

## ACCOUNTING CHANGES

### FUTURE ACCOUNTING CHANGES

#### *Rate-Regulated Operations*

Effective January 1, 2009, the temporary exemption from CICA Handbook Section 1100 "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation, was withdrawn. In addition, Section 3465 "Income Taxes" was amended to require the recognition of future income tax assets and liabilities for rate-regulated entities. The Company has chosen to adopt accounting policies consistent with the U.S. Financial Accounting Standards Board's Financial Accounting Standard (FAS) 71 "Accounting for the Effects of Certain Types of Regulation". Accordingly, TransCanada will retain its current method of accounting for its rate-regulated operations, except that TransCanada will be required to recognize future income tax assets and liabilities instead of using the taxes payable method, and will record an offsetting adjustment to regulatory assets and liabilities. If the Company had adopted FAS 71 at December 31, 2008, additional future income tax liabilities and a regulatory asset in the amount of \$1,434 million would have been recorded and would have been recoverable from future revenue. These changes will be applied retrospectively without restatement beginning January 1, 2009.

#### *Intangible Assets*

The CICA Handbook implemented revisions to standards dealing with intangible assets effective for fiscal years beginning on or after October 1, 2008. The revisions are intended to align the definition of an intangible asset in Canadian GAAP with that in International Financial Reporting Standards (IFRS) and U.S. GAAP. CICA Handbook Section 1000 "Financial Statement Concepts" was revised to remove material that permitted the recognition of assets that might not otherwise meet the definition of an asset and to add guidance from the International Accounting Standards Board's (IASB) "Framework for the Preparation and Presentation of Financial Statements" that helps distinguish assets from expenses. CICA Handbook Section 3064 "Goodwill and Intangible Assets", which replaced CICA Handbook Section 3062 "Goodwill and Other Intangible Assets", gives guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. In addition, CICA Handbook Section 3450 "Research and Development Costs" will be withdrawn from the Handbook. The Company does not expect these changes to have a material effect on its financial statements.

#### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

CICA Handbook Section 1582 "Business Combinations" is effective for business combinations with an acquisition date after January 1, 2011. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. Adopting this standard is expected to have a material effect on the way the Company accounts for future business combinations. Entities adopting Section 1582 will also be required to adopt CICA Handbook Sections 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests". These standards will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders' equity on the balance sheet. In addition, the income statement of the controlling parent will include 100 per cent of the subsidiary's results and present the allocation between the controlling interest and non-controlling interest. These standards will be effective January 1, 2011, with early adoption permitted. The changes resulting from adopting Section 1582 will be applied prospectively and the changes from adopting Sections 1601 and 1602 will be applied retrospectively.

#### *International Financial Reporting Standards*

The CICA's Accounting Standards Board announced that Canadian publicly accountable enterprises are required to adopt IFRS, as issued by the IASB, effective January 1, 2011. In June 2008, the Canadian Securities Administrators proposed that Canadian public companies that are SEC registrants, such as TransCanada, retain the option to prepare their financial statements under U.S. GAAP instead of IFRS. In November 2008, the SEC issued for public comment a recommendation that, beginning in 2014, U.S. issuers be required to adopt IFRS using a phased-in approach based on market capitalization.

TransCanada is currently considering the impact a conversion to IFRS or U.S. GAAP would have on its accounting systems and financial statements. TransCanada's conversion project planning includes an analysis of project structure and governance, resources and training, analysis of key GAAP differences and a phased approach to the assessment of current accounting policies and implementation. The current status of the key elements of TransCanada's conversion project is as follows:

#### *Project Structure and Governance*

A Steering Committee and an Implementation Committee have been established to provide directional leadership for the conversion project and to assist in developing accounting policy recommendations. These are multi-disciplinary committees and include representatives from Accounting, Information Technology, Treasury, Investor Relations, Human Resources and Operations. Management updates the Audit Committee at least quarterly on the status of the project.

#### *Resources and Training*

TransCanada's conversion project team has been assembled and will support the conversion effort through project leadership, training, issue identification, technical research, policy recommendations, work group leadership and implementation support.

TransCanada's IFRS training plan was developed and introduced in 2008. The first stage of the training has been completed and included IFRS project awareness sessions and a comprehensive IFRS immersion course. Later phases of the project will include more directed technical and implementation training relating to new accounting policies, procedures and processes. Throughout the project, IFRS training will be offered on a regular basis to ensure that TransCanada staff remains current with respect to new IFRS developments.

#### *Analysis of Significant GAAP Differences*

The project team is currently assessing the differences between Canadian GAAP and IFRS. TransCanada's conversion project is being executed using a risk-based methodology focusing on the significant differences between Canadian GAAP and IFRS. A high-level diagnostic was completed in 2008 outlining the significant differences and rating each option based on its significance to TransCanada. In making this assessment, the technical accounting complexity, availability of policy choices, estimated need for conversion resources and impact on systems were considered. The differences between Canadian and US GAAP have already been identified in the Company's U.S. GAAP reconciliation. The most significant differences under the IFRS and U.S. GAAP conversion options were identified as follows:

#### **IFRS**

Converting to IFRS would have a significant impact on TransCanada's rate-regulated operations, property plant and equipment, employee benefits, income taxes, financial statement disclosure and the initial adoption of IFRS in accordance with IFRS 1 "First-Time Adoption of IFRS".

Project work groups are currently conducting a detailed analysis of the significant differences identified to date and assessing the impact they could have on TransCanada's financial reporting, information systems and internal controls over financial reporting. Less significant differences will be assessed starting in 2009. Under existing Canadian GAAP, TransCanada follows specific accounting policies unique to rate-regulated businesses. TransCanada is actively monitoring ongoing discussions and developments at the IASB regarding potential future guidance to clarify the applicability of certain aspects of rate-regulated accounting under IFRS. The IASB is expected to issue a proposed standard for rate-regulated businesses in 2009.

Several IFRS standards are in the process of being amended by the IASB. Amendments to existing standards are expected to continue until the transition date of January 1, 2011. TransCanada actively monitors the IASB's schedule of projects, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and Canadian GAAP.

At the current stage of the project, TransCanada cannot reasonably determine the full impact that adopting IFRS would have on its financial position and future results. In addition, developments with respect to specific rate-regulated

accounting guidance under IFRS could have a significant effect on the scope of the project and on TransCanada's financial results.

### U.S. GAAP

As an SEC registrant, TransCanada is currently required to prepare and file a reconciliation from Canadian GAAP to U.S. GAAP. The differences that have the most significant impact on TransCanada, as outlined in the reconciliation, include valuation of proprietary natural gas inventory held in storage, measurement of the deficit or surplus of defined benefit pension plans and recognition of deferred tax liabilities for TransCanada's rate-regulated business. As previously noted, effective January 1, 2009, the U.S. GAAP difference with respect to recognition of deferred tax liabilities for TransCanada's rate-regulated businesses will be eliminated.

<b>SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA<sup>(1)</sup></b>				
	<b>2008</b>			
<i>(unaudited)</i> <i>(millions of dollars except per share amounts)</i>	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
Revenues	<b>2,332</b>	<b>2,137</b>	<b>2,017</b>	<b>2,133</b>
Net Income	<b>277</b>	<b>390</b>	<b>324</b>	<b>449</b>
Share Statistics				
Net income per share – Basic	<b>\$0.47</b>	<b>\$0.67</b>	<b>\$0.58</b>	<b>\$0.83</b>
Net income per share – Diluted	<b>\$0.46</b>	<b>\$0.67</b>	<b>\$0.58</b>	<b>\$0.83</b>
Dividend declared per common share	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$0.36</b>
	<b>2007</b>			
<i>(unaudited)</i> <i>(millions of dollars except per share amounts)</i>	Fourth	Third	Second	First
Revenues	2,189	2,187	2,208	2,244
Net Income	377	324	257	265
Share Statistics				
Net income per share – Basic	\$0.70	\$0.60	\$0.48	\$0.52
Net income per share – Diluted	\$0.70	\$0.60	\$0.48	\$0.52
Dividend declared per common share	\$0.34	\$0.34	\$0.34	\$0.34

<sup>(1)</sup> The selected quarterly consolidated financial data has been prepared in accordance with Canadian GAAP.

### Factors Impacting Quarterly Financial Information

In Pipelines, which consists primarily of the Company's investments in regulated pipelines and regulated natural gas storage facilities, annual revenues and net earnings fluctuate over the long term based on regulators' decisions and negotiated settlements with shippers. Generally, quarter-over-quarter revenues and net earnings during any particular fiscal year remain relatively stable with fluctuations resulting from adjustments being recorded due to regulatory decisions and negotiated settlements with shippers, seasonal fluctuations in short-term throughput volumes on U.S. pipelines, acquisitions and divestitures, and developments outside of the normal course of operations.

In Energy, which consists primarily of the Company's investments in electrical power generation plants and non-regulated natural gas storage facilities, quarter-over-quarter revenues and net earnings are affected by seasonal weather conditions, customer demand, market prices, planned and unplanned plant outages, acquisitions and divestitures, and developments outside of the normal course of operations.