CONSOLIDATED FINANCIAL REVIEW

SELECTED THREE YEAR CONSOLIDATED FINANCIAL DATA
(millions of dollars, except per share amounts)

	2008	2007	2006
Income Statement			
Revenues	**8,619**	8,828	7,520
Net income			
Continuing operations	**1,440**	1,223	1,051
Discontinued operations	**–**	–	28
	1,440	1,223	1,079
Comparable earnings[1]	**1,279**	1,100	925
Per Common Share Data			
Net income – basic			
Continuing operations	**$2.53**	$2.31	$2.15
Discontinued operations	**–**	–	0.06
	$2.53	$2.31	$2.21
Net income – diluted			
Continuing operations	**$2.52**	$2.30	$2.14
Discontinued operations	**–**	–	0.06
	$2.52	$2.30	$2.20
Comparable earnings per share[1]	**$2.25**	$2.08	$1.90
Dividends declared	**$1.44**	$1.36	$1.28
Summarized Cash Flow			
Funds generated from operations[1]	**3,021**	2,621	2,378
(Increase)/decrease in operating working capital	**(181)**	215	(303)
Net cash provided by operations	**2,840**	2,836	2,075
Balance Sheet			
Total assets	**39,414**	30,330	25,909
Total long-term liabilities	**20,392**	16,511	14,464

[1] Refer to the "Non-GAAP Measures" section of this MD&A for further discussion of comparable earnings, comparable earnings per share and funds generated from operations.

HIGHLIGHTS

Net Income

- Net income was $1,440 million or $2.53 per share in 2008 compared to net income of $1,223 million or $2.31 per share in 2007.

Comparable Earnings

- TransCanada's comparable earnings of $1,279 million in 2008 excluded $152 million of gains from bankruptcy settlements with certain subsidiaries of Calpine Corporation (Calpine), proceeds of $10 million from a lawsuit settlement, a $27 million writedown of costs for the Broadwater LNG project (Broadwater) and $26 million of favourable income tax adjustments. Comparable earnings of $1,100 million in 2007 excluded favourable income tax adjustments of $102 million, a gain of $14 million on the sale of land and $7 million of net unrealized gains from changes in the fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts.

Cash from Operations

- Net cash provided by operations was $2,840 million in 2008, an increase of $4 million from 2007.
- Funds generated from operations were $3,021 million in 2008, an increase of $400 million or 15 per cent from 2007.

Investing Activities

- TransCanada invested $6.4 billion in its Pipelines and Energy businesses in 2008, including the following:
  - the acquisition of the Ravenswood facility in August 2008 for US$2.9 billion, subject to certain post-closing adjustments;
  - capital expenditures of $1.8 billion for Pipelines projects, including Keystone and North Central Corridor; and
  - capital expenditures of $1.3 billion for Energy projects, including the Bruce A restart of Units 1 and 2, and construction of Portlands Energy, Halton Hills, Kibby Wind and Cartier Wind.

Financing Activities

- In 2008, TransCanada issued $2.2 billion of long-term debt (net of issue costs) and $2.4 billion of common shares (net of issue costs), comprised primarily of the following:
  - in fourth quarter 2008, the issuance of 35.1 million common shares at $33.00 each, resulting in gross proceeds of $1.2 billion;
  - in second quarter 2008, the issuance of 34.7 million common shares at $36.50 each, resulting in gross proceeds of $1.3 billion;
  - in August 2008, the issuance of US$1.5 billion of Senior Unsecured Notes;
  - in August 2008, the issuance of $500 million of Medium-Term Notes; and
  - in accordance with its Dividend Reinvestment and Share Purchase Plan (DRP), the issuance of 6.0 million common shares from treasury in lieu of making cash dividend payments totalling $218 million.
- In February 2009, the Company issued $700 million of Medium-Term Notes.
- In January 2009, the Company issued US$2.0 billion of Senior Unsecured Notes.
- In November 2008, TransCanada established a new US$1.0 billion committed bank facility.
- In June 2008, the Company entered into an agreement for a US$1.5 billion one-year bridge loan facility. In August 2008, the Company drew US$255 million and cancelled the remainder of the commitment.

Balance Sheet

- Total assets increased by \$9.1 billion to \$39.4 billion in 2008 compared to 2007, primarily due to the acquisition of the Ravenswood facility, investments in Energy and Pipelines capital projects, and the effect of a stronger U.S. dollar.
- TransCanada's shareholders' equity increased by \$3.1 billion to \$12.9 billion in 2008 compared to the previous year.

Dividend

- On February 2, 2009, the Board of Directors of TransCanada increased the quarterly dividend on the Company's outstanding common shares for the quarter ending March 31, 2009 by six per cent to \$0.38 per share from \$0.36 per share. This was the ninth consecutive year in which the common share dividend was increased.

Refer to "Results of Operations" below and to the "Liquidity and Capital Resources" section of this MD&A for further discussion of these highlights.

SEGMENT RESULTS

Reconciliation of Comparable Earnings to Net Income

Year ended December 31 *(millions of dollars except per share amounts)*	**2008**	2007	2006
Pipelines			
Comparable earnings	**740**	686	529
Specific items (net of tax):			
Calpine bankruptcy settlements	**152**	–	–
GTN lawsuit settlement	**10**	–	–
Bankruptcy settlement with Mirant	**–**	–	18
Gain on sale of Northern Border Partners, L.P. interest	**–**	–	13
Net earnings	**902**	686	560
Energy			
Comparable earnings	**641**	459	429
Specific items (net of tax, where applicable):			
Writedown of Broadwater costs	**(27)**	–	–
Gain on sale of land	**–**	14	–
Fair value adjustments of natural gas storage inventory and forward contracts	**–**	7	–
Income tax reassessments and adjustments	**–**	34	23
Net earnings	**614**	514	452
Corporate			
Comparable expenses	**(102)**	(45)	(33)
Specific item:			
Income tax reassessments and adjustments	**26**	68	72
Net (expenses)/earnings	**(76)**	23	39
Net Income			
Continuing operations[1]	**1,440**	1,223	1,051
Discontinued operations	**–**	–	28
Net Income	**1,440**	1,223	1,079
Comparable Earnings[1]	**1,279**	1,100	925
Net Income Per Share – Basic			
Continuing operations[2]	**$2.53**	$2.31	$2.15
Discontinued operations	**–**	–	0.06
	$2.53	$2.31	$2.21
Comparable Earnings Per Share[2]	**$2.25**	$2.08	$1.90

[1]**Comparable Earnings**	**1,279**	1,100	925
Specific items (net of tax, where applicable):			
Calpine bankruptcy settlements	**152**	–	–
GTN lawsuit settlement	**10**	–	–
Writedown of Broadwater costs	**(27)**	–	–
Gain on sale of land	**–**	14	–
Fair value adjustments of natural gas storage inventory and forward contracts	–	7	–
Bankruptcy settlement with Mirant	**–**	–	18
Gain on sale of Northern Border Partners, L.P. interest	**–**	–	13
Income tax reassessments and adjustments	**26**	102	95
Net Income from Continuing Operations	**1,440**	1,223	1,051

[2]**Comparable Earnings Per Share**	**$2.25**	$2.08	$1.90
Specific items – per share:			
Calpine bankruptcy settlements	**0.27**	–	–
GTN lawsuit settlement	**0.02**	–	–
Writedown of Broadwater costs	**(0.05)**	–	–
Gain on sale of land	**–**	0.03	–
Fair value adjustments of natural gas storage inventory and forward contracts	–	0.01	–
Bankruptcy settlement with Mirant	**–**	–	0.04
Gain on sale of Northern Border Partners, L.P. interest	**–**	–	0.03
Income tax reassessments and adjustments	**0.04**	0.19	0.18
Net Income Per Share from Continuing Operations	**$2.53**	$2.31	$2.15

RESULTS OF OPERATIONS

Net income and net income from continuing operations (net earnings) were $1,440 million or $2.53 per share in 2008 compared to $1,223 million or $2.31 per share in 2007. Net income and net earnings in 2006 were $1,079 million or $2.21 per share and $1,051 million or $2.15 per share, respectively. Results in 2006 included net income from discontinued operations of $28 million or $0.06 per share, reflecting bankruptcy settlements with Mirant Corporation and certain of its subsidiaries (Mirant) related to their transactions with TransCanada's Gas Marketing business. TransCanada divested its Gas Marketing business in 2001.

Net income in 2008 included $152 million of after-tax gains on shares received by the GTN System and Portland from the Calpine bankruptcy settlements, $10 million after tax of GTN System lawsuit settlement proceeds and a $27 million after-tax writedown of costs previously capitalized for Broadwater. Net income in 2008 also included $26 million of favourable income tax adjustments from an internal restructuring and realization of losses. Net income in 2007 included $102 million ($68 million in Corporate and $34 million in Energy) of favourable income tax adjustments recorded in 2007 relating to changes in Canadian federal and provincial corporate income tax legislation, the resolution of certain tax matters and an internal restructuring. Net income in 2007 also included an after-tax gain of $14 million on the sale of land and $7 million after tax of net unrealized gains resulting from changes in the fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts. Net earnings in 2006 included $95 million of favourable income tax adjustments, proceeds from an $18 million after-tax bankruptcy settlement with Mirant and an after-tax gain of $13 million from the sale of TransCanada's general partner interest in Northern Border Partners, L.P.

Excluding the above-noted items, comparable earnings for 2008, 2007 and 2006 were $1,279 million ($2.25 per share), $1,100 million ($2.08 per share) and $925 million ($1.90 per share), respectively. Comparable earnings in 2008 increased $179 million or $0.17 per share compared to 2007 due to higher earnings in the Energy and Pipelines businesses, partially offset by an increase in net expenses in Corporate. Pipelines' earnings increased in 2008 compared to 2007 primarily due to a full year of earnings in 2008 from ANR. Energy's earnings from Western Power, Eastern Power and Bruce A and Bruce B (collectively, Bruce Power) operations increased in 2008 compared to 2007 primarily due to higher realized prices. Corporate net expenses in 2008 increased from 2007 primarily due to unrealized losses from the changes in the fair value of derivatives, which are used to manage TransCanada's exposure to rising interest rates but do not qualify for hedge accounting, and higher financial charges.

Comparable earnings increased $175 million or $0.18 per share in 2007 compared to 2006 primarily due to additional earnings from the acquisition of ANR in February 2007, a full year of earnings in 2007 from the Bécancour and Edson facilities, and positive impacts from rate case settlements for the GTN System and Canadian Mainline. These increases were partially offset by a lower contribution from Bruce Power in 2007.

Results in each business segment are discussed further in the "Pipelines", "Energy" and "Corporate" sections of this MD&A.

FORWARD-LOOKING INFORMATION

This MD&A may contain certain information that is forward looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward-looking information. Forward-looking statements in this document are intended to provide TransCanada shareholders and potential investors with information regarding TransCanada and its subsidiaries, including management's assessment of TransCanada's and its subsidiaries' future financial and operational plans and outlook. Forward-looking statements in this document may include, among others, statements regarding the anticipated business prospects and financial performance of TransCanada and its subsidiaries, expectations or projections about the future, strategies and goals for growth and expansion, expected and future cash flows, costs, schedules, operating and financial results and expected impact of future commitments and contingent liabilities. All forward-looking statements reflect TransCanada's beliefs and assumptions based on information available at the time the