

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

statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of TransCanada to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of the Company's pipeline and energy assets, the availability and price of energy commodities, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and the current economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, including those material risks discussed in the "Pipelines", "Energy" and "Risk Management and Financial Instruments" sections in this MD&A, which could cause TransCanada's actual results and experience to differ materially from the anticipated results or expectations expressed. Additional information on these and other factors is available in the reports filed by TransCanada with Canadian securities regulators and with the U.S. Securities and Exchange Commission (SEC). Readers are cautioned to not place undue reliance on this forward-looking information, which is given as of the date it is expressed in this MD&A or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. TransCanada undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

NON-GAAP MEASURES

TransCanada uses the measures "comparable earnings", "comparable earnings per share", "funds generated from operations" and "operating income" in this MD&A. These measures do not have any standardized meaning prescribed by Canadian GAAP. They are, therefore, considered to be non-GAAP measures and are unlikely to be comparable to similar measures presented by other entities. Management of TransCanada uses these non-GAAP measures to improve its ability to compare financial results among reporting periods and to enhance its understanding of operating performance, liquidity and ability to generate funds to finance operations. These non-GAAP measures are also provided to readers as additional information on TransCanada's operating performance, liquidity and ability to generate funds to finance operations.

Management uses comparable earnings/(expenses) to better evaluate trends in the Company's underlying operations. Comparable earnings comprise net income from continuing operations adjusted for specific items that are significant, but are not reflective of the Company's underlying operations in the year. Specific items are subjective, however, management uses its judgement and informed decision-making when identifying items to be excluded in calculating comparable earnings, some of which may recur. Specific items may include but are not limited to certain income tax refunds and adjustments, gains or losses on sales of assets, legal and bankruptcy settlements, and certain fair value adjustments. The Segment Results table in this MD&A presents a reconciliation of comparable earnings to net income from continuing operations. Comparable earnings per share is calculated by dividing comparable earnings by the weighted average number of shares outstanding for the period.

Funds generated from operations comprises net cash provided by operations before changes in operating working capital. A reconciliation of funds generated from operations to net cash provided by operations is presented in the Summarized Cash Flow table in the "Liquidity and Capital Resources" section of this MD&A.

Operating income is reported in the Company's Energy business segment and comprises revenues less operating expenses as shown on the Consolidated Income Statement. A reconciliation of operating income to net income is presented in the "Energy" section of this MD&A.