

The Management's Discussion and Analysis (MD&A) dated February 23, 2009 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, 2008, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A covers TransCanada's financial position and operations as at and for the year ended December 31, 2008. 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 2008 Annual Report.

TRANSCANADA OVERVIEW

In 2008, TransCanada celebrated the 50th anniversary of the completion of its original pipeline from Alberta to Ontario and Québec. Fifty years of experience has established TransCanada as a significant player in the development and operation of North American energy infrastructure, including natural gas and oil pipelines, power generation plants, and natural gas storage facilities.

TransCanada has invested approximately \$24 billion in capital projects in the last nine years, and currently has more than \$40 billion in total assets. The Company is currently executing an \$18 billion capital program and most of the projects are expected to be completed by 2012. Over the longer term, TransCanada intends to continue to pursue and develop its substantial portfolio of large-scale infrastructure projects. TransCanada is committed to maintaining the financial strength required to build the energy infrastructure needed to serve increased energy demand, respond to shifting energy supply-demand dynamics and replace aging North American infrastructure.

Pipelines Assets

The TransCanada network of more than 59,000 kilometres (km) (36,661 miles) of wholly owned and 7,800 km (4,847 miles) of partially owned natural gas pipelines connect virtually every major natural gas supply basin and market, transporting 20 per cent of the natural gas consumed in North America. TransCanada's natural gas pipelines link gas supplies from Western Canada, the United States (U.S.) mid-continent and Gulf of Mexico to premium North American markets. These assets are well positioned to connect emerging natural gas supplies, including northern gas, northeastern British Columbia (B.C.) and U.S. shale gas, and offshore liquefied natural gas (LNG) imports, to growing markets.

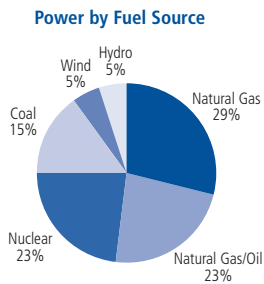
TransCanada's Alberta System gathered 66 per cent of the natural gas produced in Western Canada or 15 per cent of total North American production in 2008. TransCanada exports natural gas from the Western Canada Sedimentary Basin (WCSB) to Eastern Canada and the U.S. West, Midwest, and Northeast through three wholly owned pipeline systems: the Canadian Mainline, the GTN System and Foothills. TransCanada also exports natural gas from the WCSB to Eastern Canada and to the U.S. West, Midwest, and Northeast through six partially owned natural gas pipeline systems: Great Lakes, Iroquois, Portland, TQM, Northern Border and Tuscarora. Certain of these pipeline systems are held through the Company's 32.1 per cent interest in TC PipeLines, LP (PipeLines LP).

ANR was acquired in February 2007. ANR transports natural gas from producing fields located primarily in Oklahoma, Texas, Louisiana and the Gulf of Mexico to markets located in Wisconsin, Michigan, Illinois, Ohio and Indiana. It also connects with numerous other natural gas pipelines, providing customers with access to diverse sources of North American supply, including Western Canada and the Rocky Mountain region, and to a variety of end-user markets in the midwestern and northeastern U.S. ANR owns and operates 250 billion cubic feet (Bcf) of regulated natural gas storage capacity in Michigan.

In addition, the Company has agreed to increase its ownership interest up to 79.99 per cent in each of TransCanada Keystone Pipeline Limited Partnership and TransCanada Keystone Pipeline, LP (collectively, Keystone partnerships). TransCanada has partnered with ConocoPhillips, a global, integrated oil and gas producer and refiner to build the Keystone crude oil pipeline. Currently under construction, the Keystone pipeline will transport 1.1 million barrels per day (Bbl/d) of crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka in Illinois, and at Cushing, Oklahoma, and to U.S. Gulf Coast markets. The pipeline is supported by long-term contracts with strong counterparties and provides a low-cost shipping option. While the current economic slowdown and low oil price environment have eased the pace of oil sands project activity, developments in the medium to long term in Alberta will provide attractive opportunities for further additions to crude oil transmission infrastructure.

Energy Assets

TransCanada's Energy business has grown from 754 megawatts (MW) in 1999 to more than 10,900 MW in 2008. The Company's diverse power generation portfolio of primarily low-cost, baseload or long-term contracted facilities comprises a total of 19 plants in Alberta, Eastern Canada, New England, and New York City. The accompanying graph illustrates each fuel source as a percentage of the Company's overall Energy portfolio:



TransCanada has developed a significant non-regulated natural gas storage business in Alberta where the Company owns or has rights to 120 Bcf or approximately one-third of the natural gas storage capacity in the province.

Opportunities and developments in the Company's Pipelines and Energy businesses are discussed further in the "Pipelines" and "Energy" sections of this MD&A.

TRANSCANADA'S STRATEGY

TransCanada's vision is to be the leading energy infrastructure company in North America with a strong focus on pipelines and power generation opportunities located in regions where it has or can develop significant competitive advantage. Since 2000, TransCanada's key strategies continue to evolve with the Company's growth and development and its changing business environment. TransCanada's corporate strategy integrates five fundamental value-creating activities:

1. Maximize the full-life value of TransCanada's infrastructure assets and commercial positions
2. Cultivate a focused portfolio of high quality development options
3. Commercially develop and physically execute new asset investment programs
4. Maximize TransCanada's competitive strengths
5. Maximize TransCanada's financial strength and reputation

These strategies are defined by an integrated set of activities and performance objectives:

Maximize the full-life value of TransCanada's infrastructure assets and commercial positions

TransCanada relies on a low-risk business model to maximize the full-life value of existing assets and positions that generate predictable, sustainable streams of cash flows and earnings. In the Company's Pipelines business, the natural gas pipeline network connects traditional and emerging basins to growing markets offering effective service and competitive rates. TransCanada's Energy business supplies growing power markets through long-term power purchase agreements, and low-cost baseload generation. The Company's activities in gas, nuclear, wind and hydro energy sources demonstrate its commitment to a sustainable energy future. TransCanada continues to make its long-term commercial and physical asset operations a priority. The Company attempts to maximize the life and value of its assets by focusing on sustainable business initiatives derived from engaging in market and regulatory developments, combined with an accretive capital investment program.

Cultivate a focused portfolio of high quality development options

The Company's core western and eastern regions are the primary focus of growth initiatives in the Pipelines and Energy businesses. Consideration is given to new markets with good fundamentals where TransCanada has or can develop competitive strengths. There is a continued focus on low-cost, baseload power assets as well as on power and natural gas storage assets supported by firm, long-term contracts with reputable counterparties. Greenfield development and acquisition of power generation, power transmission and natural gas storage are considered if they meet the Company's investment standards. Greenfield and brownfield pipeline projects are being pursued to diversify the Pipelines business and add incremental value to existing assets. Key areas of focus include greenfield development options to connect the Company's natural gas pipelines to northern gas reserves and emerging Canadian and U.S. shale gas supplies, and transporting crude oil from the Alberta oil sands. Other possible growth opportunities include acquiring natural gas and