.8	$5,283.6	$4,613.4
Capitalization					
Long-term debt	**$2,215.0**	$2,276.4	$2,218.0	$2,152.9	$2,458.8
Non-recourse loans	**$ 398.0**	$ 441.0	$ 501.1	$ 557.5	–
Shareholders' equity					
total	**$1,818.5**	$1,711.0	$1,393.5	$1,240.8	$1,164.1
common	**$1,373.5**	$1,268.1	$1,049.4	$ 895.6	$ 799.6
per common share at year end	**$ 13.89**	$ 13.32	$ 11.54	$ 10.00	$ 9.01
Capital Expenditures	**$ 217.4**	$ 349.0	$ 169.7	$1,450.1	$ 626.4
Common Shares Outstanding (millions)					
Year end	**98.9**	95.2	90.9	89.6	88.7
Weighted average	**97.0**	93.0	89.9	89.1	88.1
Number of Shareholders December 31	**21,143**	21,652	22,415	22,378	23,907
Number of Regular Employees, December 31	**1,945**	1,938	1,953	1,798	1,671

Note: The above FIVE YEAR FINANCIAL HIGHLIGHTS reflects a restatement of common shares outstanding and per share data resulting from the two-for-one share split and a restatement resulting from a change in the Company's method of accounting for its investment in oil and gas joint ventures from the equity method to the proportionate consolidation method. In addition, Investment and Asset Provisions, as described in Note 3 to the Consolidated Financial Statements on page 52, are included in Net Income for the Year for the years 1985, 1984, 1983 and 1982 respectively.

Operating	1985	1984	1983	1982	1981
Pipeline Operations					
Gas delivered for sales and transportation (millions of cubic metres)					
annual	**34 134**	32 922	28 576	32 497	33 448
maximum day	**125**	131	121	125	117
Kilometres of pipeline– including loopline	**10 593**	10 632	10 626	10 631	9 783
Compressor power (kilowatts)	**1 020 500**	1 020 500	1 020 500	1 020 500	912 900
Natural Resources					
Liquid sales volumes (barrels per day)					
Crude oil					
Canada–conventional	**11,138**	11,043	9,655	9,431	3,693
–synthetic	**801**	541	691	496	–
United States	**1,687**	817	190	141	–
Indonesia and other foreign	**3,500**	1,991	1,208	707	–
Natural gas liquids					
Canada	**3,117**	2,364	1,773	2,241	236
United States	**43**	50	110	60	–
	20,286	16,806	13,627	13,076	3,929
Natural gas sales volumes (millions of cubic feet per day)					
Canada	**87.3**	80.0	63.4	64.7	27.1
United States	**12.0**	5.3	1.5	1.4	–
	99.3	85.3	64.9	66.1	27.1

Note: In the above Five-Year Operating Highlights, sales volumes for Canada are gross and include all volumes attributable to the Company's working interests before the deduction of royalties. Sales volumes for the United States are net of royalties. Sales volumes for Indonesia are attributable to the Company's gross working interests before government takes.

Daily sales volume is calculated by dividing total sales for the respective year by the number of days in that year. Shareholders and others desiring additional information on TransCanada PipeLines may request a copy of the booklet "Operating and Statistical Information – 1985" from Mr. Mitchell T. G. Graye, Vice-President, Finance and Treasurer, TransCanada PipeLines, P.O. Box 54, Commerce Court West, Toronto, Ontario, M5L 1C2.

Directors

James M. Cameron
Executive Vice-President, Corporate
TransCanada PipeLines Limited, Toronto

John H.C. Clarry, Q.C.*
Partner,
McCarthy & McCarthy, Toronto

A. Jean de Grandpré, O.C., Q.C.*
Chairman and Chief Executive Officer,
Bell Canada Enterprises Inc., Montreal

John P. Gallagher
Chairman,
Galtannia Investments Ltd., Calgary

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

Robert H. Jones*
Chairman,
The Investors Group, Winnipeg

Robert H. Knight
Partner,
Shearman & Sterling, New York

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

Gordon P. Osler
Chairman,
TransCanada PipeLines Limited, Toronto;
Chairman,
Stanton Pipes Limited, Toronto;
Chairman,
Slater Steels Corporation, Hamilton

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

Smiley Raborn, Jr.
Petroleum Consultant,
Calgary

Robert J. Richardson
President,
Bell Canada Enterprises Inc., Montreal

Frank A. Schultz
Independent Oil Operator,
Dallas

J. Stuart Spalding
Executive Vice-President, Finance
Bell Canada Enterprises Inc., Montreal

Allan R. Taylor
President and Chief Operating Officer
(Chairman and Chief Executive Officer,
effective June 1, 1986)
The Royal Bank of Canada, Toronto

George W. Woods
Vice-Chairman,
TransCanada PipeLines Limited, Toronto

*Member of the Audit Committee

Principal Officers

Gordon P. Osler
Chairman

Gerald J. Maier
President and Chief Executive Officer

George W. Woods
Vice-Chairman

James M. Cameron
Executive Vice-President, Corporate

John K. Archambault
Senior Vice-President, Corporate

George M. Hugh
Senior Vice-President,
Marketing and Administration

H. Neil Nichols
Senior Vice-President and
Chief Financial Officer

C. Kennedy Orr
Senior Vice-President

Richard D. Walker
Senior Vice-President and
Chief Operating Officer, Pipeline Division

George C. Britton
Vice-President, Project Development

Gavin J. Couper
Vice-President, Engineering and Operations

Artel A. Douloff
Vice-President, Marketing Development

Mitchell T.G. Graye
Vice-President, Finance and Treasurer

Derek E. Henwood
Vice-President

Brian F. Hill
Vice-President, Business Development

Gordon A. Leslie
Vice-President

James W.S. McOuat, Q.C.
Vice-President, Law

Raymond F. Sim
Vice-President, Corporate Taxation and
Corporate Secretary

Ray T. Smith
Vice-President and Controller,
Pipeline Division

Kenneth G. Whiteside
Vice-President, Corporate Planning and
Control

Arthur A. Wilkins
Vice-President

Susan A. Scott
Corporate Controller

Principal Officers

Wholly Owned Operating Subsidiaries

TCPL Resources Ltd.

James M. Cameron
Chairman and Chief Executive Officer

Gordon A. Leslie
President and Chief Operating Officer

Arthur A. Wilkins
Executive Vice-President

Sandro Silenzi
Vice-President, Exploration

A. Raymond Travers
Controller

TCPL Resources U.S.A. Ltd.

David G. Hanson
Vice-President

Wessely Energy Division:

Arthur J. Wessely
President and Chief Executive Officer

John B. Hastings
Vice-President, Production and Acquisitions

Jacob I. Morrow
Vice-President, Land and Assistant Secretary

George H. Walbert
Vice-President, Exploration

Keith H. Perkins
Controller and Treasurer

Western Gas Marketing Ltd.

C. Kennedy Orr
President and Chief Operating Officer

John Anthony
Vice-President, Export Sales

H. Fred Button
Vice-President, Market Planning and
Development

Craig R. Frew
Vice-President, Operations

Barry G. Luft
Vice-President, Gas Supply

Robert J. Reid
Vice-President, Canadian Sales

Cancarb Limited

A. Russell Steele
President and Chief Operating Officer

Klaus E. Grodd
Vice-President

Philip H. Stach
Controller and Assistant Secretary

TransCanada PipeLine USA Ltd.

David G. Hanson
Vice-President

TCPL Nederland B.V.
TCPL Investments AG

Lionel H. Pilon
Managing Director

International PipeLine Engineering Limited

Donald C. Ingram
President

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TCPL Investments AG
Baarerstrasse 110/B
CH-6300, Zug, Switzerland
Telephone 011-41-42-31-22-01

Subsidiaries (100% owned)

Cancarb Limited

Cancarb Gas Marketing Corporation

International PipeLine Engineering Limited

TCPL Geothermal Ltd.

TCPL Great Lakes Ltd.

TCPL Investments AG

TCPL Nederland B.V.

TCPL Resources Ltd.

TCPL Resources U.S.A. Ltd.

TransCan Holdings Ltd.

TransCanada Border PipeLine Ltd.

TransCanada PipeLine Alaska Ltd.

TransCanada PipeLine Niagara Ltd.

TransCanada PipeLine USA Ltd.

TransCanada PipeLines (Nova Scotia) Limited

Western Gas Marketing Ltd.

Affiliates (50% owned)

Great Lakes Gas Transmission Company

Sable Gas Systems Limited

Trans Québec & Maritimes Pipeline Inc.

Corporate Information

Common Shares

Transfer Agents and Registrars:
Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver
The Royal Bank and Trust Company, New York

Preferred Shares

Transfer Agents and Registrars:
\$2.80 cumulative redeemable first preferred shares
National Trust Company, Montreal, Toronto, Winnipeg, Calgary and Vancouver

Cumulative redeemable retractable first preferred shares series E, series F, series H and series I
The Royal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Cumulative redeemable convertible first preferred shares series G are transferable at the office of the company in Toronto

Stock Exchanges

Preferred and common shares are listed on the Toronto, Montreal, Vancouver, Alberta and Winnipeg stock exchanges. The common shares are also listed on the New York Stock Exchange.

Bonds

Trustee:
National Trust Company, Toronto

Registrar Canadian Series:
9¼% and 8⅞% first mortgage pipeline bonds, National Trust Company, Montreal, Toronto, Winnipeg, Calgary and Vancouver

Registrar U.S. Series:
7⅛%, 16% and 16¾% first mortgage pipeline bonds, Morgan Guaranty Trust Company of New York

Co-Registrars U.K. Series:
16½% first mortgage pipeline bonds, National Trust Company and The Royal Bank of Scotland plc

Debentures

Trustee:
Central Trust Company, Toronto

Registrar:
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, and 11.40% series J debentures
Central Trust Company, Montreal, Toronto, Winnipeg, Calgary and Vancouver

Subordinated Debentures

Trustee:
Montreal Trust Company, Toronto

Registrar:
5.85% subordinated debentures, Canadian series
5.60% subordinated debentures, U.S. series Montreal Trust Company, Montreal, Toronto, Winnipeg, Calgary and Vancouver, and Citibank, N.A., New York

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:

The Corporate Secretary
TransCanada PipeLines
P.O. Box 54
Commerce Court West
Toronto, Ontario
M5L 1C2

Design: Taylor & Browning Design Associates
Photography: Peter Christopher
Typography: Cooper & Beatty, Limited
Printing: Arthurs-Jones Lithographing Ltd.

Printed in Canada

TransCanada PipeLines Limited

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P.O.Box 54, Commerce Court West
Toronto, Ontario
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