The Management's Discussion and Analysis (MD&A) dated February 22, 2007 should be read in conjunction with the audited Consolidated Financial Statements of TransCanada Corporation (TransCanada or the Company) and the notes thereto for the year ended December 31, 2006. This MD&A covers TransCanada's financial position and operations as at and for the year ended December 31, 2006. TransCanada's February 22, 2007 acquisition of American Natural Resources Company, and ANR Storage Company (collectively ANR), additional interests in Great Lakes Gas Transmission Partnership (Great Lakes) and related events, are summarized in the "Subsequent Events" section of this MD&A. Amounts are stated in Canadian dollars unless otherwise indicated. Abbreviations and acronyms used in this MD&A are identified in the Glossary of Terms in the Company's 2006 Annual Report.

CONSOLIDATED FINANCIAL REVIEW

SELECTED THREE YEAR CONSOLIDATED FINANCIAL DATA[(1)]
(millions of dollars except per share amounts)

	2006	2005	2004
Balance Sheet			
Total assets	**25,909**	24,113	22,422
Total long-term liabilities	**14,464**	13,012	12,403
Income Statement			
Revenues	**7,520**	6,124	5,497
Net income			
Continuing operations	**1,051**	1,209	980
Discontinued operations	**28**	–	52
Total net income	**1,079**	1,209	1,032
Per Common Share Data			
Net income – Basic			
Continuing operations	**$2.15**	$2.49	$2.02
Discontinued operations	**0.06**	–	0.11
	$2.21	$2.49	$2.13
Net income – Diluted			
Continuing operations	**$2.14**	$2.47	$2.01
Discontinued operations	**0.06**	–	0.11
	$2.20	$2.47	$2.12
Dividends declared	**$1.28**	$1.22	$1.16

(1) The selected three-year consolidated financial data is based on the Company's financial statements which are prepared in accordance with Canadian generally accepted accounting principles (GAAP). Certain comparative figures have been reclassified to conform with the current year's presentation.

HIGHLIGHTS

Balance Sheet

- In 2006, TransCanada's shareholders' equity increased by $0.5 billion to $7.7 billion.

Net Income

- In 2006, net income was $1,079 million or $2.21 per share compared to $1,209 million or $2.49 per share in 2005.

Net Earnings

- In 2006, TransCanada's net income from continuing operations (net earnings) was $1,051 million or $2.15 per share compared to $1,209 million or $2.49 per share in 2005.
- Excluding gains on sales of assets, TransCanada's net earnings increased $186 million in 2006 to $1,038 million or $2.12 per share compared to $852 million or $1.75 per share in 2005.

Investing Activities

- In 2006, TransCanada invested approximately $2.0 billion in its Pipelines and Energy businesses.
- In February 2007, the Company closed the acquisition of ANR and an additional 3.55 per cent interest in Great Lakes for approximately US$3.4 billion, subject to certain post-closing adjustments, including approximately US$488 million of assumed long-term debt.
- In February 2007, TC PipeLines, LP (PipeLines LP) closed its acquisition of a 46.45 per cent interest in Great Lakes for approximately US$962 million, subject to certain post-closing adjustments, including approximately US$212 million of assumed long-term debt.

Financing Activities

- In 2006, TransCanada issued $2.1 billion of long-term debt.
- In January 2007, the Company filed a short form shelf prospectus in Canada and the U.S. to allow for the offering of up to $3.0 billion of common shares, preferred shares and/or subscription receipts.
- In February 2007, the Company sold 39,470,000 subscription receipts at a price of $38.00 each. The gross proceeds of approximately $1.5 billion were used to partially finance the ANR acquisition. TransCanada granted the underwriters of the subscription receipts offering an option to purchase an additional 5,920,500 common shares at a price of $38.00 at any time up to and including March 16, 2007.
- In February 2007, the Company entered into agreements for a US$2.2 billion one-year bridge loan facility and, through a wholly owned subsidiary, for a new US$1.0 billion credit facility. The Company utilized $1.5 billion and US$1.8 billion from these and existing facilities to partially finance the ANR acquisition as well as additional interests in PipeLines LP, described below. A portion of these advances were repaid on February 23, 2007 with proceeds from the subscription receipt offering.
- In February 2007, PipeLines LP increased the size of its syndicated revolving credit and term loan agreement to US$950 million. Draws of US$126 million under this agreement were used to partially finance PipeLines LP's Great Lakes acquisition.
- In February 2007, PipeLines LP completed a private placement offering of 17,356,086 common units at a price of US$34.57 per unit. TransCanada acquired 50 per cent of the units for US$300 million and invested an additional approximately US$12 million to maintain its general partner interest, increasing its total ownership to 32.1 per cent. The total private placement resulted in gross proceeds of approximately US$612 million which were used to partially finance PipeLines LP's Great Lakes acquisition.

Dividend

- On January 29, 2007, the Board of Directors of TransCanada increased the quarterly dividend on the Company's outstanding common shares for the quarter ending March 31, 2007 by six per cent to $0.34 per share from $0.32 per share. This is the seventh consecutive annual increase in the common share dividend.
- In January 2007, TransCanada's Board of Directors authorized the issue of common shares from treasury at a two per cent discount under the Company's Dividend Reinvestment and Share Purchase Plan (DRP), beginning with the dividend payable April 30, 2007 to shareholders of record at March 30, 2007.

SEGMENT RESULTS-AT-A-GLANCE
Year ended December 31 (millions of dollars)

	2006	2005	2004
Pipelines Net Earnings			
Excluding gains	**547**	630	577
Gain on sale of Northern Border Partners, L.P. interest	**13**	–	–
Gain on sale of PipeLines LP units	**–**	49	–
Gain on sale of Millennium	**–**	–	7
	560	679	584
Energy Net Earnings			
Excluding gains	**452**	258	211
Gain on sale of Paiton Energy	**–**	115	–
Gains related to Power LP	**–**	193	187
	452	566	398
Corporate	**39**	(36)	(2)
Net Income			
Continuing Operations(1)	**1,051**	1,209	980
Discontinued Operations	**28**	–	52
	1,079	1,209	1,032
Net Income Per Share			
Continuing Operations(2)	**$2.15**	$2.49	$2.02
Discontinued Operations	**0.06**	–	0.11
Basic	**$2.21**	$2.49	$2.13

(1)**Net Income from Continuing Operations:**			
Excluding gains	**1,038**	852	786
Gains as noted above	**13**	357	194
	1,051	1,209	980
(2)**Net Income Per Share from Continuing Operations:**			
Excluding gains	**$2.12**	$1.75	$1.62
Gains as noted above	**0.03**	0.74	0.40
	$2.15	$2.49	$2.02

RESULTS OF OPERATIONS

Effective June 1, 2006, TransCanada revised the composition and names of its reportable business segments to Pipelines and Energy. The financial reporting of these segments was aligned to reflect the internal organizational structure of the Company. Pipelines principally comprises the Company's pipelines in Canada, the U.S. and Mexico. Energy includes the Company's power operations, natural gas storage business and liquefied natural gas (LNG) projects in Canada and the U.S. The segmented information has been retroactively reclassified to reflect the changes in reportable segments. These changes had no impact on consolidated net income.

Net income for the year ended December 31, 2006 was $1,079 million or $2.21 per share compared to $1,209 million or $2.49 per share for 2005 and $1,032 million or $2.13 per share for 2004. This includes net income from discontinued operations of $28 million or $0.06 per share in 2006, reflecting bankruptcy settlements with Mirant Corporation and certain of its subsidiaries (Mirant) related to TransCanada's Gas Marketing business divested in 2001. Income from discontinued operations of $52 million or $0.11 per share in 2004 reflects income recognized on initially deferred gains relating to Mirant.

Net earnings for the year ended December 31, 2006 were $1,051 million or $2.15 per share compared to $1,209 million or $2.49 per share in 2005 and $980 million or $2.02 per share in 2004. Net earnings for 2006 included after-tax gains of $13 million from the sale of TransCanada's general partner interest in Northern Border Partners, L.P. Net earnings for 2005 included after-tax gains of $193 million on the sale of the Company's interest in TransCanada Power, L.P. (Power LP), $115 million on the sale of the Company's interest in P.T. Paiton Energy Company (Paiton Energy) and $49 million on the sale of PipeLines LP units.

Excluding gains of $13 million in 2006 and $357 million in 2005, net earnings in 2006 were $1,038 million or $2.12 per share, an increase of $186 million or $0.37 per share compared to 2005. This increase was mainly due to higher net earnings in Energy and Corporate, partially offset by decreased net earnings in Pipelines.

Excluding the gains on sale of the Northern Border Partners, L.P. interest in 2006 and the PipeLines LP units in 2005, net earnings in the Pipelines business decreased $83 million in 2006 compared to 2005. The decrease was primarily due to lower net earnings from the Canadian Mainline and the Alberta System as a result of lower approved rates of return on common equity (ROE) and lower average investment bases in 2006 compared to 2005. In addition, the Company's Other Pipelines businesses and the Gas Transmission Northwest System and the North Baja system (collectively GTN) experienced lower earnings in 2006.

Excluding the gain on the sale of Paiton Energy and gains related to the Company's investment in Power LP in 2005, Energy's net earnings for 2006 increased $194 million compared to 2005 as a result of higher operating income from each of its existing businesses as well as a $23-million favourable impact on future income taxes arising from reductions in Canadian federal and provincial income tax rates in 2006. These increases were partially offset by a loss of operating income associated with the sale of Power LP in 2005.

The increase in Corporate's net earnings in 2006 of $75 million compared to 2005 was primarily due to $72 million of positive income tax adjustments in 2006.

Net earnings increased $229 million or $0.47 per share in 2005 compared to 2004. The increase was primarily due to the inclusion of gains of $357 million or $0.74 per share in 2005 compared to gains of $194 million or $0.40 per share in 2004. Excluding gains, Pipeline's net earnings increased due to the inclusion of a full year of earnings from GTN in 2005 and the positive impact on earnings of a National Energy Board (NEB) decision to increase the Canadian Mainline's common equity component in its deemed capital structure. This was partially offset by the Canadian Mainline's lower average investment base, lower earnings related to operating cost savings, a decrease in the approved ROE and lower net earnings from the Company's Other Pipelines' businesses in 2005. Energy's net earnings, excluding gains, increased in 2005, compared to 2004, primarily due to higher operating income from Bruce Power A L.P. (Bruce A) and Bruce Power L.P. (Bruce B) (collectively Bruce Power), and Eastern Power Operations. A lower contribution from Western Power Operations and higher general administrative, support costs and other also reduced Energy's net earnings in 2005 compared to 2004. Corporate's net expenses increased in 2005 compared to 2004, primarily due to increased net interest expense on higher average long-term debt and commercial paper balances in 2005.