

to manage the Company's exposure to foreign exchange rate fluctuations and the impact of positive tax rate differentials were more than offset by higher financial charges resulting primarily from financing the ANR acquisition and additional ownership interest in Great Lakes.

CORPORATE – OUTLOOK

Corporate's net expenses in 2008 included certain favourable income tax reassessments and other impacts, including the \$39 million net unrealized losses on interest rate derivatives, that are not expected to recur in 2009. Financing costs associated with debt issued in 2008 and 2009, and together with additional debt expected to be issued in 2009 to partially finance the Company's capital programs are expected to increase financial charges in Corporate in 2009. However, the increased charges are expected to be primarily offset by capitalized interest for projects under construction. Corporate's results could also be affected by debt levels, interest rates, foreign exchange rates and income tax refunds and adjustments. The performance of the Canadian dollar relative to the U.S. dollar will influence Corporate's results, although this impact is primarily mitigated by offsetting U.S.-dollar exposures in certain of TransCanada's other businesses and by the Company's hedging activities.

DISCONTINUED OPERATIONS

The \$28 million income from discontinued operations in 2006 reflected bankruptcy settlements with Mirant related to TransCanada's Gas Marketing business, which was sold in 2001.

LIQUIDITY AND CAPITAL RESOURCES

Global financial markets are in turmoil, however, TransCanada's financial position and ability to generate cash from its operations in the short and long term to provide liquidity and to maintain financial capacity and flexibility to provide for planned growth remains sound and consistent with recent years. TransCanada's liquidity position remains solid, underpinned by highly predictable cash flow from operations, significant cash balances on hand from recent securities issues, as well as committed revolving bank lines of US\$1.0 billion, \$2.0 billion and US\$300 million, maturing in November 2010, December 2012 and February 2013, respectively. To date, no draws have been made on these facilities as TransCanada has continued to have largely uninterrupted access to the Canadian commercial paper market on competitive terms. An additional \$50 million and US\$320 million of capacity remains available on committed bank facilities at TransCanada-operated affiliates with maturity dates from 2010 through 2012. TransCanada further strengthened its liquidity and financial position through additional financing transactions in 2008 and early 2009, as discussed below. TransCanada's liquidity, market and other risks are discussed further in the "Risk Management and Financial Instruments" section of this MD&A.

SUMMARIZED CASH FLOW

Year ended December 31 (*millions of dollars*)

	2008	2007	2006
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

⁽¹⁾ Refer to the "Non-GAAP Measures" section of this MD&A for further discussion of funds generated from operations.

HIGHLIGHTS

Investing Activities

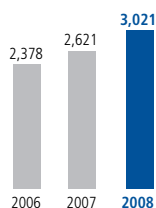
- Capital expenditures and acquisitions, including assumed debt, totalled approximately \$15.3 billion over the three-year period ending December 31, 2008.

Dividend

- TransCanada's Board of Directors declared a \$0.38 per common share dividend for the quarter ending March 31, 2009, an increase of six per cent over the previous dividend amount.

Funds Generated from Operations

Funds Generated from Operations (millions of dollars)



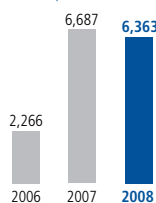
Funds Generated from Operations were \$3.0 billion in 2008 compared to \$2.6 billion and \$2.4 billion, in 2007 and 2006, respectively. The increase in 2008 compared to 2007 was primarily due to proceeds from higher operating earnings and the Calpine bankruptcy settlements. The Energy business was the primary source of the increase in 2008 compared to 2007, partially offset by a reduced contribution from Corporate. The Pipelines business and growth in Energy's operations were the main drivers for the increase in 2007 compared to 2006.

Investing Activities

Capital expenditures totalled \$3,134 million in 2008 compared to \$1,651 million in 2007 and \$1,572 million in 2006. Expenditures in 2008 and 2007 related primarily to the refurbishment and restart at Bruce Power, development of new pipelines, including Keystone, construction of new power facilities, expansion of existing pipelines and maintenance and capacity projects in the Pipelines business. Expenditures in 2006 were related primarily to construction of new power plants and natural gas storage facilities in Canada and maintenance and capacity projects in the Pipelines business.

TransCanada acquired Ravenswood from National Grid plc on August 26, 2008 for US\$2.9 billion, subject to certain post-closing adjustments.

Capital Expenditures and Acquisitions, including Assumed Debt (millions of dollars)



In accordance with TransCanada's agreement to increase its ownership interest in Keystone up to 79.99 per cent from 50 per cent, TransCanada has funded \$362 million of Keystone cash calls since September 30, 2008. This has resulted in an acquisition of an incremental 12 per cent ownership interest for \$176 million, bringing TransCanada's ownership interest to 62 per cent at December 31, 2008. The Keystone agreement is discussed further in the "Pipelines" section of this MD&A.

In 2007, TransCanada acquired ANR and an additional 3.6 per cent interest in Great Lakes from El Paso Corporation for US\$3.4 billion, including US\$491 million of assumed long-term debt. PipeLines LP acquired the remaining 46.4 per cent of Great Lakes from El Paso Corporation for US\$942 million, including US\$209 million of assumed long-term debt. In 2007, PipeLines LP purchased Sierra Pacific Resources' remaining one per cent ownership interest in Tuscarora for approximately \$2 million. In a separate transaction in 2007, PipeLines LP also purchased TransCanada's one per cent ownership interest in Tuscarora for approximately \$2 million. As a result of these transactions, PipeLines LP owns 100 per cent of Tuscarora.

In 2006, PipeLines LP acquired an additional 49 per cent interest in Tuscarora for US\$100 million and also assumed US\$37 million of debt. PipeLines LP also acquired an additional 20 per cent general partnership interest in Northern Border for US\$307 million, in addition to indirectly assuming US\$122 million of debt. TransCanada sold its 17.5 per cent general partner interest in Northern Border Partners, L.P. for proceeds of \$35 million, net of current tax.

Financing Activities

In 2008, TransCanada issued Long-Term Debt of \$2.2 billion and increased Notes Payable by \$1.3 billion. Its proportionate share of Long-Term Debt issued by joint ventures was \$173 million. Also in 2008, the Company reduced its Long-Term Debt by \$840 million and its proportionate share of the Long-Term Debt of Joint Ventures by \$120 million.

At December 31, 2008, total unsecured revolving and demand credit facilities of \$4.2 billion were available to support the Company's commercial paper programs and for general corporate purposes. These credit facilities include the following:

- a \$2.0 billion committed, syndicated revolving credit facility, maturing December 2012.
- a US\$300 million committed, syndicated revolving facility, maturing February 2013. This facility is part of the US\$1.0 billion TransCanada PipeLine USA Ltd. credit facility discussed below under the heading "2007 Long-Term Debt Financing Activities".
- a US\$1.0 billion committed, extendible, expandable, unsecured bank facility, established in fourth quarter 2008, bearing interest at a floating rate plus a margin, with an initial term of 364 days and a one-year term renewal at the option of the borrower. The facility will support a new commercial paper program dedicated to funding a portion of expenditures for Keystone and for general partnership purposes.
- demand lines totaling \$0.6 billion, which support the issuance of letters of credit and provide additional liquidity. The Company had used approximately \$433 million of these total lines of credit for letters of credit at December 31, 2008.

Short-Term Debt Financing Activities

In June 2008, TransCanada executed an agreement with a syndicate of banks for a US\$1.5 billion committed, unsecured, one-year bridge loan facility, at a floating interest rate based on London Interbank Offered Rate (LIBOR) plus 30 basis points. The facility is extendible at the option of the Company for an additional six-month term at LIBOR plus 35 basis points. In August 2008, the Company used US\$255 million from this facility to fund a portion of the Ravenswood acquisition and cancelled the remainder of the commitment. At December 31, 2008, the US\$255 million remained outstanding on the facility.

In February 2007, the Company established a US\$2.2 billion, committed, unsecured, one-year bridge loan facility and utilized \$1.5 billion and US\$700 million to partially finance its acquisition of ANR and its increased ownership of Great Lakes. At December 31, 2008, this facility had been fully repaid and cancelled.

2009 and 2008 Long-Term Debt Financing Activities

On February 17, 2009, the Company completed the issuance of Medium-Term Notes of \$300 million and \$400 million maturing in February 2014 and February 2039, respectively, and bearing interest at 5.05 per cent and 8.05 per cent, respectively. The proceeds are expected to be used to fund the Alberta System and Canadian Mainline rate bases. These notes were issued under a \$1.5 billion debt shelf prospectus filed in Canada in March 2007.

On January 9, 2009, the Company issued Senior Unsecured Notes of US\$750 million and US\$1.25 billion maturing in January 2019 and January 2039, respectively, and bearing interest at 7.125 per cent and 7.625 per cent, respectively. The proceeds from these notes are expected to be used to partially fund TransCanada's capital projects and retire mature debt obligations, and for general corporate purposes. These notes were issued under a US\$3.0 billion debt shelf prospectus filed in January 2009. Following these issues, the Company has unutilized capacity of US\$1.0 billion remaining under its January 2009 U.S. debt shelf prospectus.

In August 2008, TransCanada issued \$500 million of Medium-Term Notes maturing in August 2013 and bearing interest at 5.05 per cent. The proceeds from these notes were used to partially fund the Alberta System's capital program and for general corporate purposes. These notes were issued under the debt shelf prospectus filed in Canada in March 2007.

In August 2008, TransCanada issued US\$850 million and US\$650 million of Senior Unsecured Notes maturing in August 2018 and August 2038, respectively, and bearing interest at 6.50 per cent and 7.25 per cent, respectively. The proceeds from these notes were used to partially fund the Ravenswood acquisition and for general corporate purposes. These notes were issued under the September 2007 debt shelf prospectus filed in the U.S. Following these issuances, the Company had fully utilized the capacity of its September 2007 U.S. debt shelf prospectus.

In June 2008, the Company retired \$256 million of 5.84 per cent Medium-Term Notes and a \$100 million 11.85 per cent debenture. In January 2008, the Company retired \$105 million of 6.0 per cent Medium-Term Notes.

2007 Long-Term Debt Financing Activities

In 2007, TransCanada issued Long-Term Debt of \$2.6 billion and Junior Subordinated Notes of US\$1.0 billion, and its proportionate share of Long-Term Debt issued by joint ventures was \$142 million. The Company also reduced its Long-Term Debt by \$1.1 billion, its Notes Payable by \$46 million and its proportionate share of the Long-Term Debt of Joint Ventures by \$157 million.

In October 2007, TransCanada issued US\$1.0 billion of Senior Unsecured Notes under a US\$2.5 billion debt shelf prospectus filed in the U.S. in September 2007. These notes mature on October 15, 2037 and bear interest at a rate of 6.20 per cent.

In July 2007, TransCanada exercised its rights to redeem the US\$460 million 8.25 per cent Preferred Securities due 2047. The Preferred Securities were redeemed for cash, at par, as part of a settlement on the Canadian Mainline. The foreign exchange gain realized on redemption of the securities will flow through to Canadian Mainline shippers over the five-year period of the settlement.

In April 2007, the Company issued US\$1.0 billion of Junior Subordinated Notes, maturing in 2067 and bearing interest of 6.35 per cent per year until May 15, 2017, when interest will convert to a floating interest rate of three-month LIBOR plus 221 basis points. The Junior Subordinated Notes are subordinated to all existing and future senior indebtedness, are effectively subordinated to all indebtedness and obligations of the Company and are callable at the Company's option at any time on or after May 15, 2017 at the principal amount plus accrued and unpaid interest.

In April 2007, Northern Border increased its five-year bank facility to US\$250 million from US\$175 million. A portion of the bank facility was drawn to refinance US\$150 million of Senior Notes that matured on May 1, 2007, with the balance available to fund Northern Border's ongoing operations.

In March 2007, ANR Pipeline voluntarily withdrew the New York Stock Exchange listing of its 9.625 per cent debentures due 2021, 7.375 per cent debentures due 2024, and 7.0 per cent debentures due 2025. With the delisting, ANR Pipeline deregistered these securities with the SEC.

In February 2007, the Company established a US\$1.0 billion committed, unsecured credit facility, consisting of a US\$700 million five-year term loan and a US\$300 million five-year, extendible revolving facility. The Company utilized US\$1.0 billion from this facility and an additional US\$100 million from an existing demand line to partially finance the ANR acquisition and increased ownership in Great Lakes, as well as its additional investment in PipeLines LP. The revolving portion of the committed facility and the draw on the demand line were subsequently repaid. In 2008, the maturity date of the revolving portion of the facility was extended to February 2013.

In February 2007, PipeLines LP increased the size of its syndicated revolving credit and term loan facility in connection with its Great Lakes acquisition. The amount available under the facility increased to US\$950 million from US\$410 million and consisted of a US\$700 million senior term loan and a US\$250 million senior revolving credit facility, with US\$194 million of the available senior term loan amount being terminated upon closing of the Great Lakes acquisition.

In October 2007, the Company retired \$150 million of 6.15 per cent Medium-Term Notes. In February 2007, the Company retired \$275 million of 6.05 per cent Medium-Term Notes.

2006 Long-Term Debt Financing Activities

In 2006, the Company issued Long-Term Debt of \$2.1 billion and reduced its Long-Term Debt by \$729 million, its Notes Payable by \$495 million and its proportionate share of the Long-Term Debt of Joint Ventures by a net amount of \$14 million. In January 2006, the Company issued \$300 million of 4.3 per cent five-year Medium-Term Notes due 2011. In March 2006, the Company issued US\$500 million of 5.85 per cent Senior Unsecured Notes due 2036. In October 2006, TransCanada issued \$400 million of 4.65 per cent Medium-Term Notes due 2016.

In April 2006, PipeLines LP borrowed US\$307 million under its unsecured credit facility to finance the cash portion of its acquisition of an additional 20 per cent interest in Northern Border. In December 2006, the credit facility was repaid in full and replaced with a US\$410 million syndicated revolving credit and term loan agreement, a portion of which was utilized to finance the acquisition of additional interests in Tuscarora. In February 2007, PipeLines LP increased the size of this facility, as discussed above.

2008 Equity Financing Activities

In July 2008, the Company filed a short form base shelf prospectus in Canada and the U.S. qualifying for issuance \$3.0 billion of common shares, preferred shares and/or subscription receipts in Canada and the U.S. until August 2010. This shelf replaced the base shelf prospectus filed in January 2007.

In fourth quarter 2008, the Company completed a public offering of common shares at a purchase price of \$33.00 per share. The entire issue of 35.1 million common shares, including the full exercise of a 15 per cent over-allotment option by the underwriters, resulted in gross proceeds of \$1.2 billion. The proceeds of the offering were used by TransCanada to partially fund its capital projects, including Keystone, for general corporate purposes and to repay short-term indebtedness. These common shares were issued under the base shelf prospectus filed in July 2008.

In May 2008, the Company completed a public offering of common shares at a purchase price of \$36.50 per share. The entire issue of 34.7 million common shares, including the full exercise of a 15 per cent over-allotment option by the underwriters, resulted in gross proceeds of \$1.3 billion. These proceeds were used to partially fund the Ravenswood acquisition and the Company's capital projects, and for general corporate purposes. These common shares were issued under the base shelf prospectus filed in January 2007.

Commencing in 2007, TransCanada's Board of Directors authorized the issuance of common shares from treasury at a discount to participants in the Company's DRP. Under this plan, eligible shareholders may reinvest their dividends and make optional cash payments to obtain additional TransCanada common shares. The DRP shares are provided to the participants at a discount to the average market price in the five days before dividend payment. The discount was set at two per cent commencing with the dividend payable in April 2007 and was increased to three per cent for the dividend payable in January 2009. Prior to the April 2007 dividend, TransCanada purchased shares on the open market and provided them to DRP participants at cost. The Company reserves the right to alter the discount or return to purchasing shares on the open market at any time. Dividends of \$218 million were paid in 2008 through the issuance of six million common shares from treasury in accordance with the DRP.

2007 Equity Financing Activities

In first quarter 2007, the Company issued 45.4 million common shares at a purchase price of \$38.00 per share under a base shelf prospectus filed in Canada and the U.S. in January 2007, resulting in gross proceeds of \$1.7 billion. The proceeds were used towards financing the acquisition of ANR and Great Lakes.

In February 2007, PipeLines LP completed a private placement offering of 17.4 million common units at a purchase price of US\$34.57 per unit. TransCanada acquired 50 per cent of the units for US\$300 million and invested an additional US\$12 million to maintain its general partnership ownership interest in PipeLines LP. The total private placement plus TransCanada's additional investment resulted in gross proceeds to PipeLines LP of US\$612 million, which were used to partially finance its Great Lakes acquisition.

Dividends

Cash dividends on common shares amounting to \$577 million were paid in 2008 compared to \$546 million in 2007 and \$617 million in 2006. The increase in dividends in 2008 compared to 2007 was primarily due to a greater number of shares outstanding and an increase in the dividend per share amount in 2008, partially offset by the issuance of \$218 million of common shares under the DRP, in lieu of cash dividends. The reduction in 2007 compared to 2006 was primarily due to the Company's issuance of \$157 million of common shares from treasury under the DRP, which more than offset the impact of the higher dividend per share amount.

In January 2009, TransCanada's Board of Directors approved an increase in the quarterly common share dividend payment to \$0.38 per share from \$0.36 per share for the quarter ending March 31, 2009. This was the ninth consecutive year in which the dividend was increased beginning with the dividend of \$0.20 per share declared in fourth quarter 2000 and represents a 90 per cent increase in the dividend over this period.

Issuer Ratings

TransCanada's issuer rating assigned by Moody's Investors Service (Moody's) is Baa1 with a stable outlook. TransCanada PipeLines Limited's (TCPL) senior unsecured debt is rated A with a stable outlook by DBRS, A3 with a stable outlook by Moody's, and A- with a stable outlook by Standard and Poor's.

CONTRACTUAL OBLIGATIONS

Obligations and Commitments

At December 31, 2008, the Company had \$16.2 billion of total Long-Term Debt and \$1.2 billion of Junior Subordinated Notes, compared to \$12.9 billion of total Long-Term Debt and \$1.0 billion of Junior Subordinated Notes at December 31, 2007. TransCanada's share of the total debt of joint ventures, including capital lease obligations, was \$1.1 billion at December 31, 2008, compared to \$903 million at December 31, 2007. Total Notes Payable, including TransCanada's proportionate share of the notes payable of joint ventures, were \$1.7 billion at December 31, 2008, compared to \$421 million at December 31, 2007. TransCanada has provided certain pro-rata guarantees related to the capital lease obligations of Bruce Power and to the performance obligations of Bruce Power and certain other partially owned entities.

CONTRACTUAL OBLIGATIONS					
Year ended December 31 (millions of dollars)					
	Total	Payments Due by Period			
		Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt ⁽¹⁾	18,208	980	1,787	2,684	12,757
Capital lease obligations	235	13	25	38	159
Operating leases ⁽²⁾	403	28	56	66	253
Purchase obligations	12,246	3,926	2,595	1,761	3,964
Other long-term liabilities reflected on the balance sheet	610	12	29	34	535
Total contractual obligations	31,702	4,959	4,492	4,583	17,668

⁽¹⁾ Includes Junior Subordinated Notes.

⁽²⁾ Represents future annual payments, net of sub-lease receipts, for various premises, services and equipment. The operating lease agreements for premises, services and equipment expire at various dates through 2035, with an option to renew certain lease agreements for one to ten years.