

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis should be read in conjunction with the audited Consolidated Financial Statements of TransCanada PipeLines Limited (TransCanada or the company) and the notes thereto for the year ended December 31, 2002.

Consolidated Financial Review

HIGHLIGHTS

Earnings Increase TransCanada's net income applicable to common shares from continuing operations (net earnings) increased \$61 million or nine per cent to \$747 million or \$1.56 per share in 2002 compared to \$686 million or \$1.44 per share in 2001.

Funds Flow Increase Funds generated from continuing operations increased \$203 million or 13 per cent to \$1.8 billion in 2002 compared to \$1.6 billion in 2001.

Balance Sheet Strengthened In 2002, TransCanada continued to strengthen its balance sheet as it repaid debt maturities of \$486 million, reduced notes payable by \$46 million and increased shareholders' equity by \$320 million.

Dividend Increase On January 28, 2003, the Board of Directors of TransCanada raised the quarterly dividend on the company's outstanding common shares eight per cent from \$0.25 per share to \$0.27 per share for the quarter ending March 31, 2003.

Growth in Core Businesses In 2002, TransCanada invested more than \$800 million in its gas transmission and power businesses from internally generated cash flow.

CONSOLIDATED RESULTS-AT-A-GLANCE

Year ended December 31	2002	2001	2000
<i>(millions of dollars except per share amounts)</i>			
Net Income/(Loss) Applicable to Common Shares			
Continuing operations	747	686	628
Discontinued operations	–	(67)	61
	747	619	689
Net Income/(Loss) Per Share – Basic			
Continuing operations	\$ 1.56	\$ 1.44	\$ 1.32
Discontinued operations	–	(0.14)	0.13
	\$ 1.56	\$ 1.30	\$ 1.45

SEGMENT RESULTS-AT-A-GLANCE

Year ended December 31	2002	2001	2000
<i>(millions of dollars)</i>			
Transmission	653	585	623
Power	146	168	85
Corporate	(52)	(67)	(80)
Continuing operations	747	686	628
Discontinued operations	–	(67)	61
Net Income Applicable to Common Shares	747	619	689

Net income applicable to common shares for the year ended December 31, 2002, was \$747 million or \$1.56 per share. This compares to net income of \$619 million or \$1.30 per share in 2001 which included a net loss from discontinued operations of \$67 million or \$0.14 per share, and net income of \$689 million or \$1.45 per share in 2000, which included net income from discontinued operations of \$61 million or \$0.13 per share.

TransCanada's net income applicable to common shares from continuing operations for the year ended December 31, 2002, was \$747 million or \$1.56 per share compared to \$686 million or \$1.44 per share for 2001 and \$628 million or \$1.32 per share for 2000. The increase in 2002 compared to 2001 is primarily due to higher earnings from the Transmission business and reduced expenses in the Corporate segment, partially offset by lower earnings from the Power segment. The increase in 2001 compared to 2000 was primarily due to higher earnings from the Power business, as well as reduced financial and preferred equity charges. In 2001, the Power segment earnings reflected the company's ability to capture significant market opportunities created by high market prices and power price volatility.

In June 2002, TransCanada received the National Energy Board (NEB) decision on its Fair Return application (Fair Return decision) to determine the cost of capital to be included in the calculation of 2001 and 2002 final tolls on its Canadian Mainline. The results for the year ended December 31, 2002 include after-tax net income of \$36 million or \$0.08 per share representing the impact of the Fair Return decision for 2001 (\$16 million) and 2002 (\$20 million). The 2002 results also include \$7 million relating to TransCanada's proportionate share of a favourable ruling for Great Lakes Gas Transmission Limited Partnership (Great Lakes) with respect to Minnesota use tax paid in prior years. In 2002, TransCanada chose to expense stock options and the impact of this accounting change was a \$2 million charge to net income for the year ended December 31, 2002.

Net income applicable to common shares from continuing operations in 2000 included gains on the sale of assets amounting to \$30 million, after tax, or \$0.06 per share, and tax recoveries of \$28 million or \$0.06 per share, reflecting the impact of tax law and income tax rate changes in the February 2000 and October 2000 Federal budgets.

TRANSCANADA – STRATEGY

TransCanada's Mission is to be one of the most profitable, competitive and reliable providers of wholesale natural gas transportation and electric power across North America, with strong roots in the Western Canada Sedimentary Basin (WCSB) and key customer relationships in consuming regions.

TransCanada's Strategies to achieve this mission continue to be:

- Sustain, grow and optimize the company's North American natural gas transmission business;
- Establish a new regulated business model that provides value to customers, reduces the long-term risks of the Canadian long-haul pipelines and allows the company to earn a fair and competitive return;
- Grow the power business;
- Pursue operational excellence, with a focus on providing low-cost, reliable service to the company's customers;
- Maintain and utilize the company's strong financial position.

TRANSCANADA – DEVELOPMENTS

TransCanada's focus on the disciplined implementation of the strategies resulted in strong financial performance in 2002 with increases in net income and operating cash flow, as well as the maintenance of a solid balance sheet. Strong internally generated cash flow allowed TransCanada to continue to repay debt maturities, invest in the core businesses of natural gas transmission and power, and maintain a strong liquidity position. In addition, TransCanada's financial position and performance enabled the Board of Directors to raise the quarterly dividend on the company's common shares from \$0.20 per share in 2000, to \$0.225 per share in 2001, to \$0.25 per share in 2002, and to \$0.27 per share for the quarter ended March 31, 2003.

The company's access to capital markets remains strong. During 2002, TransCanada established a new \$1.5 billion syndicated credit facility, replacing existing lines of credit set to expire in mid-2003, and also filed universal shelf prospectuses with Canadian and United States securities regulators qualifying for issuance \$2 billion and US\$1 billion of securities, respectively.

The company invested more than \$800 million in natural gas transmission and power assets in 2002 pursuant to the strategies of growing and optimizing the natural gas transmission network and power business. In the Transmission business, TransCanada continued to connect incremental natural gas supply within the WCSB, expanded its pipeline system in western Alberta and British Columbia to meet growing demand in California and the Pacific Northwest, and achieved growth in its investments in North American Pipeline Ventures (NAPV). In 2002, TransCanada pursued pipeline opportunities to move Mackenzie Delta and Alaska North Slope natural gas to markets throughout North America. In the Power business, TransCanada started operations at two new power plants, completed the acquisition of the ManChief power plant and announced plans to acquire a 31.6 per cent equity interest in Bruce Power L.P. for \$376 million, subject to closing adjustments.

TransCanada held extensive discussions with industry stakeholders throughout 2002 on a future business model for its Canadian regulated pipelines. These stakeholder discussions and TransCanada's view of the future business model influenced the 2003 Canadian Mainline Tolls and Tariff Application filed with the NEB in September 2002 and the proposed rate design changes to the Alberta System filed with the Alberta Energy and Utilities Board (EUB) in January 2003. In June 2001, TransCanada filed the Fair Return application with the NEB, seeking an after-tax weighted average cost of capital (ATWACC) of 7.5 per cent to be included in the Canadian Mainline tolls for 2001 and 2002. In June 2002, following a hearing, the NEB released its decision not to adopt the ATWACC methodology, but did increase the deemed common equity from 30 per cent to 33 per cent.

Although disappointed with the NEB's decision, which in TransCanada's opinion does not adequately recognize the long-term business risks of the Canadian Mainline, the company remains committed to the Canadian pipeline business. In February 2003, the NEB denied TransCanada's request for a review and variance of the Fair Return decision.

TRANSCANADA – OUTLOOK

TransCanada will continue to implement its strategy in 2003. The company's main focus in 2003 will be to evaluate opportunities to grow and optimize the natural gas transmission and power businesses with a view to enhancing shareholder value and meeting customers' unique requirements in a constantly changing marketplace. The company will also focus on TransCanada's commitment to an operational excellence business model and advancement of the future business model for its Canadian regulated pipelines. The company's earnings and cash flow, combined with the solid balance sheet and liquidity at December 31, 2002, provide the financial flexibility for TransCanada to make disciplined investments in the two core businesses, with a primary focus on the acquisition and construction of highly efficient and well-positioned assets.

In February 2003, TransCanada announced a settlement with the customers on the Alberta System. This settlement, if approved by the EUB, will result in a decline in the fixed revenue requirement from \$1.347 billion in 2002 to \$1.277 billion in 2003. A reduction in 2003 net earnings as a result of this settlement is expected to be approximately \$40 million after tax. TransCanada worked with its customers to negotiate a settlement that represented a balance of customer and shareholder interests. However, the Fair Return decision rendered by the NEB had a significant impact on the terms of reaching the settlement, as it provided a benchmark for negotiations on the Alberta System.

TRANSCANADA – COMPETITIVE STRENGTHS

The company's competitive strengths continue to be:

Transmission

- *Unparalleled Market Access* High capacity connections from the WCSB to premier North American markets give the company a strategic position in the continental natural gas market, offering producers the connectivity, penetration and flexibility they need to capitalize on growing demand. With the current capacity, infrastructure, market access, and ease of expansion offered by TransCanada's transmission systems, the company has a competitive advantage in attracting new natural gas supply from the North and British Columbia.
- *Experience and Expertise* TransCanada has a half century of expertise in large diameter, cold weather natural gas pipeline construction. The company is a leading builder and operator of large gas turbine compressor stations, and is the operator of one of the largest, most sophisticated, remote-controlled pipeline networks in the world.
- *Operational Excellence* The company has a solid reputation for reliability and safety and is focused on providing low-cost, reliable service by utilizing and applying innovation and best practices.

Power

- *Broad Understanding of Continental Markets* TransCanada has extensive knowledge of North American energy markets, opportunities and competitors, with an in-depth understanding of the company's core markets. In addition, the company has significant power deregulation experience.

- *Ability to Structure Deals and Manage Risk* The company's analytical, deal structuring and risk management skills have been a key element of success, complemented by marketing operations to capitalize on opportunities presented by market volatility.
- *Operational Excellence* TransCanada's power business is characterized by a commitment to industry-leading performance, as evidenced by a highly efficient generating fleet of turbines that operated at an average availability of 95 per cent in 2002. The company's strong management team has a proven track record in maximizing value from existing assets and in developing quality opportunities, both in new acquisitions and greenfield projects.

TRANSCANADA – CHALLENGES AND OPPORTUNITIES

The two most significant challenges to TransCanada's pipeline business in the long term are competition and the risk of declining supply in the WCSB. Over the past several years TransCanada has been working diligently with all stakeholders to provide value to its customers in the form of flexible, cost-competitive services and to earn a fair risk-adjusted return on its pipeline assets.

There will be significant opportunities to continue to grow TransCanada's pipeline business. North American natural gas demand is expected to grow by more than 25 per cent over the next 10 years. There is considerable concern that supply from the traditional supply basins in North America will not be able to meet this increased demand for natural gas. Alternative supplies such as from Alaska, the Mackenzie Delta and liquefied natural gas (LNG) may be required to meet this demand. TransCanada is well-positioned to build and operate the infrastructure to bring these new supplies to market.

TransCanada's high capacity connections from the WCSB to premier North American markets position the company well to move northern natural gas. TransCanada brings real competitive advantages to these projects. In the event that incremental LNG imports will be needed to meet market requirements in North America, TransCanada has the technology and pipeline capacity to bring this supply to market. Both the northern gas and LNG supplies are longer term prospects for TransCanada.

The growth of TransCanada's power business faces a number of challenges, including the uncertainties related to deregulation, long-term availability of fuel at economic prices, excess power generation, and the price of power in the long term.

TransCanada's strategy to grow its power business is supported by an expectation that the majority of the increase in natural gas demand is driven by the demand for power. Although there has been a significant increase in power supply in some markets over the past few years, TransCanada believes that there are niche opportunities available to build its power business. The increased demand for power and steam in the Alberta oil sands and other industrial sectors presents significant opportunities for growth. TransCanada has significant experience and competitive advantages in developing cogeneration facilities.

A key aspect to TransCanada's growth strategy focuses on the acquisition of existing pipeline and power assets. As a result of economic turmoil experienced by certain of TransCanada's competitors, the company expects to pursue acquisition opportunities that would create shareholder value.

ALBERTA SYSTEM

TransCanada's 100 per cent owned natural gas transmission system in Alberta gathers natural gas for use within the province and delivers gas to provincial boundary points for connection with the Canadian Mainline, BC System and other pipelines. The 22,700 kilometre system is one of the largest carriers of natural gas in North America.

CANADIAN MAINLINE

TransCanada's 100 per cent owned natural gas transmission system in Canada extends 14,900 kilometres from the Alberta/Saskatchewan border east to Québec/Vermont and connects with other natural gas pipelines in Canada and the U.S.

BC SYSTEM

TransCanada's 100 per cent owned natural gas transmission system extends 200 kilometres from Alberta's western border through British Columbia to the U.S. border, serving markets in British Columbia as well as the Pacific Northwest, California and Nevada.

Transmission

HIGHLIGHTS

Earnings Increase Net earnings from the Transmission business increased \$68 million to \$653 million in 2002 compared to \$585 million in 2001. Contributing to this increase were the Alberta System – \$10 million, Canadian Mainline – \$33 million and NAPV – \$24 million.

Alberta System The 2001/2002 Alberta System Rate Settlement (ASRS) expired at the end of 2002. Through a consultative process with major stakeholders, TransCanada reached a one-year settlement to establish a fixed revenue requirement for 2003. The settlement, together with proposed modifications to rate design, and new services currently before the EUB for approval, will form the basis of the Alberta System's tolls for 2003.

Canadian Mainline In June 2002, TransCanada received the NEB's Fair Return decision to determine the cost of capital to be included in the calculation of 2001 and 2002 tolls on TransCanada's Canadian Mainline. Despite the fact that the NEB granted an increase in the Canadian Mainline's deemed common equity ratio from 30 to 33 per cent, TransCanada was disappointed with this decision, and the NEB's denial of the request for a review and variance of the Fair Return decision, because it did not adequately recognize the long-term business risks to the Canadian Mainline.

TRANSMISSION RESULTS-AT-A-GLANCE

Year ended December 31	2002	2001	2000
<i>(millions of dollars)</i>			
Wholly-Owned Pipelines			
Alberta System	214	204	219
Canadian Mainline	307	274	281
BC System	6	5	6
	527	483	506
North American Pipeline Ventures			
Great Lakes	66	56	52
TC PipeLines, LP	17	15	11
Iroquois	18	16	13
Portland	2	(1)	(2)
Foothills	17	20	22
Trans Québec & Maritimes	8	8	8
Tuscarora	–	–	9
CrossAlta	13	8	6
Northern Development	(6)	(9)	(3)
Other	(9)	(11)	1
	126	102	117
Net earnings	653	585	623

In 2002, net earnings from the Transmission business were \$653 million, compared to \$585 million and \$623 million in 2001 and 2000, respectively. The increase in 2002 over 2001 was mainly due to the Canadian Mainline Fair Return decision, higher incentive earnings from wholly-owned pipelines, and higher earnings from TransCanada's investment in Great Lakes. The decrease in 2001 over 2000 was mainly due to lower earnings from the Alberta System and Canadian Mainline as well as higher costs related to the company's Northern Development activities.

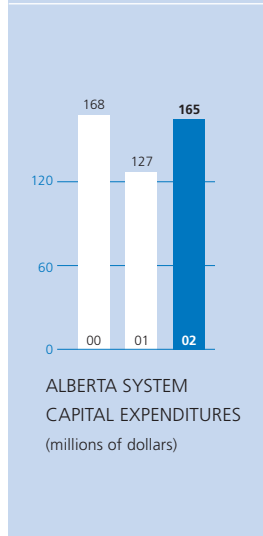
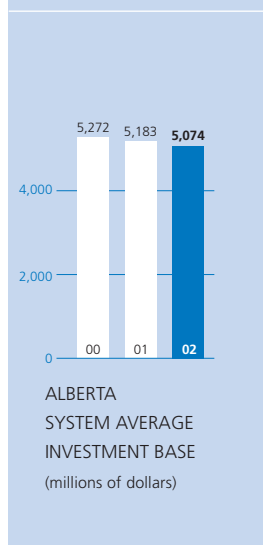
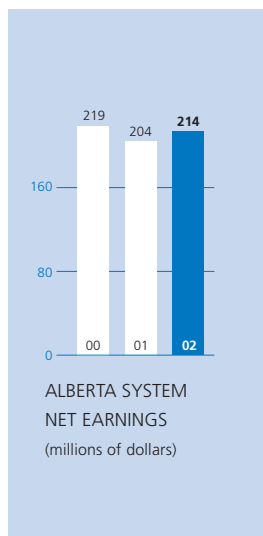
WHOLLY-OWNED PIPELINES – FINANCIAL REVIEW

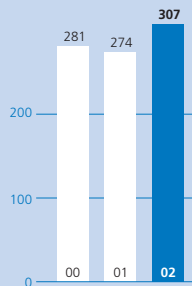
Alberta System Net earnings of \$214 million in 2002 are \$10 million higher than 2001 and \$5 million lower than 2000. The increase over 2001 was primarily due to an interest refund of \$4 million relating to a prior year income tax reassessment, and the expiry of TransCanada's transition support costs with respect to the products and receipt point pricing structure introduced in 2000. Earnings in 2002 and 2001 were both lower than 2000 earnings as a result of a lower implicit rate of return on equity in the ASRS compared to the Cost Efficiency Incentive Settlement (CEIS) that expired at the end of 2000. Under the ASRS, the majority of the Alberta System revenue requirement for 2002 and 2001 was at negotiated amounts of \$1.347 billion and \$1.390 billion, respectively.

The Alberta System is one of the largest volume carriers of natural gas in North America and delivered 4,146 billion cubic feet (Bcf) of natural gas in 2002, as compared to deliveries of 4,059 Bcf in 2001 and 4,490 Bcf in 2000. The volumes transported by the Alberta System in 2002 represented approximately 17 per cent of total North American natural gas production and about 68 per cent of the natural gas produced in the WCSB.

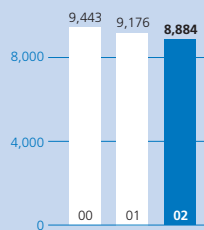
The Alberta System is regulated by the EUB primarily under the provisions of the Gas Utilities Act (Alberta) (GUA) and the Pipeline Act (Alberta). Under the GUA, the rates, tolls and other charges, and terms and conditions of service are subject to the approval of the EUB.

Canadian Mainline The Canadian Mainline generated net earnings of \$307 million in 2002, an increase of \$33 million and \$26 million compared to 2001 and 2000, respectively. The increase in net earnings in 2002 was primarily due to the Fair Return decision by the NEB in June 2002, which included an increase in the deemed common equity ratio from 30 to 33 per cent effective January 1, 2001. Net earnings in 2002 reflected the impact of the Fair Return decision for both 2001 and 2002. The increase in earnings was partially offset by a decline in the NEB approved rate of return on common equity from 9.90 per cent in 2000 to 9.61 per cent in 2001 to 9.53 per cent in 2002, combined with a lower average investment base.

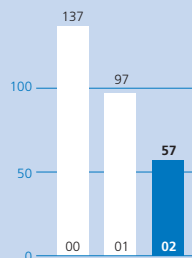




CANADIAN MAINLINE
NET EARNINGS
(millions of dollars)



CANADIAN
MAINLINE AVERAGE
INVESTMENT BASE
(millions of dollars)



CANADIAN MAINLINE
CAPITAL EXPENDITURES
(millions of dollars)

Annual deliveries of natural gas on the Canadian Mainline totaled 2,630 Bcf in 2002, compared to deliveries of 2,450 Bcf in 2001 and 2,675 Bcf in 2000. In 2002, deliveries to export border points comprised approximately 53 per cent of total deliveries compared to approximately 50 per cent in 2001 and 2000.

The Canadian Mainline is regulated by the NEB. The NEB sets tolls which provide TransCanada the opportunity to recover projected costs of transporting natural gas and also provide a return on the Canadian Mainline average investment base. New facilities are approved by the NEB before construction begins. Changes in investment base, the rate of return on common equity, the level of deemed common equity, and the availability of incentive earnings affect the net earnings of the Canadian Mainline.

WHOLLY-OWNED PIPELINES – DEVELOPMENTS

Regulatory As part of TransCanada’s plan to establish a new regulated business model, the company held extensive discussions with industry stakeholders in early 2002. The new regulated business model proposes changes to TransCanada’s Canadian regulated pipeline business that would enhance the company’s ability to compete for future market demand and gas supply while bringing benefits to customers. This regulated business model is intended to advance the evolution of TransCanada’s rate and service offerings on all three of its wholly-owned pipelines (Alberta System, Canadian Mainline and BC System).

In the 2003 Canadian Mainline Tolls and Tariff Application, TransCanada seeks to increase the existing minimum bid floor price of IT from 80 per cent to 110 per cent of the Firm Transportation (FT) toll. This proposed change will better reflect the value associated with the reliability and flexibility currently inherent with IT, and will enhance the relative value of FT on the Canadian Mainline. TransCanada also proposes to establish a new geographic area in southwestern Ontario for tolling purposes. TransCanada believes the creation of this new tolling zone will increase market liquidity in the area, make TransCanada’s tolls more reflective of actual costs, and ultimately improve TransCanada’s competitiveness.

TransCanada has developed and filed for approval with the EUB proposed rate design changes to its Alberta System. The proposed changes include an intra-Alberta delivery toll, a short-haul transportation service, a price-matching service, and improved cost accountability for capacity expansions. Based on a settlement with its stakeholders, TransCanada applied in February 2003 to the EUB for approval of the 2003 revenue requirement.

Operational Excellence TransCanada continued its commitment to operational excellence in 2002 by advancing initiatives that will improve the company’s ability to provide low-cost, reliable and responsive service to customers. Fundamentally, TransCanada continues to pursue this strategy in order to become the preferred company that customers choose to connect new gas supplies and markets.

Objectives in 2002 that focused on improving levels of customer service to Transmission customers included enhancing TransCanada's responsiveness to resolving customer issues, building effective relations with customers' senior management, and consolidating and improving TransCanada's information systems for managing customer transactions.

Specific 2002 objectives established within TransCanada's operations and engineering functions included operating and maintenance cost-related targets, per unit capital costs, and maintenance and operating costs per gas volume transported. These objectives were met or exceeded.

Supply Growth In 2002, TransCanada continued to connect incremental gas supply within the WCSB, both in Alberta and British Columbia. The Northwest Mainline Expansion project was completed in early 2002. Located along the western edge of Alberta, this additional pipeline capacity accommodates incremental receipt contract volumes of approximately 415 million cubic feet per day (MMcf/d) to be transported from the Ladyfern area of British Columbia. The Narraway Extension project was also completed in 2002, and resulted in incremental volumes of approximately 100 MMcf/d from the Narraway and Cutbank areas of western Alberta. In addition, TransCanada negotiated a competitive service offering in the Suffield area of Alberta to retain natural gas supply, which would have otherwise bypassed the Alberta System.

The timely connection of these significant volumes has allowed TransCanada's customers to take advantage of premium gas price environments. TransCanada will continue to grow by seeking new opportunities to connect additional gas supplies.

Market Growth TransCanada continues to pursue growth opportunities within existing and new natural gas markets. In 2002, TransCanada expanded its pipeline system in western Alberta and British Columbia by approximately 350 MMcf/d to meet growing market demand in California and the Pacific Northwest.

TransCanada continues to strengthen business relations with customers in the Fort McMurray area. This market, located in northeastern Alberta, is comprised of oil sands and upgrading plants that are heavily reliant on natural gas as a source of fuel. In 2002, TransCanada experienced steady growth of delivered gas volumes to this market. Looking forward, this market represents one of the largest growth opportunities for natural gas demand in North America. In other geographic regions of Alberta, TransCanada connected both new and expansion projects for existing and smaller markets.

WHOLLY-OWNED PIPELINES – OUTLOOK

TransCanada's Transmission business has a long history of providing market access and connecting gas supply for its customers. As the marketplace has evolved and competition has grown, the wholly-owned pipelines business has focused on providing market-responsive products and services, a competitive cost structure, and world-class levels of reliability to its customers.

In 2003, the wholly-owned pipelines business will focus on achieving additional efficiency improvements in all aspects of the business, by maintaining focus on operational excellence and leveraging technological advancements. TransCanada will also continue to work collaboratively with all stakeholders on resolving jurisdictional issues, advancing regulated business model changes and addressing fair return challenges.

Looking forward, in order to replace declines in production, producers will continue to explore and develop other fields that are geologically similar to the Ladyfern project and unconventional supply such as the recently connected initial gas production from coal bed methane reserves to the Alberta System. As new reserves are developed in the WCSB, TransCanada will seek to connect these additional natural gas supplies to the Alberta System. TransCanada's net income is not directly affected by fluctuations in the commodity price of natural gas, but such fluctuations may influence both production levels and the natural gas basin from which North American users elect to purchase natural gas supplies. Under the current regulatory model, TransCanada's net income from its wholly-owned pipelines is not materially affected by fluctuations in throughput.

Earnings In 2003, the net earnings from wholly-owned pipelines are expected to be significantly lower than in 2002.

For the Alberta System, the one-year fixed 2003 revenue requirement settlement reached between TransCanada and its stakeholders will negatively impact Alberta System's 2003 net earnings by approximately \$40 million after tax, as compared to 2002.

The 2002 Canadian Mainline earnings included the recognition of the impact of the Fair Return decision on 2001, which will not be repeated in 2003. The 2003 net earnings from the Canadian Mainline will depend on the outcome of the 2003 Tolls and Tariff Application currently before the NEB. Approval of the 2003 Tolls and Tariff Application as filed would significantly increase TransCanada's revenue and cash flow due to increased depreciation. However, higher depreciation has a negative earnings impact due to the associated reduction of the investment base.

Capital Expenditures Total capital spending for the wholly-owned pipelines during 2002 was \$272 million. Capital expenditures in 2002 included approximately \$113 million to expand transmission capacity on the Alberta and BC Systems to serve growing markets in California and the Pacific Northwest. Capital spending in 2003 is expected to decrease by approximately \$70 million from 2002, primarily due to lower capacity capital spending requirements.

WHOLLY-OWNED PIPELINES – BUSINESS RISKS

Competition and Regulation TransCanada faces competition at both the supply end and the market end of its system. The competition is a result of other pipelines accessing an increasingly mature WCSB. The construction of the Alliance Pipeline, a natural gas pipeline from northeast British Columbia to the Chicago area, and the continuing expiry of transportation contracts have resulted in significant reductions in firm contracted capacity on both the Alberta System and the Canadian Mainline. The Canadian Mainline has effectively become the “swing” pipeline out of the WCSB, absorbing the bulk of any volume swings in the supply area.

Based on TransCanada’s year-end 2001 estimates, the WCSB had remaining discovered reserves of 56 trillion cubic feet and a reserves-to-production ratio of approximately nine years at current levels of production. Additional reserves are continually being discovered to maintain the reserves-to-production ratio at close to nine years. Gas prices in the future are expected to be higher than long-term historical averages due to a tighter supply/demand balance which should stimulate exploration and production in the WCSB.

TransCanada’s Alberta System provides the major natural gas gathering and export transportation capacity for the WCSB. It does so by connecting to most of the gas processing plants in Alberta and then transporting gas to two large mainline systems for domestic and export deliveries. The Alberta System faces competition primarily from the Alliance Pipeline, which connects to some of the same gas plants. The maximum receipt capacity of the Alliance Pipeline is approximately 1.7 Bcf/d compared to TransCanada’s Alberta System average 2002 receipt volumes of 11.2 Bcf/d. Two bypass pipelines in southern Alberta connect to the Canadian Mainline and have a combined capacity of 0.4 Bcf/d. In addition, the Alberta System has faced, and will continue to face, increasing competition from other pipelines.

The Canadian Mainline is TransCanada’s cross-continent pipeline serving mid-western and eastern markets in Canada and the U.S. The demand for gas in TransCanada’s key eastern markets is expected to continue to increase, particularly to meet the expected growth in gas-fired power generation. TransCanada does, however, face competition for its transportation services to eastern Canadian markets and U.S. export points. The main source of this competition is the combination of the Alliance and Vector pipelines. Alliance transports gas from the WCSB to the U.S. Midwest, where Vector connects to Alliance and transports gas to Eastern Canada, essentially allowing a complete bypass of the Canadian Mainline. In addition, there are several smaller pipeline systems that compete with TransCanada for markets in Eastern Canada. TransCanada must also compete to retain and attract customers in the northeastern U.S. market where consumers have access to an array of supply options such as U.S. supplies, imported LNG supplies, and natural gas from the Canadian East Coast offshore supply basin. New market growth customers and existing customers with expiring FT contracts may take advantage of these alternatives.

The increased competitive environment has resulted in contract non-renewals on both the Alberta System and the Canadian Mainline. There are significant quantities of excess firm capacity available for IT service as a consequence of FT service contract non-renewals on the Canadian Mainline. As a result, IT service provides some shippers with flexibility and a level of reliability comparable to FT service. In 2002, IT service pricing for the Canadian Mainline was determined based on bids received by shippers with a floor price of 80 per cent of the FT price. The Canadian Mainline has had reductions in FT contracts for deliveries originating at the Alberta border and in Saskatchewan of approximately 2.1 Bcf/d, or approximately 31 per cent of its capacity. As a result of reduced contracted FT volumes, tolls have increased on the Canadian Mainline. However, the toll increases due to contract non-renewals are somewhat mitigated by higher volumes flowed under IT contracts. Looking forward, there is limited opportunity to reduce tolls by increasing volumes on the Canadian Mainline. The utilization of the Canadian Mainline is not expected to increase in the short to medium term as additional supply from the WCSB is expected to be absorbed by demand growth within Western Canada and higher flows on other pipeline systems.

One of the responses by the Transmission business towards increased competition has been to focus on changes to the regulated business model. TransCanada will continue to work with stakeholders in 2003 to advance various aspects of the company's competitive business model for the Alberta System, Canadian Mainline and BC System.

For the Canadian Mainline, TransCanada has filed an application with the NEB in the 2003 Tolls and Tariff Application to increase the depreciation rate and further the company's initiatives on services and pricing. The decisions by the NEB on TransCanada's 2003 Tolls and Tariff Application may have an impact on TransCanada's 2003 earnings. In February 2003, the NEB denied TransCanada's request for a review and variance of the Fair Return decision. As a result, the company has concerns about the long-term implications of a financial return that discourages additional investment in existing Canadian natural gas transmission systems.

The EUB is currently considering holding a generic cost of capital inquiry for all Alberta utilities. TransCanada's position is that the inquiry should not apply to the Alberta System. Should the EUB proceed with the inquiry and should the Alberta System be subject to the inquiry, TransCanada will fully advance its views on the level of returns that are required to induce investment in pipelines.

Safety TransCanada worked closely with regulators, customers and communities during 2002 to ensure the continued safety of employees and the public. In 2002, two line breaks occurred in relatively remote areas of Manitoba and Alberta resulting in minimal impact. Pipeline integrity expenditures, including increased spending as a result of these line breaks, are anticipated to be approximately \$80 million in 2003 compared to \$53 million in 2002. TransCanada continues to use a rigorous risk management system that focuses spending on issues and areas that have the largest impact on maintaining or improving the reliability and safety of the pipeline system.

Environment In 2002, TransCanada continued efforts to minimize the impact of operations on the environment through continuous improvements to the leak detection and repair program and blowdown emissions management program. Through the use of innovative technology, TransCanada is able to quantify leaks and prioritize them for repair. TransCanada also tested a new technology for minimizing the impacts from pipeline blowdowns. This technology incinerates gas that would have normally been vented after the use of a portable transfer compressor and, as a result, significantly reduces the amount of greenhouse gases emitted to the atmosphere.

For information on management of risks with respect to the Transmission business, see Risk Management.

NORTH AMERICAN PIPELINE VENTURES – FINANCIAL REVIEW

NAPV is comprised of TransCanada's direct and indirect investment in various natural gas pipelines and pipeline-related businesses. NAPV also includes project development activities related to TransCanada's pursuit of new natural gas pipeline and pipeline-related opportunities in the North and throughout North America.

TransCanada's proportionate share of net income in 2002 from NAPV was \$126 million compared to \$102 million and \$117 million in 2001 and 2000, respectively. The increased net earnings of \$24 million in 2002 compared to 2001 were due to \$17 million of higher earnings from U.S. affiliates which included TransCanada's \$7 million share of a favourable ruling for Great Lakes related to Minnesota use tax paid in prior years. Also contributing to higher earnings from U.S. affiliates were the increased ownership interests in Iroquois Gas Transmission System (Iroquois) and Portland Natural Gas Transmission System (Portland) acquired in mid-2001, higher transportation margins, and favourable exchange rates. While TransCanada recorded lower earnings from Foothills Pipe Lines Ltd. (Foothills) of \$3 million due to a lower return on equity and declining rate base, this was more than offset by earnings from CrossAlta Gas Storage & Services Ltd. (CrossAlta) which increased significantly due to higher storage margins, increased storage capacity and reduced operating expenses. In addition, there was reduced spending on Northern Development in 2002 and increased earnings from TransGas de Occidente S.A. (TransGas) and TransCanada Pipeline Ventures Limited Partnership (Ventures LP).

NAPV's net earnings of \$102 million in 2001 decreased by \$15 million compared to 2000. This decrease resulted from increased Northern Development and pipeline business development activities in 2001, and a one-time gain of \$7 million from the sale of a 49 per cent interest in Tuscarora Gas Transmission Company (Tuscarora) to TC PipeLines, LP in 2000.

GREAT LAKES

Great Lakes connects with the Canadian Mainline at Emerson, Manitoba and serves markets in central Canada and the eastern and midwestern U.S.

TransCanada has a 50 per cent ownership interest in this 3,387 kilometre pipeline system.

NORTHERN BORDER

Northern Border is a 2,010 kilometre natural gas pipeline system which serves the U.S. Midwest with a connection from Foothills.

TransCanada indirectly owns approximately 10 per cent of Northern Border through its 33.4 per cent interest in TC PipeLines, LP.

IROQUOIS

Iroquois connects with the Canadian Mainline and delivers natural gas to customers in northeastern U.S.

TransCanada has a 40.96 per cent interest in this 604 kilometre pipeline system.

PORTLAND

Portland operates a 471 kilometre pipeline which connects with TQM near Pittsburg, New Hampshire and has delivery points in Massachusetts.

TransCanada has a 33.29 per cent interest in Portland.

NORTH AMERICAN PIPELINE VENTURES – DEVELOPMENTS

In 2002, the Tuscarora and Ventures LP systems were expanded, an interest in Northern Border Partners, L.P. (NBPLP) was acquired, a settlement related to Portland's rates was reached, and TransCanada continued its active participation in Northern Development.

Great Lakes In 2002, Great Lakes received a favourable ruling relating to Minnesota use tax paid in prior years. TransCanada's share of this settlement was approximately \$7 million.

TC PipeLines, LP TransCanada holds a 33.4 per cent interest in TC PipeLines, LP that in turn holds a 30 per cent interest in Northern Border Pipeline Company (Northern Border) and a 49 per cent interest in Tuscarora. In July 2002, TC PipeLines, LP increased its quarterly distribution from US\$0.50 per unit to US\$0.525 per unit. This represents the third increase in the partnership's quarterly cash distribution since the commencement of operations in May 1999.

Iroquois Construction on Iroquois' Eastchester Expansion is well under way. Some of the compression additions relating to this extension were placed in-service in November 2002 with the balance of the project expected to be complete and ready for in-service by mid-2003. This extension will extend Iroquois' system from Long Island into New York City and will provide an additional 230 MMcf/d of new service into this market.

Portland Portland filed a rate application with the Federal Energy Regulatory Commission (FERC) in October 2001 that was approved and went into effect, subject to refund, in April 2002. Portland and customer representatives reached an agreement on new tolls and Portland submitted an uncontested agreement to the FERC in October 2002, which was approved in its entirety in January 2003. The lower depreciation rates and revised tolls should have a positive impact on Portland's future earnings.

Northern Border Partners, L.P. In 2002, the company purchased an interest in NBPLP for \$19 million, which provides TransCanada with a general partnership interest in NBPLP and a 17.5 per cent vote on the partnership policy committee. NBPLP owns the 70 per cent of Northern Border not owned by TC PipeLines, LP.

TQM Effective January 2003, TransCanada took over the field operations and administration functions of Trans Québec & Maritimes Pipeline Inc. (TQM). The transition phase should be mainly completed by the end of first quarter 2003.

CrossAlta TransCanada holds a 60 per cent interest in Crossfield Storage Joint Venture and is entitled to a similar share of the earnings of CrossAlta. CrossAlta reported strong results in 2002 due to higher storage margins, increased storage capacity and reduced operating costs.

Northern Development In 2002, TransCanada pursued pipeline opportunities to move both Mackenzie Delta and Alaska North Slope natural gas to markets throughout North America. TransCanada worked with key stakeholders in the interest of participating in any potential pipeline project.

TransCanada and Foothills held discussions in 2002 with Alaska North Slope producers regarding rate design, capital costs, commercial terms and timing of the Alaska Highway Pipeline. These producers are seeking legislative changes in Washington D.C. and Alaska to facilitate construction of a pipeline. Legislative initiatives are expected to continue in Washington D.C. and Alaska in 2003 to advance a project.

TransCanada has proposed an integrated solution to move Arctic gas to various markets across North America. The integration comes from connecting both the Mackenzie Delta and Alaska pipelines with the existing Alberta System. The Alberta System would be expanded as required for the combined volume of Arctic gas and western Canadian production. Expansions downstream from Alberta would be sized to reflect expected market supply and demand conditions at the time of construction. TransCanada's proposal provides producers with lower capital costs and significant market flexibility. The company continues to refine and discuss this plan with producers and other key stakeholders.

All costs incurred relating to Northern Development continue to be expensed as incurred.

NORTH AMERICAN PIPELINE VENTURES – STRATEGY AND OUTLOOK

TransCanada continues to actively pursue gas pipeline and pipeline-related development and acquisition opportunities in Canada and the U.S., where these opportunities are driven by strong customer demand and sound economics. With TransCanada's strong financial position, the company is poised to capitalize on future acquisition and development opportunities. The company will continue to evaluate options in a disciplined fashion to maintain a strong financial position.

As world geo-political events develop, they will have an impact on the level of development of future and existing gas supplies worldwide. This could impact TransCanada directly with its involvement in the development of natural gas transportation solutions as producers access gas reserves in the North and Atlantic Canada, as well as existing facility expansions across North America.

TransCanada is poised to play a key role in Northern Development. While there are many issues to be resolved before this development moves forward, TransCanada has competitive advantages including expertise in the design, construction and operation of large diameter pipe in cold weather conditions. TransCanada is also the leading builder and operator of large gas turbine compressor stations, owns and operates one of the largest, most sophisticated, remote-controlled pipeline networks in the world, and has a solid reputation for safety and reliability.

TQM

TQM is a 572 kilometre natural gas pipeline system which connects with the Canadian Mainline and transports gas from Montréal to Québec City and to the Portland system. TransCanada holds a 50 per cent interest in TQM.

CROSSALTA

CrossAlta is an underground natural gas storage facility connected to TransCanada's Alberta System, and is located near Crossfield, Alberta. CrossAlta has a working gas capacity of 47 Bcf with a maximum deliverability capability of 475 MMcf/d. TransCanada holds a 60 per cent interest in CrossAlta.

FOOTHILLS

Foothills carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest and California. TransCanada owns 50 per cent of Foothills, 69.5 per cent of Foothills (Sask.), 74.5 per cent of Foothills (Alta.) and 74.5 per cent of Foothills (South B.C.). Together, these pipeline systems total 1,040 kilometres in length.

TUSCARORA

Tuscarora operates a 386 kilometre pipeline system transporting gas from Malin, Oregon to Wadsworth, Nevada with delivery points in northeastern California. TransCanada owns an aggregate 17.4 per cent interest in Tuscarora, of which 16.4 per cent is held through TransCanada's interest in TC PipeLines, LP.

VENTURES LP

Ventures LP, which is 100 per cent owned by TransCanada, owns a 110 kilometre pipeline and related facilities which supply natural gas to the oil sands region of northern Alberta, and a 27 kilometre pipeline which supplies natural gas to a petrochemical complex at Joffre, Alberta.

TRANSGAS

TransGas is a 344 kilometre natural gas pipeline system which runs from Mariquita in the central region of Colombia to Cali in the southwest of Colombia. TransCanada holds a 46.5 per cent interest in this pipeline.

NORTH AMERICAN PIPELINE VENTURES – BUSINESS RISKS

Foreign Exchange A significant amount of the revenue in this business segment is generated from U.S. pipeline affiliates. The performance of the Canadian dollar compared to the U.S. dollar would either positively or negatively impact this business segment's results.

Throughput Risk Iroquois, Portland and Tuscarora all have long-term demand charge contracts in place with customers and as such, are virtually unaffected by changes in throughput. As transportation contracts expire on Great Lakes and Northern Border, these entities will be exposed to throughput risk and their revenues will experience some variability. Throughput risk is created by supply availability, economic activity, weather variability, and pricing of alternative fuels.

Insurance, Benefits and Interest Rates Insurance costs continue to rise as a result of events in the U.S. in 2001, while interest rates remain low. Also, the costs of employee benefits, particularly in the U.S., continue to increase. If these costs continue to rise and the economy recovers, resulting in increased interest rates, earnings of affiliated pipelines and businesses could be negatively impacted.

Regulation The U.S. partially-owned pipelines are regulated by the FERC while the Canadian partially-owned pipelines are regulated by the NEB. These regulators play a significant role in approving the pipelines' return on equity, capital structure, tolls and system expansion.

NATURAL GAS THROUGHPUT VOLUMES

	2002	2001	2000
(Bcf)			
Alberta System	4,146	4,059	4,490
Canadian Mainline	2,630	2,450	2,675
BC System	371	395	408
Great Lakes	863	804	898
Northern Border	839	821	853
Iroquois	340	314	344
Portland	52	44	40
Tuscarora	20	23	25
Foothills	1,098	1,117	1,186
Trans Québec & Maritimes	175	161	168
Ventures LP	85	60	36

Power

HIGHLIGHTS

Earnings In a year characterized by a downturn in the power industry, TransCanada's Power segment made a significant contribution to TransCanada's earnings in 2002 through strong base earnings from its plants, asset optimization and successful marketing activities in the New England and Alberta markets.

Expanding Asset Base TransCanada completed the acquisition of ManChief, which increased TransCanada's available power supply by 300 megawatts (MW). 2002 was the first year of operations for two new Alberta plants, Redwater and Carseland, with a third plant commencing operations in first quarter 2003.

Bruce Power L.P. TransCanada announced plans in December 2002 to acquire a 31.6 per cent equity interest in Bruce Power L.P., the operator and lessee of the Bruce nuclear power plant. This acquisition will indirectly increase TransCanada's nominal generating capacity by 992 MW starting in February 2003 with an additional 486 MW expected in mid-2003, which represents 31.6 per cent of the total plant output.

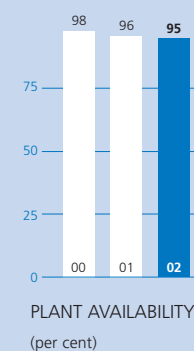
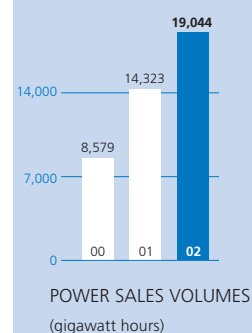
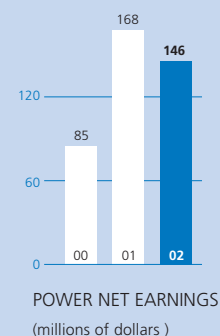
Operational Excellence Average plant availability in 2002 was 95 per cent with an average of 96 per cent plant availability over the past three years.

POWER RESULTS-AT-A-GLANCE

Year ended December 31	2002	2001	2000
<i>(millions of dollars)</i>			
Northeastern U.S. operations	149	159	68
Western operations	131	149	59
Power LP investment	36	39	33
General, administrative and support costs	(73)	(49)	(21)
Operating and other income	243	298	139
Financial charges	(13)	(24)	(15)
Income taxes	(84)	(106)	(39)
Net earnings	146	168	85

TransCanada's Power business contributed \$146 million of net earnings in 2002, a decrease of \$22 million or 13 per cent, compared to very strong earnings of \$168 million in 2001. This decrease is primarily attributable to TransCanada's ability to capitalize on market opportunities in both Northeastern U.S. and Western Operations in 2001 that did not exist in 2002.

In 2002, TransCanada focused on sustaining a base level of earnings and reducing exposure to volatile market conditions through additional long-term sales arrangements and expanding the asset base. Net earnings in 2002 from the Northeastern U.S. Operations also included a full year of earnings from the Curtis Palmer hydroelectric facilities purchased in July 2001. Western Operations' lower marketing margins in 2002 were partially offset by income from its expanding asset base. The Carseland and Redwater plants had their first full year of operations in 2002 and the ManChief plant was acquired in November 2002. Transactions under the Sundance B power purchase arrangement (PPA) also commenced in January 2002. TransCanada's earnings in 2002 were lower from the investment in TransCanada Power, L.P. (Power LP) due to the unplanned outage at the Williams Lake plant in the first half of 2002, reduced enhancement opportunities, and a reduction in



TransCanada's ownership interest from 41.6 per cent to 35.6 per cent in Power LP, effective October 2001. The increase in general, administrative and support costs in 2002 compared to the two prior years reflects the increased activity in TransCanada's Power business, as well as the company's focus on future growth in this segment.

Power's net earnings of \$168 million in 2001 increased by \$83 million compared to net earnings of \$85 million in 2000. This increase reflected Power's ability to take advantage of market opportunities in 2001 created by high prices and power price volatility in both Northeastern U.S. and Western Operations, the acquisition of the Curtis Palmer facility in July 2001, and the commencement of transactions under the Sundance A PPA. Power's net earnings in 2000 included a \$23 million after-tax gain on the sale of TransCanada's interest in the Hermiston Power Partnership.

NOMINAL GENERATING CAPACITY OF POWER PLANTS

(MW)	
TransCanada Power	
Ocean State	560
ManChief	300
MacKay River ¹	165
Carseland	80
Bear Creek	80
Curtis Palmer	60
Redwater	40
Cancarb	27
Bruce Power L.P. ²	
Bruce A ³	486
Bruce B ⁴	994
Power LP ⁵	
Williams Lake	66
Castleton	64
Tunis	43
Kapuskasing	40
Nipigon	40
North Bay	40
Calstock	35
Other ⁶	
Sundance A	560
Sundance B	353
	4,033

¹ Currently under construction.

² TransCanada's purchase of a 31.6 per cent interest in Bruce Power L.P., which includes facilities consisting of eight nuclear reactors, was announced in December 2002 and closed in February 2003. The volumes in the table represent TransCanada's 31.6 per cent interest.

³ Bruce A consists of four 769 MW reactors, which are currently not operating. Two of the Bruce A units (3 and 4) are expected to be restarted and on-line by mid-2003, subject to receipt of all necessary regulatory approvals.

⁴ Bruce B consists of four reactors, which are currently in operation, with a capacity of approximately 3,140 MW. The generating capacity of 994 MW includes two MW from TransCanada's 17 per cent indirect share in Huron Wind L.P. which owns a nine MW wind farm.

⁵ At December 31, 2002, TransCanada operated and managed Power LP and held a 35.6 per cent ownership interest in Power LP. The volumes in the table represent 100 per cent of plant capacity.

⁶ TransCanada directly or indirectly acquires 560 MW from Sundance A and 353 MW from Sundance B through long-term PPAs, which represents 100 per cent of the Sundance A and 50 per cent of the Sundance B power plant output, respectively.

POWER – DEVELOPMENTS

TransCanada's Power business had a strong performance in 2002 particularly considering the volatile and depressed market conditions. In a year in which the industry experienced many regulatory and market uncertainties, the Power business delivered on its growth objective through the acquisition of the ManChief plant, announcing its acquisition of a 31.6 per cent interest in Bruce Power L.P., a full year of operations at the Carseland and Redwater plants, and construction on the MacKay River and Bear Creek plants. Power also announced the formation of Portlands Energy Centre L.P., a partnership to assess the viability of developing a natural gas-fuelled energy centre to meet electricity needs in downtown Toronto. TransCanada continues to utilize its competitive strengths to seek acquisition and development opportunities that will complement the overall asset base and contribute positively to earnings and cash flow.

NORTHEASTERN U.S. OPERATIONS

Power's Northeastern U.S. Operations consists of two primary businesses, power generation and power marketing, in the New England and New York markets.

TransCanada owns 100 per cent of Ocean State Power (OSP), a 560 MW gas-fired plant located in Rhode Island, and the 60 MW Curtis and Palmer (Curtis Palmer) hydroelectric facilities near Corinth, New York. OSP earns a FERC-regulated return on equity on its investment, which has a declining rate base. Additionally, TransCanada Power Marketing Limited (TCPM), TransCanada's marketing affiliate in the region operating out of Westborough, Massachusetts, purchases 76.5 per cent of the output from OSP and re-markets this power to third parties for terms extending out to 2009. Output from Curtis Palmer is generated into the New York Power Pool and sold under a fixed-price, long-term power purchase agreement to Niagara Mohawk Power Corporation for a term of more than 25 years. Curtis Palmer enjoys a high capacity factor due to its strategic location just downstream of certain water storage facilities on the Hudson River. However, it is subject to variations in water levels.

TCPM has also contracted with third parties for additional supplies that are re-marketed in a portfolio of wholesale and large retail arrangements. This includes TCPM's purchase of 100 per cent of the output of the 64 MW gas-fired combined-cycle plant located in Castleton-on-Hudson, New York (Castleton), which is owned by Power LP.

TransCanada's continued success and growth in the northeastern U.S. is the direct result of a very efficient, controlled risk marketing operation. TCPM is focused on selling power under varying contract terms to wholesale and retail industrial customers while managing its portfolio of power supplies. Through active portfolio management, TCPM has positioned itself to capture market opportunities as they arise, while reducing downside exposure.

Northeastern U.S. Operations' operating income of \$149 million in 2002 was slightly lower than the unprecedented \$159 million earned in 2001. Operating income in 2002 was strong considering the general retrenchment and softness of the wholesale power markets in 2002. The decrease year over year was primarily due to the ability throughout 2001 to capitalize on price volatility that was less prevalent in 2002, partially offset by a full year of earnings from the Curtis Palmer hydroelectric facilities purchased in July 2001. In 2002, TCPM substantially increased its earnings from, and presence in, the retail customer sector by

OCEAN STATE

The OSP plant is a 560 MW natural gas-fired, combined-cycle facility in Rhode Island.

CURTIS PALMER

The 60 MW Curtis Palmer facility near Corinth, New York is the company's only hydroelectric facility. All output from this facility is sold through a fixed-price, long-term agreement.

CASTLETON

Castleton is a combined-cycle plant located at Castleton-on-Hudson, New York and is owned by Power LP.

selling more volumes and services to large industrial and commercial customers. In December 2002, OSP concluded an arbitration process with respect to its cost of fuel gas, which will substantially increase OSP's costs. The matter is presently in another arbitration process in 2003 with a decision expected in second quarter of 2003.

Over the past five years, TCPM has firmly established itself as a leading energy provider in the New England power market. TransCanada continues to look for opportunities to augment its existing operations and successful marketing business in the region, including the potential to increase its presence in the New York market.

MANCHIEF

In November 2002, TransCanada acquired the 300 MW simple-cycle ManChief facility near Brush, Colorado. The entire capacity of the natural gas-fired ManChief plant is sold under long-term tolling contracts that expire in 2012.

SUNDANCE A & B

The Alberta Sundance power plant is the largest coal-fired electrical generating facility in Western Canada. Through the Alberta PPA auction in August 2000, TransCanada acquired the Sundance A PPA, which increased the company's power supply by 560 MW for a 17 year period commencing January 2001. In December 2001, TransCanada acquired 50 per cent of the 706 MW Sundance B PPA through a partnership arrangement, which increased the company's power supply by 353 MW for approximately 19 years commencing January 2002.

WESTERN OPERATIONS

The focus of Western Operations is to optimize and expand its existing asset base and maximize the potential rewards through a combination of long- and short-term contracts and low cost generation and supply. In addition to growing the Alberta cogeneration facilities, TransCanada's Power business further diversified its Western portfolio in 2002 through the acquisition of the 300 MW ManChief plant.

Western Operations has two main components – Western Marketing and Plant Operations. Western Marketing consists of the power marketing operations originating out of the Calgary office, including marketing of generation from the Alberta plants and the purchase and resale of electricity related to the Sundance PPAs. Western Marketing also participates in marketing electricity across Canada and throughout the northern tier of the U.S. from Washington to Wisconsin. Plant Operations consists of contributions from TransCanada's Alberta power plants, the newly acquired ManChief plant in Colorado, and fees earned to manage Power LP and operate its seven plants.

Operating income attributable to Western Operations decreased by 12 per cent from \$149 million in 2001 to \$131 million in 2002. Market opportunities that existed in 2001 resulting from high power prices (average Alberta Pool Price of \$71/megawatt hour (MWh) in 2001 compared to \$44/MWh in 2002) and price volatility in Western Canada and the Pacific Northwest regions did not carry over into 2002. However, this was partially offset by income from the Sundance B PPA and the Redwater, Carseland and ManChief plants.

The increase of \$90 million in operating income from 2000 to 2001 was primarily due to the increased volumes commencing January 2001 from the acquisition of the 560 MW Sundance A PPA and increased commercial activity that capitalized on opportunities created by higher power prices and price volatility in Western Canada and the Pacific Northwest regions. Operating income in 2000 included a \$26 million gain on sale of the Hermiston plant.

Western Marketing In December 2001, through a partnership arrangement, TransCanada effectively acquired 50 per cent of the remaining rights and obligations of the 706 MW Sundance B PPA. Beginning in January 2002, this acquisition provided TransCanada with an additional 353 MW of supply for the next 19 years. The Sundance A PPA that was acquired in August 2000 provides 560 MW of supply for a 17 year period.

In order to mitigate market price risk, TransCanada has sold essentially all of its Sundance PPA power supply in 2003 and 77 per cent of the expected, average combined power supply for the next three years. TransCanada continues to secure additional long-term sales contracts for the remaining Sundance power supply, as well as any uncontracted supply from its Alberta power plants.

Plant Operations Plant Operations is another area of success and growth for TransCanada. The expansion of this area is consistent with TransCanada's focus on capitalizing on its expertise in developing new projects and becoming a prominent player in the Alberta market. The Carseland and Redwater cogeneration plants successfully completed their first year of operation in 2002.

The Bear Creek plant will begin commercial operations in first quarter 2003. This 80 MW cogeneration facility near Grande Prairie, Alberta will sell the majority of its power to Weyerhaeuser at its Grande Prairie Pulp Mill, as well as Weyerhaeuser's other Alberta facilities. The construction of the MacKay River plant is continuing and is expected to be in operation in late 2003. This 165 MW cogeneration facility near Fort McMurray, Alberta will provide electricity and steam to Petro-Canada's adjacent in-situ oil sands operations.

Both the Bear Creek and the MacKay River plants have followed the strategic power development model that was designed for Redwater and Carseland. Under this model, TransCanada is generally able to expand its portfolio of power plants while avoiding excessive price risk through the long-term sale of electricity and steam/heat to the adjacent industrial customer for a portion of the plant output while, at the same time, retaining a certain amount of merchant power capacity. Upon completion in late 2003, the MacKay River plant will be TransCanada's largest power plant in Alberta, and will increase TransCanada's directly controlled supply in the province to more than 1,300 MW.

TransCanada expanded its generation base in 2002 through the acquisition of the 300 MW ManChief facility. This facility is a simple-cycle, two-turbine facility near Brush, Colorado. The operations and maintenance services for the ManChief plant will continue to be supplied by the current contracted service provider, Colorado Energy Management, LLC. This new addition to TransCanada's portfolio of generation assets meets the objective of creating stable and predictable cash flows as the entire capacity is sold under long-term tolling contracts that expire in 2012.

POWER LP INVESTMENT

Power LP Investment includes the earnings generated from holding TransCanada's investment in TransCanada Power, L.P. which is Canada's largest publicly-held, power-based income fund. Power LP owns six power plants in Canada and one in the U. S. that are fuelled by natural gas, waste heat, waste wood or a combination of the three.

CARSELAND

TransCanada completed construction of an 80 MW natural gas-fired cogeneration plant near Carseland, Alberta in September 2001, with commercial operation commencing in January 2002.

REDWATER

TransCanada completed construction of a 40 MW natural gas-fired cogeneration plant near Redwater, Alberta in November 2001, with commercial operation commencing in January 2002.

BEAR CREEK

Commercial operation of this 80 MW natural gas-fired cogeneration plant near Grande Prairie, Alberta commenced in first quarter 2003.

MACKAY RIVER

This 165 MW facility near Fort McMurray, Alberta is currently under construction. The expected completion date is late 2003.

WILLIAMS LAKE

Power LP owns a 66 MW wood waste-fired power plant at Williams Lake, British Columbia.

CALSTOCK

Calstock is fuelled by a combination of waste wood and waste heat exhaust from the adjacent Canadian Mainline compressor station and is owned by Power LP.

NIPIGON, KAPUSKASING, TUNIS AND NORTH BAY

These efficient, enhanced combined-cycle facilities are fuelled by a combination of natural gas and waste heat exhaust from adjacent compressor stations on the Canadian Mainline and are owned by Power LP.

CANCARB

The 27 MW Cancarb power plant is fuelled by waste heat from TransCanada's adjacent thermal carbon black facility.

TransCanada acts as manager for Power LP. In this capacity, TransCanada manages the operations and maintenance requirements of Power LP and minimizes its exposure to gas price fluctuations by locking in much of the required gas supply under predetermined long-term contracts. In addition, when market conditions warrant, TransCanada enhances the overall operating profits of Power LP by curtailing certain plants during off-peak hours and selling the displaced gas at attractive market prices, resulting in increased overall net earnings for Power LP.

Operating income from TransCanada's investment in Power LP decreased \$3 million or eight per cent compared to 2001 mainly as a result of decreased ownership throughout 2002 compared to 2001, reduced enhancement opportunities, and an unplanned outage at the Williams Lake plant in the first half of 2002. In October 2001, Power LP issued approximately 5.7 million units in a public offering which decreased TransCanada's ownership interest from 41.6 per cent to 35.6 per cent. At December 31, 2002, the Power LP units closed at \$30.90 on The Toronto Stock Exchange and TransCanada owned approximately 14.0 million units.

As noted, TransCanada provides management services to Power LP. This, combined with TransCanada's ownership share, has resulted in Power LP being a key asset in growing TransCanada's overall power business. Power LP has grown substantially since its inception in mid-1997 and will continue to pursue further growth in the future.

BRUCE POWER L.P.

In February 2003, the company completed the acquisitions of a 31.6 per cent interest in Bruce Power L.P. and an approximate 33.3 per cent interest in Bruce Power Inc., the general partner of Bruce Power L.P., for \$376 million, subject to closing adjustments. TransCanada also funded a one-third share (\$75 million) of a \$225 million accelerated deferred rent payment to Ontario Power Generation (OPG).

TransCanada acquired the interests as part of a consortium (the Consortium) that includes Cameco Corporation (Cameco) and BPC Generation Infrastructure Trust, a trust established by the Ontario Municipal Employees Retirement System. Under the agreement, the Consortium acquired British Energy (Canada) Ltd. (British Energy), which owns a 79.8 per cent interest in Bruce Power L.P. as well as a 50 per cent interest in the nine MW Huron Wind L.P. power facility. Bruce Power L.P. is the tenant under a lease with OPG on the Bruce nuclear power facility. The lease expires in 2018 with an option to extend the lease by up to 25 years. The Bruce power facility will continue to be managed and operated by the management and staff of Bruce Power L.P. Spent fuel and decommissioning liabilities remain the responsibility of OPG.

TransCanada recorded this acquisition as an equity investment and will report the income as equity income.

Through the use of PPAs, Bruce Power L.P. has sold approximately 45 per cent of its expected combined Bruce A and B output for 2003, 40 per cent for 2004 and 30 per cent for 2005.

POWER – STRATEGY AND OUTLOOK

TransCanada will capitalize on opportunities resulting from industry changes and grow through the addition of new power supplies. TransCanada will continue its pursuit of operational excellence as new plants are added. Expansion of Northeastern U.S. Operations and Western Operations will continue with a balanced portfolio of short-term marketing around existing operations and new opportunities combined with medium- to long-term sales to industrial customers. TransCanada will continue to market power generation to maximize the value of the portfolio of power assets and strengthen cash flows. The company will evaluate additional acquisition opportunities of various sizes in target markets that are consistent with its strategy, directly or through Power LP.

Power continues to have significant opportunities for growth in both the near and long term. The current state of the power industry provides both opportunities and challenges to TransCanada. A combination of acquisitions, greenfield developments and further expansions of its existing businesses will allow Power to grow in a way that will optimize the asset mix. TransCanada expects to encounter challenges including reduced power prices, higher input prices, and construction risks of new plants. In order to overcome these challenges, potential acquisition opportunities will include plants of varying fuel sources, such as the Bruce nuclear plant, to provide greater diversification in the company's asset portfolio. TransCanada will draw on the company's technical expertise and business models that have proved successful to date for new development projects. In addition, it will leverage off its market knowledge in the Alberta and New England deregulated markets as TransCanada increases its presence in Ontario.

The Ontario electricity market officially opened, at both wholesale and retail levels, on May 1, 2002. However, in November 2002, the government revised the marketplace through both statutes and regulations. Currently, rates for small consumers are capped at a maximum cost of 4.3 cents per kilowatt hour of power. This cap does not affect the wholesale market where TransCanada is primarily focused. The average wholesale price per kilowatt hour from May 2002 to February 2003 was approximately 30 per cent higher than the small consumer capped rate.

The net earnings from the Power business in 2003 are expected to be slightly higher than 2002 primarily due to TransCanada's investment in the Bruce, ManChief and Bear Creek power plants. Power will continue to seek opportunities to enhance its solid base earnings from the remainder of the generation supply business through active marketing and management of its entire portfolio mix. Earnings opportunities may be limited due to factors such as fluctuating gas costs, regulatory changes, weather, lack of price volatility, plant availability and overall stability of the power industry. In terms of growing its generation portfolio, Power will look for investments that will continue to provide stable, predictable cash flows through substantially contracted revenue streams or electricity generation at the low end of the cost dispatch curve.

BRUCE POWER L.P.

In February 2003, TransCanada acquired a 31.6 per cent share of Bruce Power L.P., which owns the Bruce nuclear power plant located near Lake Huron, Ontario. This investment indirectly increased TransCanada's nominal generating capacity by 992 MW, and an additional 486 MW is expected to be restarted and on-line in mid-2003.

POWER – BUSINESS RISKS

Plant Availability Maintaining plant availability is critical to the continued success of the Power business and this risk is mitigated through a commitment to excellent operating performance at each of its power plants. This same commitment will be applied in 2003 and future years. Unexpected plant outages may, however, require purchases at market prices to enable TransCanada to meet the company's contractual power supply obligations.

Fluctuating Market Prices TransCanada operates in highly competitive markets that are driven mainly by price. Volatility in electricity prices is caused by market factors such as power plant fuel costs and fluctuating supply and demand which are greatly affected by weather, consumer usage and plant availability. These inherent market risks are managed through the use of long-term purchase and sales contracts for both electricity and plant fuels, control over generation output, matching physical plant contracts or PPA supply with customer demand, fee-for-service managed accounts rather than direct commodity exposure, and TransCanada's overall risk management program with respect to general market and counterparty risks. The company's risk management practices are described in the section on Risk Management and in Note 13 to the Consolidated Financial Statements.

Regulatory As the electricity markets evolve across North America, there is the potential for regulatory bodies to implement new rules that could negatively impact TransCanada as a generator and as a marketer. These may be in the form of price caps or attempts to control the wholesale market by encouraging new plant construction. TransCanada continues to monitor regulatory issues as well as participate in and lead discussions around these topics.

Weather Demand fluctuations caused by changes in temperature and weather patterns may create power price volatility and may have an earnings impact due to TransCanada's requirements under certain long-term supply arrangements. Seasonal changes in temperature also affect the efficiency and output capability of natural gas-fired power plants. In addition, the seasonality of water flows on the Hudson River impacts the output and related earnings from the Curtis Palmer hydroelectric facility.

Uncontracted Volumes Although TransCanada seeks to secure sales under medium- to long-term contracts, TransCanada generally retains a small amount of unsold generation in the short term in order to provide flexibility in managing the portfolio of assets. The potential sale of this power in the open market is subject to market price volatility. Through the use of PPAs and other marketing arrangements, TransCanada has sold almost all of its expected power supply in 2003 and 70 to 80 per cent for the years 2004 to 2006.

Corporate

HIGHLIGHTS

Lower Net Expenses Net expenses in 2002 decreased \$15 million or 22 per cent from 2001.

Cost Reductions In 2002, the company continued to reduce general and administrative costs related to discontinued operations.

CORPORATE RESULTS-AT-A-GLANCE

Year ended December 31	2002	2001	2000
<i>(millions of dollars)</i>			
General and administrative costs related to discontinued operations	4	13	18
Indirect financial and preferred equity charges	64	62	111
Interest income and other	(16)	(8)	(49)
Net expenses, after tax	52	67	80

The Corporate segment reflects net expenses not allocated to specific business segments, including:

- **General and Administrative Costs Related to Discontinued Operations** Corporate overhead costs related to discontinued operations remain in the Corporate segment.
- **Indirect Financial and Preferred Equity Charges** Direct financial charges are reported in their respective business segments and are primarily associated with the debt and preferred securities related to the wholly-owned pipelines. Indirect financial charges primarily reside in the Corporate segment. These costs are directly impacted by the amount of debt TransCanada maintains and the degree to which TransCanada is impacted by fluctuations in interest rates.
- **Interest Income and Other** Interest income is earned on invested cash balances.

Net expenses, after tax, in the Corporate segment, were \$52 million in 2002 compared to \$67 million in 2001 and \$80 million in 2000.

The decrease in 2002 from 2001 is primarily due to lower general and administrative expenses to support discontinued operations and the positive impact of lower interest rates offset by increased Corporate financial charges resulting from the Fair Return decision. The decrease in 2001 from 2000 is primarily due to lower financial and preferred equity charges as a result of lower net debt balances and the redemption of preferred securities, partially offset by tax recoveries of \$28 million recorded in 2000 to reflect the impact of tax law and income tax rate changes. Financial charges in 2001 reflect a full year's impact of the 2000 debt reductions as well as additional debt reductions in 2001.

Results for 2001 and 2000 included an adjustment of \$5 million and \$(2) million to foreign currency gains/(losses), respectively, reflecting the January 1, 2002 required retroactive adoption of an accounting change issued by the Canadian Institute of Chartered Accountants (CICA) related to foreign currency translation. There was no impact as a result of this accounting change in 2002.

Liquidity and Capital Resources

HIGHLIGHTS

Funds Flow Increase Funds generated from continuing operations increased \$203 million or 13 per cent in 2002 compared to 2001.

Sustained Growth Total capital expenditures including acquisitions have exceeded \$3.0 billion over the past three years.

Debt Reduction The company's repayment of long-term debt and redemption of preferred shares and securities has exceeded \$4.0 billion over the past three years.

Dividend Increase TransCanada's Board of Directors has increased quarterly common share dividend payments for the past three consecutive years, including an eight per cent increase from \$0.25 to \$0.27 for the quarter ended March 31, 2003.

Funds Generated from Operations Funds generated from continuing operations were \$1.8 billion for the year ended December 31, 2002 compared with \$1.6 billion and \$1.5 billion for 2001 and 2000, respectively. The Transmission business was the primary source of funds generated from operations for each of the three years.

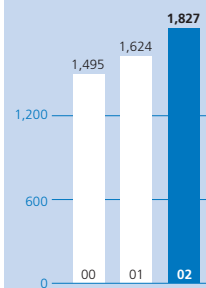
The company also reduced long-term debt, preferred shares and securities in each of the past three years. TransCanada's ability to generate adequate amounts of cash in the short term and the long term when needed, and to maintain financial capacity and flexibility to provide for planned growth, remained as strong at December 31, 2002 as in the past few years.

Investing Activities Capital expenditures, excluding acquisitions, totalled \$599 million in 2002 compared to \$492 million and \$812 million in 2001 and 2000, respectively. Expenditures in all three years related primarily to maintenance and capacity capital in TransCanada's Transmission business and construction of new power plants in Alberta.

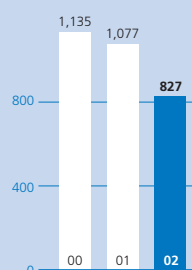
During 2002, TransCanada acquired the ManChief power plant for \$209 million and a general partnership interest in NBPLP for \$19 million. During 2001, TransCanada acquired the Curtis Palmer Hydroelectric Company, L.P. for \$438 million, and through a partnership, effectively acquired 50 per cent of the rights and obligations of the 706 MW Sundance B PPA for \$110 million.

TransCanada's 2001 and 2000 investing activities also include proceeds of \$1.17 billion and \$2.23 billion, respectively, from the sale of non-core assets under the company's divestiture plans.

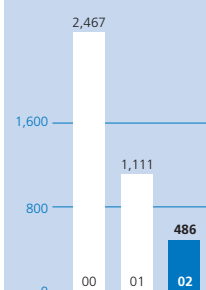
Financing Activities TransCanada used a portion of its cash resources to repay debt maturities of \$486 million and reduce notes payable by \$46 million in 2002 and repay debt maturities of \$793 million and redeem preferred securities of \$318 million in 2001. In 2001, TransCanada increased notes payable by \$186 million. In 2000, TransCanada used proceeds on disposition of assets, together with cash flow from operations, to repurchase or redeem approximately \$2.5 billion in long-term debt and preferred shares and reduce notes payable by \$25 million. Dividends and preferred securities charges amounting to \$546 million were paid in 2002 compared to \$517 million and \$536 million in 2001 and 2000, respectively.



FUNDS GENERATED FROM CONTINUING OPERATIONS
(millions of dollars)



CAPITAL EXPENDITURES INCLUDING ACQUISITIONS
(millions of dollars)



LONG-TERM DEBT REPAYED AND PREFERRED SHARES AND SECURITIES REDEEMED
(millions of dollars)

In January 2003, TransCanada's Board of Directors approved an increase in the quarterly common share dividend payment from \$0.25 per share to \$0.27 per share for the quarter ended March 31, 2003. This was the third consecutive year of dividend increase. In January 2002, TransCanada's Board of Directors approved an increase in the quarterly common share dividend payment from \$0.225 per share to \$0.25 per share for the quarter ended March 31, 2002. In January 2001, TransCanada's Board of Directors approved an increase from \$0.20 per share to \$0.225 per share for the quarter ended March 31, 2001.

Net cash used in financing activities includes TransCanada's proportionate share of the net reduction in non-recourse debt of joint ventures amounting to \$36 million in 2002 compared to \$109 million in 2001. Net cash provided by non-recourse joint venture debt activities was \$122 million in 2000.

Credit Activities In 2002, TransCanada filed shelf prospectuses in Canada and the U.S. qualifying for issuance \$2 billion of common shares, preferred shares and/or debt securities including medium-term notes and US\$1 billion of common shares, preferred shares and/or debt securities, respectively. Any offer to sell securities under these shelf prospectuses will only be made by means of prospectus supplements filed with the appropriate securities regulatory authorities.

In December 2002, TransCanada established a new \$1.5 billion syndicated credit facility, replacing existing lines set to expire in mid-2003. The new facility is comprised of a \$1.0 billion tranche with a three-year term and a \$500 million tranche with a 364-day term with a two-year term out option. Both tranches are extendible on an annual basis and are revolving unless during a term out period.

At December 31, 2002, TransCanada had total credit facilities of \$2.0 billion which support the company's commercial paper program and general corporate purposes. At December 31, 2002, the company had used approximately \$269 million of its total lines of credit for letters of credit to support its ongoing commercial arrangements.

Credit ratings on the company's senior unsecured debt assigned by Dominion Bond Rating Service Limited (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's are currently A, A2 and A-, respectively. On December 23, 2002, Standard & Poor's placed its rating of TransCanada's senior unsecured debt on 'CreditWatch' with negative implications. DBRS and Moody's continue to maintain a 'stable' outlook.

Obligations and Commitments Total long-term debt at December 31, 2002 was \$9.3 billion compared to \$9.8 billion at December 31, 2001. TransCanada's share of total non-recourse debt of joint ventures at December 31, 2002 was \$1.3 billion, consistent with the prior year-end. Total notes payable, including those of joint ventures, at December 31, 2002 were \$297 million compared to \$343 million at December 31, 2001. The debt and notes payable of joint ventures are non-recourse to TransCanada. The security provided by each joint venture is limited to the rights and assets of that joint venture and does not extend to the rights and assets of TransCanada, except to the extent of TransCanada's investment.

At December 31, 2002, mandatory retirements resulting from maturities and sinking fund obligations related to long-term debt and the company's proportionate share of the non-recourse debt of joint ventures are as follows.

MANDATORY RETIREMENTS

Year ended December 31	2003	2004	2005	2006	2007	2008+
<i>(millions of dollars)</i>						
Long-term debt	517	386	375	453	621	6,980
Non-recourse debt of joint ventures	75	42	462	26	24	668
Total retirements	592	428	837	479	645	7,648

At December 31, 2002, future annual payments, net of sub-lease receipts, for the next five years under operating leases for various premises are approximately as follows.

OPERATING LEASE PAYMENTS

Year ended December 31	2003	2004	2005	2006	2007
<i>(millions of dollars)</i>					
Minimum lease payments	27	25	25	24	22
Amounts recoverable under sub-leases	(9)	(7)	(7)	(7)	(6)
Net payments	18	18	18	17	16

The company will fund its pension plans during 2003 in an amount that is expected to be approximately double the \$54 million contributed during 2002. This increased funding is due to investment performance in 2002 below long-term expectations, continued reductions in discount rates used to calculate plan liabilities, and one-time plan design changes.

At December 31, 2002, TransCanada held a 35.6 per cent interest in Power LP which is a publicly-held limited partnership. On June 30, 2017, the partnership will redeem all units outstanding, not held directly or indirectly by TransCanada, at their then fair market value, being the average of the fair market values assigned thereto by independent valuers, plus all declared and unpaid distributions of distributable cash thereon (the Redemption Price). The Redemption Price will be satisfied by TransCanada in cash or, at the election of TransCanada, in common shares of TransCanada or a combination of cash and common shares.

TransCanada has established a \$50 million operating line of credit to Power LP, available on a revolving basis. As at December 31, 2002, the amount borrowed against this line of credit was \$37 million compared to \$16 million at December 31, 2001.

At December 31, 2002, TransCanada held a 33.4 per cent interest in TC PipeLines, LP which is a publicly-held limited partnership. On May 28, 2001, TC PipeLines, LP renewed its \$40 million unsecured two-year revolving credit facility (TransCanada Credit Facility) with a subsidiary of TransCanada. At December 31, 2002 and 2001, the partnership had no amount outstanding under the TransCanada Credit Facility.

The company had no outstanding guarantees related to the long-term debt of unrelated third parties at December 31, 2002. TransCanada and its affiliates have long-term natural gas transportation and natural gas purchase arrangements as well as other purchase obligations, all of which are or were transacted at market prices and in the normal course of business.

TransCanada has guaranteed the equity undertaking of a subsidiary which supports the payment of debt obligations of TransGas, in the event a change of law would result in insufficient funds in TransGas to pay the interest and principal on its public US\$206 million debt obligations. The company has an indirect 46.5 per cent interest in TransGas. Under the terms of the agreement, the company severally, with another major multinational company, may be required to fund more than its proportionate share of debt obligations of TransGas in the event that the minority shareholders fail to contribute. Any payments made by TransCanada under this agreement convert into shares of TransGas. The potential exposure is contingent on the impact of any change of law on TransGas' ability to service the debt. From the issuance of the debt in 1995 to date, there has been no change in applicable law and thus no exposure to TransCanada. The debt matures in 2010. The company has made no provision related to this guarantee.

Upon the acquisition of Bruce Power L.P., the Consortium members guaranteed on a several, pro-rata basis certain contingent financial obligations of Bruce Power L.P. related to operator licences, the lease agreement, power sales agreements and contractor services. TransCanada's share of the net exposure under these guarantees at the time of closing was estimated to be approximately \$260 million.

Contingencies The California Attorney General has filed a complaint for civil penalties in California Superior Court under the California Business and Professions Code.

The complaint alleges that certain TransCanada subsidiaries and affiliates engaged in sales or purchases of electricity in California for which they failed to comply with the filing requirements of the Federal Power Act and FERC orders. TransCanada believes the actions of its subsidiaries and affiliates were in compliance with the Federal Power Act and FERC requirements. TransCanada considers the complaint to be without merit and is vigorously defending it. The company has made no provision for any potential liability.

The Canadian Alliance of Pipeline Landowners' Associations and two individual landowners have commenced an action under Ontario's Class Proceedings Act, 1992, against TransCanada and Enbridge Inc. for damages alleged to arise from the creation of a control zone within 30 metres of the pipeline pursuant to section 112 of the NEB Act. The company believes the claim is without merit and will vigorously defend the action. The company has made no provision for any potential liability. A liability, if any, would be dealt with through the regulatory process.

The company and its subsidiaries are subject to various other legal proceedings and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material impact on the company's consolidated financial position or results of operations.

RISK MANAGEMENT

Risk Management Overview TransCanada and its subsidiaries are exposed to market, financial and counterparty risks in the normal course of their business activities. The risk management function assists in managing these various business activities and the risks associated with these activities. A strong commitment to a risk management culture by management supports this function. TransCanada's primary risk management objective is to protect earnings and cash flow and ultimately, shareholder value.

The risk management function is guided by the following principles that are applied to all businesses and risk types:

- **Board Oversight** Risk strategies, policies and limits are subject to Board of Directors' review and approval.
- **Independent Review** Risk-taking activities are subject to independent review, separate from the business lines that initiate the activity.
- **Assessment** Processes are in place to ensure that risks are properly assessed at the transaction and counterparty levels.
- **Review and Reporting** Risk profiles of counterparties are subjected to ongoing review and reporting to executive management.
- **Accountability** Business lines are accountable for all risks and the related returns for their particular businesses.
- **Audit Review** Individual risks are subject to internal audit review, with independent reporting to the Audit and Risk Management Committee of the Board of Directors.

The processes within TransCanada's risk management function are designed to ensure that risks are properly identified, quantified, reported and managed. Risk management strategies, policies and limits are designed to ensure TransCanada's risk-taking is consistent with its business objectives and risk tolerance. Risks are managed within limits ultimately established by the Board of Directors and implemented by senior management, monitored by risk management personnel and audited by internal audit personnel.

TransCanada manages market risk exposures in accordance with its corporate market risk policy and position limits. The company's primary market risks result from volatility in commodity prices, interest rates, foreign currency exchange rates and the failure of counterparties to meet contractual financial obligations.

Senior management reviews these exposures and reports to the Audit and Risk Management Committee of the Board of Directors regularly.

Power Marketing Price Risk Management In order to manage market risk exposures created by fixed and variable pricing arrangements at different pricing indices and delivery points, the company enters into offsetting physical positions and derivative financial instruments. Market risks are quantified using value-at-risk methodology and are reviewed weekly by senior management.

Financial Risk Management TransCanada monitors the financial market risk exposures relating to its investments in foreign currency denominated net assets, its regulated and non-regulated long-term debt portfolios and its foreign currency exposure on transactions. The market risk exposures created by these business activities are managed by establishing offsetting positions or through the use of derivative financial instruments.

The company's financial risk management practices are further described under Foreign Exchange and Interest Rate Management Activity in Note 13 to the Consolidated Financial Statements.

Counterparty Risk Management Counterparty risk entails a counterparty's ability to meet its obligations in a timely manner as outlined under the terms and conditions of its contracts. Counterparty risk is mitigated by conducting financial and other assessments to establish a counterparty's creditworthiness, setting exposure limits and monitoring exposures against these limits, and, where warranted, obtaining financial assurances.

The company's counterparty risk management practices and positions are further described under Credit Risk in Note 13 to the Consolidated Financial Statements.

Risks and Risk Management Related to the Kyoto Protocol Once the details of the Canadian government's implementation plans with respect to the Kyoto Protocol are clarified, TransCanada will be better able to assess the degree of impact to the company's business. Anything that adds costs to the company's services and products makes TransCanada less competitive. Studies suggest there could be a significant drop in WCSB oil and gas activity, thereby reducing throughputs on the company's pipeline system and substantially increasing the costs of doing business.

Over the past few years, working in partnership with energy producers and consumers on a voluntary basis, TransCanada's focus has been, and continues to be, on developing options for reducing greenhouse gas (GHG) emissions. This is being achieved through technical and operational improvements, driven in large part by improved fuel efficiency, cleaner combustion and the elimination of methane emissions. TransCanada's current position is that operating initiatives that reduce GHG at the source are more appropriate than other mechanisms.

Disclosure Controls and Procedures, and Internal Controls Pursuant to the Sarbanes-Oxley Act as adopted by the U.S. Securities and Exchange Commission, TransCanada's management evaluates the effectiveness of the design and operation of the company's disclosure controls and procedures (disclosure controls) and internal controls for financial reporting (internal controls). This evaluation is done under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

Disclosure controls are procedures designed to ensure that information required to be disclosed in reports filed with securities regulatory agencies is recorded, processed, summarized and reported on a timely basis, and that TransCanada's management, including the Chief Executive Officer and the Chief Financial Officer, can make timely decisions utilizing such information. Internal controls are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. The risk management controls provide significant support to the disclosure and internal controls.

Within 90 days prior to the filing of this Annual Report, TransCanada's management evaluated the effectiveness of disclosure controls and internal controls. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that:

- TransCanada's disclosure controls are effective in ensuring that material information relating to TransCanada is made known to management on a timely basis, and is included in this Annual Report;
- TransCanada's internal controls are effective in providing assurance that the consolidated financial statements for 2002 are fairly presented.

To the best of these officers' knowledge and belief, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date on which such evaluation was completed in connection with this Annual Report.

CRITICAL ACCOUNTING POLICY

The company accounts for the impacts of rate regulation in accordance with generally accepted accounting principles (GAAP) as outlined in Note 1 to the Consolidated Financial Statements. Three criteria must be met to use these accounting principles: the rates for regulated services or activities must be subject to approval by a regulator; the regulated rates must be designed to recover the cost of providing the services or products; and it must be reasonable to assume that rates set at levels to recover the cost can be charged to and will be collected from customers in view of the demand for services or products and the level of direct and indirect competition. Management believes that all three of these criteria have been met. The most significant impact from the use of these accounting principles is that in order to achieve a proper matching of revenues and expenses, the timing of recognition of certain expenses and revenues may differ from that otherwise expected under GAAP. The two most significant examples of this relate to the recording of income taxes on the taxes payable basis and the deferral of foreign exchange losses as outlined in the Consolidated Financial Statements' Note 14 and Note 8, respectively.

CRITICAL ACCOUNTING ESTIMATES

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the company's consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. TransCanada's critical accounting estimates are:

Deferred After-Tax Gains and Remaining Obligations Related to the Gas Marketing Business

TransCanada remains contingently liable pursuant to obligations under certain contracts that relate to the divested Gas Marketing business. In 2001, the company deferred recognition of after-tax gains on sales of approximately \$100 million which remain in the December 31, 2002 balance sheet provision for loss on discontinued operations. The company uses estimates to determine its exposure to these contracts. These estimates primarily relate to future market prices. This obligation is further described in Discontinued Operations.

Depreciation Expense TransCanada's plant, property and equipment are depreciated on a straight-line basis over their estimated useful lives. Depreciation expense for the year ended December 31, 2002 was \$848 million. Depreciation expense impacts the Transmission and Power segments of the company. In the Transmission business, depreciation rates are approved by the regulators and recoverable based on the cost of providing the services or products. A change in the estimation of the useful lives of the plant, property and equipment in the Transmission segment would therefore have no material impact on TransCanada's net income but would directly impact the funds generated from operations.

ACCOUNTING CHANGES

Price Risk Management In 2002, the company adopted accrual accounting for energy trading contracts in its continuing operations, changing from its previous policy of mark-to-market accounting for these contracts. This accounting change has been applied retroactively with restatement of prior periods. This change eliminates unrealized gains and losses on energy trading contracts recognized under mark-to-market accounting. See Note 2 to the Consolidated Financial Statements for the impact of this accounting change.

Foreign Currency Translation In 2002, TransCanada adopted the amendment to the CICA Handbook Section "Foreign Currency Translation". This amendment eliminates the deferral and amortization of unrealized translation gains and losses on foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of the fiscal year following the current reporting period. This accounting change was applied retroactively with restatement of prior periods. See Note 2 to the Consolidated Financial Statements for the impact of this accounting change.

Stock-Based Compensation In 2002, TransCanada adopted the new standard of the CICA Handbook Section "Stock-Based Compensation and Other Stock-Based Payments". This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. This standard allows companies to either expense, over the vesting period, the fair value of the stock options granted or to disclose this impact. The company has chosen to expense stock options. This new standard has been applied prospectively. See Note 2 to the Consolidated Financial Statements for the impact of this accounting change.

Disclosure of Guarantees In 2002, TransCanada adopted the new Accounting Guideline "Disclosure of Guarantees" issued by the Accounting Standards Board of the CICA that requires a guarantor to disclose significant information about guarantees it has provided, without regard to whether it will have to make any payments under the guarantees. See Note 18 to the Consolidated Financial Statements.

Hedging Relationships In November 2001, the Accounting Standards Board of the CICA issued an Accounting Guideline “Hedging Relationships” that establishes standards for the documentation and effectiveness of hedging relationships. These standards are substantially similar to the corresponding requirements under Statement of Financial Accounting Standards (SFAS) No. 133 which was adopted by the company for U.S. GAAP purposes, effective January 1, 2001. The company does not expect the new Canadian requirement to have a significant impact on its financial statements.

Disposal of Long-Lived Assets and Discontinued Operations In November 2002, the CICA issued a new Handbook Section “Disposal of Long-Lived Assets and Discontinued Operations”. This Section establishes new standards for the recognition, measurement, presentation and disclosure of the disposal of long-lived assets. It also establishes standards for the presentation and disclosure of discontinued operations, whether or not they include long-lived assets. This Section will be effective for the company on a prospective basis after May 1, 2003 and will not result in restatement of income for prior periods.

Impairment on Long-Lived Assets In November 2002, the CICA issued a new Handbook Section “Impairment on Long-Lived Assets”. This Section establishes new standards for the recognition, measurement and disclosure of the impairment of long-lived assets and establishes new write-down provisions. This Section will be effective for the company as of January 1, 2004 and is not expected to have a significant impact on the company’s financial statements.

Asset Retirement Obligations In January 2003, the CICA issued a new Handbook Section “Asset Retirement Obligations”. The new Section focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The Section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. The liability is accreted at the end of each period through charges to operating expenses. This Section will be effective for the company as of January 1, 2004 and is not expected to have a significant impact on the company’s financial statements.

Discontinued Operations

FINANCIAL REVIEW

In July 2001, the Board of Directors approved a plan to dispose of the company's Gas Marketing business. The Gas Marketing business provided supply, transportation and asset management services, as well as structured financial products and services, to its customers in Canada and the northern tier of the U.S. In December 1999, the Board of Directors approved a plan (December Plan) to dispose of the company's International, Canadian midstream and certain other businesses.

These businesses are accounted for as discontinued operations. The net income/(loss) and cash provided from/(used in) operations are presented as discontinued operations in the Consolidated Statements of Income and Cash Flows. The net assets of discontinued operations included in the Consolidated Balance Sheet are disclosed separately in Note 19 to the Consolidated Financial Statements.

The company's net income/(loss) from discontinued operations in 2002 is nil as the existing provision for loss on discontinued operations was reviewed by management and determined to be appropriate. Any adjustments to the estimate of the net loss on disposal will be recognized as a gain or loss from discontinued operations in the period that such changes are determined.

The company recorded a net loss from discontinued operations in 2001 of \$67 million. This amount includes a net loss of \$90 million based on management's estimates of proceeds and disposal costs and net earnings of \$3 million prior to plan approval, related to the Gas Marketing business. Also included in 2001 is a positive \$20 million after-tax adjustment to the December Plan.

The company recorded a net gain from discontinued operations in 2000 of \$61 million. This amount includes operating losses of \$139 million related to the Gas Marketing business prior to plan approval and a net gain of \$200 million related to the December Plan, primarily due to proceeds in excess of the original estimate.

TransCanada remains contingently liable pursuant to obligations under certain contracts that relate to the divested Gas Marketing business. In 2001, the company deferred recognition of after-tax gains on sales of approximately \$100 million. These deferred gains remain in the December 31, 2002 balance sheet provision for loss on discontinued operations and will be recognized in income from discontinued operations as the underlying exposures reduce. In accordance with the terms of these contracts and in the normal course of business, the underlying volumes related to the contracts are expected to decrease over time. The contingent liability under these obligations, which could be significant, is contingent on certain future events, the occurrence of which is not determinable, and the amount, if any, is dependent upon future prevailing market prices and conditions. The purchasers of the Gas Marketing business have agreed to indemnify TransCanada in the event the company is called upon to perform under the obligations.

SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

Quarterly consolidated financial data for the years ended December 31, 2002 and 2001 is found under the heading “Selected Quarterly and Annual Consolidated Financial Data” on page 78 in the Annual Report and is hereby incorporated by reference.

FORWARD-LOOKING INFORMATION

Certain information in this Management’s Discussion and Analysis is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include, among other things, the ability of TransCanada to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, regulatory decisions, competitive factors in the pipeline and power industry sectors, and the prevailing economic conditions in North America. For additional information on these and other factors, see the reports filed by TransCanada with Canadian securities regulators and with the U.S. Securities and Exchange Commission. TransCanada disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.