EXHIBIT B.1 APPLICANT INFORMATION

The Kibby Expansion Project is being proposed by TransCanada Maine Wind Development Inc. (TransCanada), a Maine Corporation with an office in Chain of Ponds Township, and development offices in Toronto, Ontario, Canada. TransCanada Maine Wind Development, Inc. is a wholly owned subsidiary of TransCanada Corporation, with headquarters in Calgary, Alberta, Canada. The pertinent TransCanada contact information is provided on the LURC Permit Application for Residential and Non-Residential Development located in the Application Forms tab at the front of this application. Completed Supplement S-2 and S-3 forms are also located in the Application Forms tab. TransCanada's Maine Certificate of Corporate Good Standing is provided as Attachment B.1 to this exhibit.

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure, as demonstrated by the recent successful development, permitting, ongoing construction and now operation of the Kibby Project in Maine. TransCanada plays a vital role in connecting energy supplies to key Canadian and U. S. markets with a network of more than 36,500 miles of pipeline that taps into virtually all major gas supply basins in North America. TransCanada is one of the continent's largest providers of gas storage and related services. TransCanada owns, controls or is developing approximately 10,900 MW of power generation in Canada and the U. S. As documented in this application, TransCanada's experience in a wide range of energy projects, including wind power, and commitment to corporate responsibility have resulted in thorough consideration of engineering and environmental issues as the Kibby Expansion Project feasibility was assessed and Project details refined.

Additional information regarding TransCanada's financial and technical ability to successfully manage the design, construction and operation of the Kibby Expansion Project is provided in Exhibit B.9.

ATTACHMENT B.1

Maine Certificate of Corporate Good Standing

State of Maine



Department of the Secretary of State

I, the Secretary of State of Maine, certify that according to the provisions of the Constitution and Laws of the State of Maine, the Department of the Secretary of State is the legal custodian of the Great Seal of the State of Maine which is hereunto affixed and of the reports of organization, amendment and dissolution of corporations and annual reports filed by the same.

I further certify that TRANSCANADA MAINE WIND DEVELOPMENT INC. is a duly organized business corporation under the laws of the State of Maine and that the date of incorporation is November 07, 2003.

I further certify that said business corporation has filed annual reports due to this Department, and that no action is now pending by or on behalf of the State of Maine to forfeit the charter and that according to the records in the Department of the Secretary of State, said corporation is a legally existing business corporation in good standing under the laws of the State of Maine at the present time.



In testimony whereof, I have caused the Great Seal of the State of Maine to be hereunto affixed. Given under my hand at Augusta, Maine, this fourth day of November 2009.

MATTHEW DUNLAP Secretary of State

EXHIBIT B.10 SERVICES

The only locations where permanent power, potable water supply or sewage disposal required are at the construction control center and Kibby O&M Building, both located at the intersection of Gold Brook Road and State Route 27. Both of these facilities are existing and the existing electricity, water and sewage disposal systems will be used for construction and operation of the Project. All such services required throughout the remainder of the construction site will be temporary, self-contained portable facilities commonly used for construction purposes. Solid waste is addressed in Exhibit B.13.

The septic system at the existing O&M building was designed to accommodate wastewater flows of 324 gallons per day. The State of Maine Subsurface Wastewater Disposal Rules (Wastewater Rules) require that for places of employment with shower facilities, such as the O&M facility, wastewater flows must be calculated assuming 20 gallons of wastewater will be generated per day per employee. The 324-gallon per day capacity for the existing septic system assumed 15 employees with an additional 24 gallons per day capacity to accommodate visitors. Twelve or 13 people are currently expected to work at the operations and maintenance building, once construction of the Kibby Project is complete and in full operation, which translates to actual wastewater flows of 240 to 260 gallons per day .

TransCanada expects to add one new employee to the O&M building once the Kibby Expansion Project is in operation, which, based on the requirements of the Wastewater Rules, will increase the wastewater flows to up to 280 gallons per day. This is well below the design flow of 324 gallons per day. Therefore, the existing septic system will continue to be sufficient for disposing of additional wastewater that may be generated by adding an employee. In addition, as specified in Sections 1702.0 and 1703.0 of the Wastewater Rules, it should be noted that expanding or a replacing a system or disposal field area is not necessary to remain in compliance with the Wastewater Rules, until the wastewater flows are expected to increase by 10 percent over the existing design flow.

B.10.1 Emergency Services

Current emergency services are adequate to meet the needs of the Project. Local emergency services include police, fire, and ambulance services. The town of Eustis/Stratton is served by both the Franklin County Sheriff's office and the Maine State Police at all times. Duties are regionally divided among the two departments. On an alternate weekly basis, one department serves the northern half of the county and the other, the southern half. The Eustis/Stratton fire department has one fire station, a volunteer fire chief, and an all volunteer force of local firefighters. The Maine Forest Service also provides response to forest fires in the area. The ability of these agencies to provide emergency services is likely going to improve due to the

Kibby Project. The Tax Increment Financing (TIF) development program developed by the Franklin County Commissioners for the Kibby Project included a line-item for Public Safety/Fire Protection Equipment. A figure of \$250,000 was estimated "to support capital costs relative to emergency communication equipment and a tanker truck to transport water supply to support fire protection related to the Project." The County is currently determining the process for administering the TIF in advance of the initial funding becoming available in 2010.

The closest hospital to the town is Franklin Memorial Hospital in Farmington, at a distance of about 45 miles. The next closest hospital is Rumford Hospital in Rumford, approximately 50 miles away. Ambulance service for the town is provided by Franklin Memorial Hospital. Due to the town's distance from the hospital, an ambulance is stationed in Carrabassett Valley, 15 miles from the town center.

The Franklin County Sherriff, Town of Eustis Fire Chief, and Maine Forest Service were consulted and each has confirmed that current services are adequate for the Project. TransCanada has requested written confirmation of the adequacy and willingness to provide these services for the Kibby Expansion Project. Copies of the letters from the Franklin County Sheriff, Eustis Fire Chief and Maine Forest Service are provided in Attachment B.10.

ATTACHMENT B.10

Service Letters

FRANKLIN COUNTY



SHERIFF'S DEPT.

778-2680	Business			123 County Way
778-3032	Jail	Et KANNE *	· · · · ·	Jail-121 County Way
800-773-2680	Toll Free			Farmington ME 04938
778-6485	Fax	DENNIS CAPIKE, SHERIPF AND		EMERGENCY 911
	R	AYMOND E. MELDRUM, CHIEF DE	PUTY	na se gara tanàna kaominina dia kaominina dia kaominina dia kaominina dia kaominina dia kaominina dia kaominina Ny INSEE dia mampikambana dia kaominina dia kaominina dia kaominina dia kaominina dia kaominina dia kaominina di
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November 13, 2009

Nick Di domenico Project Manager TransCanada Wind Energy 55 Yonge Street 8th Floor Toronto, ON MSE IJ4 Canada

Dear Mr. Di domenico

This letter is in regards to the proposed Kibby Expansion Project proposed in Kibby and Chain of Ponds Townships in Franklin County Maine, which will consist of 15 turbines located on Sisk Mountain.

Overall, we expect that any services the project will require will be consistent with the services that are currently being provided in Franklin County and in particular surrounding the existing Kibby Project. This expansion is likely to have little, if any, need for police services. There do not seem to be any unique safety risks that will need to be addressed and the police services currently provided will be adequate to ensure safety. The Maine State Police also respond and have coverage for the proposed project area and we have a call sharing agreement with them to alternate coverage areas within Franklin County.

Sincerely,

aymond Medaum

Raymond Meldrum Chief Deputy

Malcolm R. Fearon Fire Chief Eustis Fire Department P.O. Box 350 Stratton, Maine 04982 207-246-6841

November 16, 2009

TransCanada 55 Yonge St., 8th. Floor Toronto, ON M5E 1J4

To Whom It May Concern:

I am writing to you concerning a proposed expansion to the Kibby Wind Project. As a first responding entity for fires or rescues in this area we will be available if our services are needed, as we are with any other industry in this region.

We have been currently training with the companies involved with the current Kibby Wind Project, and look forward to doing more training. The current project has been a boost to our area, and I believe an expansion would just be more of the same. All of the companies we have been involved with have been great to work with.

I do not believe an expansion of this project will add much more to our work load.

Respectfully submitted,

Malcolin R.

Malcolm R. Fearon Fire Chief



STATE OF MAINE DEPARTMENT OF CONSERVATION MAINE FOREST SERVICE 22 STATE HOUSE STATION AUGUSTA, MAINE 04333-0022

PATRICK MCGOWAN COMMISSIONER

November 18, 2009

Nick Di domenico Trans Canada Energy Ltd. 55 Yonge St., 8th Floor Toronto ON M5E 1J4

JOHN ELIAS BALDACCI

GOVERNOR

Dear Mr. Di domenico,

Thank you for your inquiry into fire protection services provided by the Maine Forest Service.

Our Division of Forest Protection provides forest fire protection services for all areas in Maine and is in fact the only forest fire response agency for the unorganized areas of the state. We accomplish forest fire protection through our efforts in detection, prevention, preparedness and suppression activities. The Division maintains contracts with 9 independent aviation organizations that provide aerial fire detection services covering the state. These patrols fly regularly during periods of high fire danger and less often when fire danger is low. The Division also maintains a District Office in Cupsuptic and a Ranger Station in Eustis. Any ground resources for the initial attack would likely come from the Eustis facility. Our goal in terms of forest fire response is to have aerial resources on site within 1/2 hour of the fire report and ground resources on site within 1 hour. The actual time for response is usually significantly less than our stated goals. We also spend a significant amount of Ranger time on prevention. We accomplish prevention through education, law enforcement, inspection, and scheduled patrol activities. The Division employs 57 field forest rangers that are charged with the protection of approximately 17,500,000 forested acres. These Rangers patrol their assigned units regularly conducting inspections and enforcing Maine's conservation statutes.

The services we provide are specific to forest fires and do not include direct suppression activities on involved structures. However, in the event that a fire starts in one of your structures, we will take action to prevent fire spread from the structure to the forest fuels or to other structures. This effort can and does include the application of water from our fleet of fire suppression helicopters as well as from ground resources.

With respect to the TransCanada's Kibby Expansion Project, the appropriate wildfire protection services are available and no special circumstances or conditions will be required prior to the provisions of such services.

I hope this addresses your questions about our responsibilities and capacity.

Sincerely,

R. Alec Giffen, Director Maine Forest Service

MAINE FOREST SERVICE ALEC GIFFEN, DIRECTOR PHONE: (207) 287-2791 OR 1-800-367-0223 FAX: (207) 287-8422 TTY: (888) 557-6690 www.maineforestservice.org

We help you make informed decisions about Maine's forests

EXHIBIT B.11 CONSTRUCTION SCHEDULE AND WORK PLAN

B.11.1 Construction Schedule and Sequence

Project construction is anticipated to begin in August of 2010 and continue as shown on Figure B.11, the Kibby Expansion Construction Schedule. It is expected that the expansion facilities will be placed into operation by the end of 2011.

In general, activities during 2010 will consist of surveying, clearing, blasting and grading sufficient to implement detailed geotechnical field testing, as well as commencing roadway improvements, new road construction, preliminary turbine site preparation and installation of foundations. Over the winter months, clearing will also occur for the 34.5 kV collector line, followed by pole structure installation at lower elevations. Along the collector line, winter construction is preferred in order to avoid impact to wetlands traversed during the construction process. Vegetation clearing and work in lower elevations may also occur throughout the Project footprint during the winter.

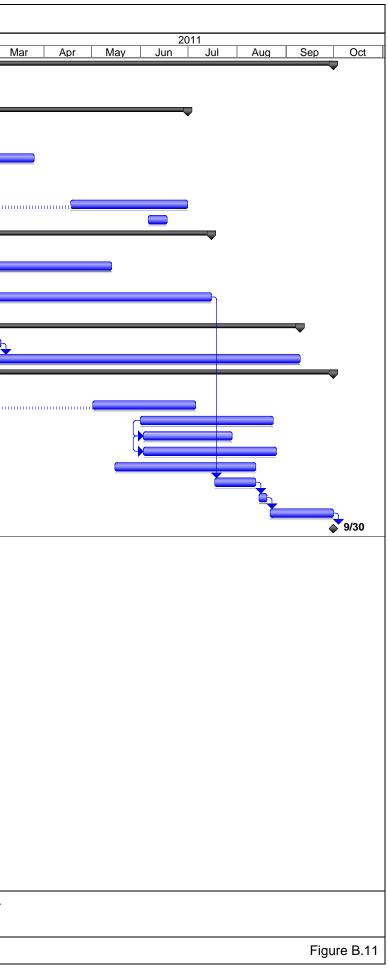
As discussed in more detail below, some winter construction activities may occur in the higher elevation areas to ensure that permanent, stabilized roadway features may be completed in advance of the spring thaw. Winter construction in higher elevation areas will be limited to completing roadwork and preparation of turbine laydown areas that commenced prior to ground freeze. The winter construction plan includes a protocol to ensure that the surface and subsurface water flow in these areas is fully identified and mapped in appropriate seasonal conditions, as well as other winter-specific erosion and sedimentation control measures.

The spring and summer of 2011 will be the peak construction period at the Project site. During that time, the WTG foundations will be completed and turbines erected. Separate work crews will focus on completing road construction, turbine site preparation and foundation installation. In addition, the installation of the remainder of the collector system and new substation will occur in the summer or early fall of 2011 in order to allow for a commercial operations to commence by the end of 2011.

Quarterly reports will be provided to LURC summarizing construction progress, with more frequent communication in the event of any change or issue requiring LURC notification. Post-construction monitoring activities would commence following the completion of construction.

ID	0	Task Name	Start	Finish	Duration	10 Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
1	-	Kibby Expansion Wind Power Project Schedule	Mon 8/2/10	Fri 9/30/11	305 days			J Sep		INOV	Dec	Jan		<u> </u>
2		LURC Approval (Assumes full 9 month)	Mon 8/2/10	Mon 8/2/10	0 days	-								
		TC Board Approval	Mon 8/9/10	Mon 8/9/10	0 days	-	♦ 8/9							
4		Site Investigation / Clearing / Road Construction	Fri 8/6/10	Thu 6/30/11	235 days	-								
5		Site Mobilize	Fri 8/6/10	Thu 8/12/10	5 days	-								
6		Clearing & Grubing	Mon 8/9/10	Fri 2/25/11	100 days	-								
7		Geotechnical Investigation	Mon 8/16/10	Fri 3/25/11	68 days	-				-				
8		Mile 5 Road	Wed 8/11/10	Tue 9/21/10	30 days								-	
9		Access Road to Ridge	Tue 8/31/10	Mon 11/22/10	60 days									
10		Crane Road Construction	Tue 9/14/10	Thu 6/30/11	153 days									
11		Wahl Road Improvements	Mon 6/6/11	Fri 6/17/11	10 days									
12		Equipment Procurement	Mon 8/2/10	Fri 7/15/11	250 days	-								
13		Procure WTG's	Mon 8/2/10	Fri 10/29/10	65 days	-				Ъ				
14		Delivery of WTG's to Port	Mon 11/1/10	Fri 5/13/11	140 days	-								
5		Procure Substation Transformer	Mon 8/2/10	Fri 8/13/10	10 days	-								
6		Delivery of Substation Transformer	Mon 8/16/10	Fri 7/15/11	240 days									
7		Purchase & Receive Collector Poles	Mon 9/13/10	Fri 12/31/10	80 days	-								
18		Collector Line (Substation to Ridge)	Mon 11/15/10	Fri 9/9/11	215 days									
19		ROW Clearing	Mon 11/15/10	Fri 3/4/11	80 days									
20		Collector Line Installation	Mon 2/28/11	Fri 9/9/11	140 days									
21	1	Wind Farm Installation	Tue 9/21/10	Fri 9/30/11	269 days	;								_
22	1	WTG Site Preparation	Tue 9/21/10	Mon 2/21/11	110 days	;								1
23		Foundation Installation	Tue 10/12/10	Tue 7/5/11	90 days	;								
24		WTG Delivery to site	Wed 6/1/11	Tue 8/23/11	60 days	;					,			
25		WTG Erection	Fri 6/3/11	Thu 7/28/11	40 days									
26		Collector System Installation on Ridge	Fri 6/3/11	Thu 8/25/11	60 days									
27		Substation/115kV Tap Construction	Mon 5/16/11	Fri 8/12/11	65 days									
28		Substation Commissioning	Mon 7/18/11	Fri 8/12/11	20 days	-								
29	1	Collector System Energize	Mon 8/15/11	Fri 8/19/11	5 days									
30	1	WTG Commissioning	Mon 8/22/11	Fri 9/30/11	30 days									
31	1	Substantial Completion	Fri 9/30/11	Fri 9/30/11	0 days									

Project: Kibby Expansion Wind Power	Task	Progress		Summary	$\overline{\mathbf{v}}$	External Tasks	Deadline	Ŷ
Date: Mon 11/30/09	Split	 Milestone	•	Project Summary		External Milestone 🔶		



In general, construction of the Kibby Expansion Project will include the following activities:

- Preparation of the construction site (site mobilization);
- Transportation of the equipment, material and construction workers;
- Clearing and grubbing for the construction of the access roads, improvement of the existing roads, construction of new roads and preparation of the turbine site work areas;
- Construction of concrete turbine foundations;
- Installation of the wind turbines;
- Installation of the electrical collector lines, construction of the substation and 115 kV tap; and
- Final stabilization and restoration of work areas.

B.11.2 Construction Work Plan

Table B.11 provides a general work plan for construction of the Kibby Expansion project.

Activities	Description
1. Site Preparation	
Surveying	-Measurement and identification using Global Positioning System (GPS), flagging tape and other survey markers, the exact site of the limits of clearing, access roads, the wind turbines and the electrical interconnection lines. This makes it possible to determine with accuracy that work will proceed inside the limits of the Project. If necessary, this work will include some minor center line and traverse line clearing to make the survey possible.
Signage and traffic control	 -Installation of the road signage required within the limits of the Project and a reasonable surrounding area. -Special signage will be developed in conjunction with the relevant landowners for any shared roads and facilities. Construction safety, traffic control and communication protocols will be developed to ensure safe and efficient movement of both construction equipment and logging vehicles. -Determination and identification of the exact sites for storage and work areas.
Site technical	-Various expert evaluations of the technical needs for site preparation
evaluation	(clearing, grubbing, etc). -Geotechnical evaluation of the Project site.
Site mobilization	-Mobilization and installation of construction trailers and first aid facilities for the employees.

Table B.11: Construction Work Plan

Activities	Description
2. Clearing	-It should be noted that portions of the Project area are under ongoing active forest management. Consequently, some areas have been cleared of trees previously and other cuts could occur as part of the ongoing forest management activities. TransCanada has designed the Project, to the extent possible, to utilize areas already cleared to facilitate the installation of Project equipment and related infrastructure and to reduce the amount of new clearing. TransCanada will work closely with the underlying landowners to coordinate the removal of all merchantable timber from the Project area.
3. Grubbing	-Earthwork in which stumps and topsoil are removed in order to prepare the ground. Grubbing will be necessary to prepare the access roads, the wind turbine sites and the substation. Topsoil will be kept on-site and reused for revegetation activities. Stumps will be ground for use as ECM.
4. Construction and improvement of	-Since the Project area is currently under active forest management, several logging roads already exist, as well as the roads developed or
roads	improved for the Kibby Project. TransCanada will, therefore, utilize,
	whenever possible, existing roads in order to decrease the additional clearing and widening required to create new or improved access roads. The addition of vehicle pull-offs on the Mile 5 Road will be required.
Construction of the road travelling	-Installation using standard road construction equipment (bulldozers, backhoes, graders, compactors) in order to allow the passage of heavy
surfaces and rights-of-	vehicles, such as concrete trucks, cranes and trucks transporting heavy
way; improvements to	equipment.
existing roads;	-Construction with materials existing on the site, if possible (such as
temporary access trail	previously excavated materials and blast rock). If necessary, materials from acceptable sources either on-or off-site could be used. Current
	cut/fill estimates (see Exhibit B.13) indicate approximately 25,000
	cubic yards of imported fill will be required.
	-Temporary access to the new crane roads will be established to allow
	construction equipment to access the ridge, prior to having the
	permanent access road constructed. Temporary access will be
Spoil/materials	completely restored following construction.The construction standard is to re-use excavated materials to the extent
management	possible. For initial road improvements, materials will be purchased or
munugement	obtained from on-site earth-cut areas, but during the construction of
	new roads and turbine foundations, blasted and excavated rock will be
	used for the roads and work areas. Any surplus rock will be made
	available to the underlying landowners and others for maintenance or
	construction of forestry roads. Organic material removed during
	construction will be re-used in preparing ECM or placed in a
	permanent disposal area if unsuitable. Storage areas for excess have been identified.

Activities	Description
Installation of new or augmentation of existing watercourse crossings	-Some existing water crossing locations will have to be modified to allow the passage of the heavy/oversized machinery/equipment. -Over-spanning of existing bridges.
5. Installation of new meteorological towers	-One or two new permanent met towers will likely be erected, following completion of required permitting, as discussed in Exhibit B.13.
6. Installation of wind turbines	
Installation of work areas/final operating areas	-Each wind turbine site will require clearing of approximately 1 acre of land which will be leveled, compacted and prepared for the wind turbine foundation, component laydown and a permanent crane pad. Following construction the entire WTG pad will be covered with an organic soil / ECM mixture and allowed to re-vegetate except for the crane pad and 50 foot radius around the turbine.
Mechanical excavation and blasting	-Mechanical excavation using backhoes and other earthmoving equipment will be performed according to site-specific ground conditions related to each wind turbine site where possible. Controlled blasting methods will be employed to remove rock in specific areas such as wind turbine foundations or difficult road cuts.
Foundation installation	-The casting of the concrete foundation is generally carried out in one continuous pour. Up to 720 cubic yards of concrete could be required, but the most likely foundation design will require 160 cubic yards of concrete.
Turbine erection	-Once turbine foundations have been installed, cranes with up to 250- ton capacity will proceed to the first wind turbine site in a "cluster" or grouping of turbines where they will be used to erect the first two tower sections. These cranes will then move ahead to the next turbine site to repeat the operation. A heavy lift crawler crane, with a capacity of 600 tons or more, will be used for the next step in the erection sequence. This large crane will be delivered to the initial turbine site on special transport vehicles and then it will be assembled at the prepared crane pad before it is used to erect the top tower sections and the nacelle. The hub and blades will be installed individually and in sequence either by the heavy lift crane or by the mid-sized cranes depending on the requirements of the erection contractor. Once the heavy lift crane has completed its work, it can be partially disassembled and then "walked" or driven along the ridgeline crane roads to the other turbine sites.
7. Installation of the	-Medium voltage (34.5 kV) electrical lines will be buried within the
medium voltage electrical collection	turbine pad area to connect the wind turbine to the electrical switch on the wooden pole structure at the edge of the road. The collector lines
system	will then be strung on wooden poles along the side of the road and

Activities	Description			
	terminated at the substation.			
8. Substation	-Preparation and grading of surface, installation of transmission and			
installation	grounding equipment and security fencing. -Installation of transformers and electrical protection devices.			
	instantion of transformers and electrical protection devices.			
9. Installation of high	-A short, high voltage (115 kV) electrical transmission tap line will exit			
voltage tap line	the substation on wooden poles and be installed over a pre-cleared right-of-way to connect with the existing Kibby 115 kV transmission			
	line.			
11. Transportation	-Transport of the individual components of the wind turbines will be by			
and logistics	truck. Oversize load permits will be obtained whenever necessary.			
	-Due to their potential length and width, trucks will need to be			
	escorted, with escort vehicles keeping a certain distance in front and behind, and traffic may be stopped when a turn is necessary.			
	-Special vehicles may be required to transport cranes and the			
	construction equipment to the project area, the individual turbine site			
	and between turbine sites.			
	-Between 100 and 200 workers are expected to access the site dail			
12. Restoration/	with light vehicles (predominantly carpooling in vans, etc.). -After construction, the majority of the area used for the installation of			
revegetation	the wind turbines will be covered with ECM; only the areas occupied			
	by turbine foundations and the crane pad will be permanently disturbed			
	area.			
	-Approximately 14 feet of the crane road travel surface will be covered			
	with ECM such that road widths will be maintained only to a final width of 20 feet.			
	-All other temporary work areas (such as overburden and other			
	materials storage, contractor laydown areas, etc.) will be allowed to			
	revegetate.			
	-The specific restoration measures, where appropriate, will be			
	implemented according to the specific characteristics of the site.			

B.11.3 In-stream Construction Window

As approved for the Kibby Project, all in-stream construction will occur between June 15 and September 15. Any in-stream work outside that window will require prior consultation with MDIFW.

B.11.4 Winter Construction Measures

As discussed above, TransCanada intends for its contractor to conduct clearing of the various Project areas during frozen conditions, when feasible, in order to limit the use of specialized construction techniques such as construction mats that might otherwise be needed to minimize impacts to wet areas. In addition to clearing, the primary winter construction activities would generally be limited to blasting, rock crushing and installation of rock for roads and turbine pads. Installation of collector line poles at lower elevations may also occur.

Winter construction considerations are discussed generally in Section 10.0 of the Erosion and Sedimentation Control Plan (Attachment B.14-2). The Maine State Soil Scientist has previously identified concerns with road construction and other soil-disturbing activities in the higher elevation areas in frozen conditions. It is TransCanada's understanding that the principal concern was the difficulty in the ability to observe existing hydrology when the ground is frozen, which is necessary in order to select the most appropriate construction measures for maintaining the existing hydrologic flow. As a result, TransCanada will restrict winter construction in higher elevation areas, but proposes to complete winter construction in such areas in accordance with the provisions of the following plan. This approach was very successful during Kibby Project construction.

Goal and Objectives of Winter Construction

The primary wintertime construction activities at higher elevations would be clearing, blasting, rock crushing and installation of rock for roads and turbine pads. Based on substantial experience building roads in high elevation areas, including most recently on the Kibby Project, TransCanada believes that overall impacts may be minimized and a more efficient construction schedule maintained if the contractor is able to install permanent, stabilized roadway and other Project features that require rock fill in advance of the spring thaw. Thus, as long as the underlying hydrology can be identified during appropriate seasonal conditions and other Best Management Practices (BMPs) implemented to minimize exposed areas and erosion and sedimentation, TransCanada believes that construction can occur in higher elevation areas in an environmentally protective manner. In higher elevation areas, the contractor would not commence new work following ground freeze, but proposes having the flexibility to complete road construction for those portions of the roads and the turbine laydown areas where surface and subsurface water flow have been identified prior to ground freeze.

Identification and Mapping of the Existing Hydrology

Of paramount importance is the proper identification and mapping of the existing hydrology so that appropriate construction measures may be implemented to ensure the existing hydrology is maintained. TransCanada will map the hydrology during appropriate seasonal conditions, i.e.,

prior to ground freeze, and identify the appropriate "tool box" design measures at that time. The hydrology will be determined through a series of diagnostic test pits carried out in consultation with a qualified soil scientist. The on-site engineer will review the hydrology and determine the appropriate "tool box" design measures based on his or her assessment of conditions prior to ground freeze. Once the hydrology has been mapped and the appropriate "tool box" design measures selected, road construction can occur with minimal impact during frozen conditions.

Limit Exposed Soil Areas

The contractor will limit winter excavation and earthwork area to the maximum extent practicable. Given the linear nature of road construction and the need to identify the existing hydrology prior to ground freeze, it will not be possible to limit the total soil exposed area without stabilization at any one time to less than one acre. Exposed areas will be limited to those areas in which work is anticipated to occur within the next 15 days or that can be stabilized in one day prior to any snow event. As mentioned previously, TransCanada would not open up new ground disturbance at higher elevations after the ground freezes.

Natural Resource Protection

All disturbed areas within 100 feet of a protected natural resource will be mulched by December 1 and properly anchored with erosion control matting, netting, or protected with an ECM cover. During winter construction, a double row of sediment barriers (i.e., silt fence backed with hay bales or ECM) will be placed between any natural resource and the disturbed areas. Natural resource crossings shall be protected a minimum distance of 100 feet on either side from the resource. No in-stream work will occur during winter construction without prior consultation with the MDIFW.

Mulching

Mulching will be done consistent with the Overwinter Construction and Stabilization requirements in BMP A-3 of the Maine BMPs, except that if no precipitation is forecast within 24 hours and work will resume in the same disturbed area within 24 hours, daily stabilization is not required.

Soil Stockpiling

Soil stockpiling will not occur within 100 feet of a protected natural resource. In addition, as necessary, stockpiles will be encircled with ECM berms to prevent sedimentation and runoff during potential rainfall or snowfall.

Overwinter Stabilization of Disturbed Slopes

The provisions for disturbed slopes and soils in the Overwinter Construction and Stabilization requirements in BMP A-3 of the Maine BMPs will be implemented for areas meeting those definitions.

Maintenance

Maintenance measures shall be applied as needed during the entire construction season. After each significant rainfall, snowstorm or period of thawing and runoff, the site contractor will perform a visual inspection of all installed erosion control measures and perform repairs as needed to insure their continuous function. In the spring, the contractor will inspect and repair any damage and/or bare spots.

B.11.5 Construction and Post-Construction Monitoring and Reporting

This section provides a discussion regarding a framework for the construction communication and change process, an overview of anticipated third-party inspection requirements during construction, and a discussion of post-construction monitoring and reporting programs.

B.11.5.1 Engineering Refinement and Change Process

The design detail provided in this application reflects TransCanada's plans for development at the Project site. Throughout the course of the construction effort, TransCanada will look for opportunities to refine the Project further in order to reduce construction and operational impacts. This section outlines the anticipated procedure for decision-making at the site throughout the construction process, and a proposed procedure for reporting and LURC review of construction status as well as any anticipated refinements.

The following section describes the types of changes that are not material, and therefore can be implemented without prior notice to LURC. Any non-material changes will be summarized in a quarterly construction report as described in further detail below, and will be reflected in the final as-built plans for the Project. The goal is to ensure appropriate communication with LURC while maintaining an efficient Project construction process that maximizes the use of the favorable construction weather conditions.

B.11.5.2 Project Changes Not Requiring LURC Review or Approval

- Changes that result in a reduction in impact and/or footprint (such as a reduction in clearing or impervious area, and elimination of structures or a reduction in structure size).
- The exact location of a structure within the previously identified and approved footprint. For example, as geotechnical details identify the most suitable locations for the turbines,

and therefore, they may be located at any point within the specified turbine construction area. This non-material category also includes a change in the foundation type for each turbine and change in the base elevation of a turbine as long as the change in base elevation does not increase impacts.

- Exact location of temporary ridge access/skidder trailwhich will also use the existing access trail to the temporary met site, and temporary access spurs for collector construction.
- Minor changes in road alignment, collector alignment and WTG pad locations. Road, collector and WTG pad alignment adjustments that have no new resource impacts, and that meet LURC's standards for Level B Road Projects¹, are also assumed to be allowed in order to adjust for observed site impact issues and facilitate the overall minimization of construction and operational impacts.
- Location of additional pull-offs on existing roads as long as the area has been surveyed and there are no resource impacts, and the total clearing is less than or equal to the permitted clearing for such activities.
- "Toolbox" implementation. TransCanada will ensure that their on-site crew includes a qualified inspector responsible for making determinations based on field observations that incorporate appropriate BMPs defined as a part of the Project "toolbox." TransCanada has worked closely with agency staff, including the Maine Soil Scientist, to identify specific measures for conditions anticipated to be encountered. The plans in this document specify assumptions regarding the use of each. It is acknowledged, however, that even with the most detailed knowledge of the site, it will be important to establish the flexibility to respond to in-field conditions. This system is essentially the same as that which has worked well during Kibby Project construction.

TransCanada assumes that approval of this application will allow for use of any of the above identified measures, as appropriate, without the need for prior notification to LURC. It is anticipated that agency personnel, including LURC and the Maine Soil Scientist, may through site reconnaissance observe such decision-making processes to the extent they wish, in order to assure themselves the process is working as anticipated. TransCanada will provide regular documentation to LURC, so actions are clearly outlined throughout the construction process.

In addition to TransCanada's engineering oversight, environmental inspection will be an important element of the construction process. The engineering and environmental personnel will each have the authority to stop work or redirect Project efforts in the event a refinement decision is necessary that could result in a material change requiring further consideration or review.

¹ Level B Road Projects: Minor relocations, and reconstructions, involving limited work outside of the existing right-of-way of public roads or private roads [here, the approved road alignment]...; "Minor relocations" as used herein may not exceed 300 feet in horizontal displacement of centerline. "Reconstruction" as used herein may involve widening of existing rights-of-way not to exceed 50 feet on either side. 10.02.71.

B.11.5.3 Reporting and Change Documentation

TransCanada intends to continue working in an open manner throughout the construction process, and would like to ensure that LURC is fully apprised of the construction status as it develops. Because seasonal differences and field-encountered issues always require adjustments in the scheduling and implementation process, regular reporting will keep LURC properly apprised of Project issues. Several different types of reporting are proposed in addition to routine site visits and other construction inspections:

- Routine quarterly reporting TransCanada will maintain internal documentation and will continually update the Project schedule as a construction management tool. TransCanada proposes to provide a quarterly summary of Project activities and construction highlights, as well as an update to the anticipated Project schedule. This will allow LURC a means to formally monitor the construction process and understand the implications of seasonal and logistical issues that may be encountered. Any non-material changes incorporated will be summarized in each quarterly report. At certain points of the construction process, key milestones may be achieved that will warrant reporting out of the quarterly cycle. For example, if completion of the primary geotechnical investigation were to result in material changes to the information reflected in the approved development plan, a milestone-driven report would be prepared for LURC, along with applicable requests for review and identification of Project work that would continue in the interim so LURC is clear which work is in suspension pending confirmation, and which work not affected by potential changes is still in process.
- Material change reporting Irrespective of milestone events, TransCanada will notify LURC in writing of identified material changes determined to be necessary. As for milestone reporting, TransCanada will specify work that is already authorized and therefore will continue in parallel with the LURC review process for changes that require LURC review and approval prior to implementation.
- As-built reporting At the completion of a particular phase of construction or at the end of the installation (depending upon how the construction schedule is managed), TransCanada will prepare as-built drawings and a brief summary report to reflect the conditions of the Project as constructed. This will be submitted to LURC for its records and will provide a useful framework for post-construction monitoring.

If and when material changes are identified, TransCanada will prepare permit Amendment documentation and it is anticipated that LURC staff will promptly conduct a preliminary review of the information to provide an indication of the process required. It is anticipated that most changes would be minor enough that a staff level review would be sufficient. It will, however, be important to the overall construction process to understand the anticipated process and timeline so the schedule of other work can account for the anticipated "approval or hold" time on the requested change. TransCanada will work closely with LURC staff and other agencies to keep communication channels open to construct a Project that is consistent with the overall impact levels initially approved and incorporate refinements that continue to improve the Project

with minimal delays.

B.11.5.4 Environmental Inspection

TransCanada will employ an environmental inspector during active construction and restoration of the Project. The inspector will have the following minimum qualifications:

- A degree in an environmental science or civil engineering, or other demonstrated expertise.
- A practical knowledge of erosion control practices and stormwater hydrology.
- Experience in management or supervision on large construction projects.
- The ability to understand and articulate TransCanada standards and permit requirements and conditions concerning erosion control or stormwater management to contractors.
- The ability to clearly document and communicate activities being inspected.
- Appropriate facilities available to them, and, if necessary, support staff to carry out the duties and responsibilities, as described in the following section.

The environmental inspector will be responsible for ensuring compliance with the requirements of the erosion and sedimentation control and stormwater management plans, the construction drawings, the environmental conditions of the LURC permit, proposed mitigation measures, and other federal or state environmental permits and approvals. Specific responsibilities will include:

- Ensure that all construction and stabilization activities comply with approved designs, applicable permit conditions and TransCanada standards.
- Ensure that field decisions regarding erosion and sedimentation control implementation, stormwater management measure installation, and natural/sensitive resource protection are based on sound considerations and in cooperation as necessary with the appropriate authorities.
- Ensure effective communication between TransCanada and the applicable agency regarding any changes to the erosion and sediment control, stormwater management, or final stabilization plans.

Prior to construction the inspector will become thoroughly familiar with:

- The terms and conditions of applicable TransCanada standards and the applicable permit requirements and conditions.
- The proposed construction schedule, including the timing for installation and removal of erosion controls, the timing for construction and stabilization of any erosion control related structures, and the deadlines for completing stabilization of disturbed soils.
- The Project site, potential affected natural resources, Project plans and specifications, including those for building stormwater measures, those for installing the erosion control measures to be used on the site, and those for temporarily or permanently stabilizing

disturbed soils in a timely manner.

During construction the inspector will:

- Monitor the contractor's installation and maintenance of the erosion control measures called for in the applicable permits and any additional measures the inspector believes are necessary to prevent sediment discharge to off-site properties or natural resources. This will be based upon the approved erosion control plan (Exhibit 14.B, Attachment B.14.2), field conditions at the time of construction, and the natural resources potentially impacted by construction activities.
- Monitor the contractor's construction of the stormwater system, including the construction and stabilization of ditches, culverts, rock sandwiches, and other runoff management or water quality treatment measures.
- Monitor the contractor's installation of any stream or wetland crossings.
- Monitor the contractor's final stabilization of the Project site.
- Keep logs recording any rain events at the site, the contractor's activities on the site, discussions with the contractor(s), and possible non-compliance with permit conditions.
- Inspect the Project site at least once a week and before and after any significant rain event. Note that the frequency of inspection can be varied to best address the Project needs. The inspector will document all protected natural resources both before and after construction and will document any areas of non-compliance.
- Prepare and submit reports to TransCanada, at a frequency to be determined (as performed, weekly, bi-weekly, etc.).

The inspector will submit written inspection reports, including documentation of potential noncompliance issues, on a form provided by TransCanada. The reports will summarize construction activities and events on the site for the previous work period, as outlined below. The report will:

- State the name of the development, its permit number(s), and the start and end dates for the inspection time frame (week, Monday through Sunday, etc.).
- State the date(s) and time(s) when the inspector was on the site making inspections.
- State the date(s) and approximate duration(s) of any rainfall events on the site for the week.
- Identify and describe any erosion problems which resulted in sediment leaving the property or sediment being discharged into a wetland, brook, stream, river, lake, or public storm sewer system. The report will describe the contractor's actions to repair any damage to other properties or natural resources, actions to eliminate the erosion source, and actions to prevent future sediment discharges from the area.
- List the buildings, roads, parking lots, stream crossings, or other features open to construction for the reporting period, including those features or areas actively worked and those left unworked (dormant).

- For each area open to construction, list the date of initial soil disturbance for the area.
- For each area open to construction, note which areas were actively worked that reporting period and which were left dormant during that period.
- For those areas actively worked, briefly state the work performed in the area that reporting period and the progress toward final stabilization of the area, e.g., "grubbing in progress," "grubbing complete," "rough grading in progress," "rough grading complete," "finish grading in progress," "finish grading complete," "finish grading complet
- For each area open to construction, erosion and sedimentation control measures installed, maintained, or removed during the reporting period.
- For each erosion control measure in-place, note the condition of the measure and any maintenance performed to bring it to standard.

B.11.6 Third Party Inspection

LURC requires TransCanada to retain the services of a third-party inspector to monitor compliance with LURC permit conditions during construction. The objectives of the third-party inspector condition are as follows:

- to ensure that all construction and stabilization activities comply with the permit conditions and the LURC-approved drawings and specifications;
- to ensure that field decisions regarding erosion control implementation, stormwater system installation, and natural resource protection are based on sound engineering and environmental considerations; and
- to ensure communications between the contractor and LURC regarding any changes to the development's erosion control plan, stormwater management plan, or final stabilization plan.

The section establishes the inspection program and outlines the responsibilities of TransCanada, LURC, and the inspector.

B.11.6.1 Inspector Selection

At least 30 days prior to starting any construction activity on-site, TransCanada will submit the names of at least two inspector candidates to LURC staff. Each candidate must meet the minimum qualifications listed under Section 3.0. The candidates may not be employees, partners, or contracted consultants involved with the permitting of the Project or otherwise employed by the same company or agency. LURC staff will have 15 days from receiving the names to select one of the candidates as the inspector or to reject both candidates. In the event LURC staff rejects both candidates, LURC shall state the particular reasons for the rejections. In this case, TransCanada may either dispute the rejection to the Director of LURC or start the selection process over with the nomination of two new candidates.

B.11.6.2 Inspector Qualifications

Each inspector candidate nominated by TransCanada shall have the following minimum qualifications:

- a degree in an environmental science, civil engineering, or other demonstrated expertise;
- a practical knowledge of erosion control practices and stormwater hydrology;
- experience in management or supervision on large construction Projects;
- the ability to understand and articulate permit conditions to contractors concerning erosion control or stormwater management;
- the ability to clearly document activities being inspected;
- appropriate facilities and, if necessary, support staff to carry out the duties and responsibilities set forth in Section 6.0 in a timely manner; and
- no ownership or financial interest in the development other than that created by being retained as the third-party inspector.

B.11.6.3 Terminating the Inspector's Services

The applicant will not terminate the services of the LURC-approved inspector at any time between commencing construction and completing final site stabilization without first getting written approval to do so from LURC.

B.11.6.4 The Inspector's Duties and Responsibilities

The inspector's work shall consist of the duties and responsibilities outlined below.

- Prior to construction, the inspector will become thoroughly familiar with the terms and conditions of the LURC-issued permit and other relevant permits, conditions, and restrictions related to the protection of natural resources within the Project area.
- Prior to construction, the inspector will become thoroughly familiar with the proposed construction schedule, including the timing for installing and removing erosion controls, the timing for constructing and stabilizing any basins or ponds, and the deadlines for completing stabilization of disturbed soils.
- Prior to construction, the inspector will become thoroughly familiar with the Project plans and specifications, including those for building detention basins, installing the erosion control measures to be used on-site, and temporarily or permanently stabilizing disturbed soils in a timely manner.
- During construction, the inspector will monitor the contractor's installation and maintenance of the erosion control measures to called for in the state permit(s) and any additional measures the inspector believes are necessary to prevent sediment discharge to off-site properties or natural resources. This direction will be based on the approved erosion control plan, field conditions at the time of construction, and the natural resources potentially impacted by construction activities.

- During construction, the inspector will monitor the contractor's construction of the stormwater management resources, including the construction and stabilization of ditches, culverts, detention basins, water quality treatment measures, and storm sewers.
- During construction, the inspector will monitor the contractor's installation of any stream or wetland crossings and observance of permit conditions or restrictions related to same.
- During construction, the inspector will monitor the contractor's final stabilization of the Project site.
- During construction, the inspector will keep logs recording any rain storms at the site, the contractor's activities on the site, discussions with the contractor(s), and possible violations of the permit conditions.
- During construction, the inspector will inspect the Project site at least once a week and before and after any significant rain event. The inspector will photograph protected natural resources both before and after construction and will photograph areas of non-compliance. Photographs will be identified with, at a minimum, the date the photo was taken, the location, and the name of the individual taking the photograph. Note: the frequency of these inspections as contained in this condition can be varied to best address the particular Project needs.
- During construction, the inspector will prepare and submit weekly inspection reports to LURC staff.
- During construction, the inspector will notify LURC immediately of any significant noncompliance issues.
- Subsequent to construction, the inspector will monitor the stormwater and erosion and sedimentation control measures at the site monthly for a period of one year after the Project begins power production.

B.11.6.5 Inspection Reports

The inspector will submit weekly written reports to LURC that will include photographs of representative compliance measures and potential violations. Reports will be prepared using a form provided by LURC. Each report will be due by the Friday following the inspection week (Monday through Sunday). The weekly report will summarize construction activities and events on the site for the previous week as outlined below.

- The report will state the name of the development, its permit number(s), and the start and end dates for the inspection week (Monday-Sunday).
- The report will state the date(s) and time(s) when the inspector was on-site.
- The report will state the date(s) and approximate duration of any rainfall events on the site for the week.
- The report will identify and describe any erosion problems that resulted in sediment leaving the property or sediment being discharged into a wetland or stream. The report will describe the contractor's actions to repair any damage to other properties

or natural resources, actions to eliminate the erosion source, and actions to prevent future sediment discharges from the area.

- The report will list the buildings, roads, turbine pads, detention basins, stream crossings, or other features open to construction for the week, including those features or areas actively worked and those left unworked (dormant).
- For each area open to construction, the report will list the date of initial soil disturbance for the area.
- For each area open to construction, the report will note which areas were actively worked that week and which were left dormant for the week. For those areas actively worked, the report will briefly state the work performed in the area that week and the progress toward final stabilization of the area (e.g., grubbing in process, grubbing complete, rough grading in progress, rough grading complete, finish grading in process, finish grading complete, permanent seeding completed, and area fully stable and temporary erosion controls removed).
- For each area open to construction, the report will list the erosion and sedimentation control measures installed, maintained, or removed during the week.
- For each erosion control measure in-place, the report will note the condition of the measure and any maintenance performed to bring it to standard.

EXHIBIT B.12 ESTIMATED DEVELOPMENT COSTS

The total Project cost, as summarized in Table B.12 below, is estimated at \$116.3 million.

Table B.12: Project Cost Estimate

Project Element	Estimated Costs (\$ millions)
Turbine supply	63.9
Electrical system and erection	17.8
Turbine foundations and erection	6.5
Substation and 115 kV tap	15.5
Indirect costs and escalation	12.6
Total	116.3

Decommissioning cost are presented and discussed in Exhibit A.7.

EXHIBIT B.13 PROJECT DESCRIPTION

The design of the Project has been developed through extensive consideration of engineering and environmental issues while attempting to make the most efficient use of the available wind resource, and minimizes impact on the range of environmental and community concerns, as addressed throughout this application.

B.13.1 Summary of Project Characteristics

The Kibby Expansion Project consists of 15 Vestas V90 wind turbines rated at 3MW each that are capable of generating up to 45 MW of electricity, and is expected to produce approximately 120,000 MWh per year of electrical energy. The turbines are located on the Sisk Mountain ridgeline in Kibby and Chain of Ponds Townships, Franklin County, Maine (see Figure B.2-1). Associated elements of the Project include:

- Improvements to the existing forestry roadway network, a new access road and new crane roads;
- A 34.5 kV electrical collector system;
- The Kibby Expansion Substation;
- An approximately 325-foot long 115 kV tap line to connect the new substation to the existing Kibby Project 115 kV transmission line;
- An addition to the existing Kibby Project O&M Building;
- One or two permanent meteorological tower(s); and
- Temporary construction disturbance areas.

More detailed information about the specific Project elements is provided in the following subsections.

B.13.2 Wind Turbines

The wind turbine proposed for installation at the Kibby Expansion Project is the Vestas V90, which has a 3.0 MW nominal capacity. Vestas has been a leader in the development and manufacture of commercial wind turbines for over 20 years and is the largest manufacturer of wind turbines in the world. The V90 is specifically designed to be situated in high wind areas. Because the Project site has a strong wind resource, the V90 is well suited for this Project. The V90 is a pitch-regulated upwind wind turbine, with active yaw control and a three-blade rotor. The turbine has a rotor diameter of about 295 feet with a hub height of about 263 feet , which results in a ground to vertical blade tip height of approximately 410 feet (130 m).

Table B.13-1 summarizes the individual characteristics of the Vestas V90 turbine. It should be noted that other major turbine manufacturers produce turbines in the 3 MW range that would be suitable for the Kibby site.

	1
Number of blades	3
Blade length	144 feet
Rotor Diameter	295 feet
Rotor swept area	68,482 square feet
Nominal revolutions	16.1 rpm
Variable range	8.6-18.4 rpm
Operation	
Nominal capacity	3.0 MW
Voltage	34.5 kV (the generator produces 1,000 volts and the transformer in the nacelle steps this up to 34.5 kV)
Frequency	60 Hz
Minimum wind speed (turbine cuts in)	9 mph
Maximum wind speed (turbine cuts out)	56 mph
Other features	Nacelle rotates to face the wind
Tower	
Hub Height	263 feet
Number of Sections	4
Base Diameter	13.5 feet

 Table B.13-1: Vestas V90 Wind Turbine Specifications

The turbines will be located along the Sisk Mountain ridgeline, as shown in Figure B.2-1 and the engineered Project Plan and Profile Drawings C-1 through C-9 provided in Attachment B.13-1. Turbine spacing varies from 2 to 4 rotor diameters. There are no guy wires or external ladders associated with the wind turbines. The turbines are painted white. Figure B.13-1 is picture of a Vestas V90 turbine currently installed and in operation as part of the Kibby Project.



Vestas 3 MW V90 Turbines at Kibby Mountain

A wind turbine generator package is made up of: a reinforced concrete foundation; a tower to support the wind turbine elements; and the wind turbine elements themselves (the nacelle, rotor and blades). Each is described below.

B.13.2.1 Turbine Foundations

There are three general types of foundations proposed to securely anchor wind turbines to the earth, described as rock-anchored, socket (or plug) type, and gravity type. Civil and geotechnical engineers will select foundation designs that provide the appropriate support given the geotechnical analysis, are efficient to build, have low construction risks and minimize impacts. Based on the geotechnical site work and construction of the Kibby Project, it is expected that most of the foundations will be placed in solid bedrock and will, therefore, utilize rock anchors, but boreholes or core samples at each turbine site will be required before final design and installation. Rock anchor foundations require less excavation and use less reinforced concrete than gravity-based foundations.

Rock-Anchored Foundation

After the geotechnical work is completed and it is determined that a wind turbine is sited on solid, non-fracturing rock, a rock-anchored foundation is the most suitable design. The foundation consists of a series of anchors (13 were used on the Kibby project foundations) that are drilled into the rock and then supported with a concrete cap on the surface. This rock-anchored type of foundation is more compact and efficient to build than a gravity foundation, but can only be used where the rock formations are suitable and enable adequate bond length between the rock and the anchor, with a geologic structure that will hold anchors securely over time.

Socket-Type Foundation

To build a socket-type foundation a hole roughly the shape of a large flower pot is prepared either by mechanical excavation or by blasting. The rock edges of the hole serve as formwork for the placement of reinforced concrete which serves as a base for the wind turbine.

Gravity-Type Foundation

The gravity-type foundation, shaped like an inverted mushroom, is designed to be installed in existing soils, and to hold the wind turbine upright through sheer weight and leverage. The design is used widely, but requires the most excavation and the most concrete to build (and, thus, is most costly).

B.13.2.2 Wind Turbine Tower

The wind turbine tower is manufactured out of steel and has a hollow tubular form. The wind turbine towers are fabricated from appropriately designed steel and transported in four pieces, 13 feet in diameter at the base, tapering to 7.5 feet at the top. The height of the tower will be 263 feet.

B.13.2.3 Turbine Nacelle

The nacelle, situated at the top of the tower, is the "mechanical and electrical box" of the wind turbine. It contains the principal components which convert the mechanical wind energy into electricity. It is a heated, weather-protected steel frame and fiberglass assembly. The nacelle houses the turbine's 360 degree yaw control, main rotor bearing and blade pitch mechanism, transmission, gearbox coupled with the rotor, the electrical generator, transformer and control system. An opening in the floor provides access into the nacelle from the tower. The roof section is equipped with a skylight, which can be opened to access the wind sensors (anemometer and wind vane), which are mounted on the nacelle roof along with Federal Aviation Administration ("FAA") lighting, where required.

A cold-weather package for the V90 will be used, consisting of extra sealing and heating in the nacelle, special cold-weather lubricants, and adjustments to the turbine control system to allow operation in colder temperatures.

In order to optimize the transformation of the wind energy into electricity, the wind turbine is equipped with an orientation system. This system makes it possible to swivel the nacelle so that the rotor is always oriented with the wind. The nacelle can turn 360 degrees, clockwise and counter-clockwise, so as to maximize energy production. This orientation system is connected to the control system, which is connected to the wind vane sensors. Thus, if a change of direction in wind is indicated to the control system, the orientation system modifies the position of the rotor.

The control system also functions to stop the wind turbine if a technical problem occurs (for example if the blades turn too quickly, if there is rotor imbalance or if the gearbox associated with the generator overheats, or if the wind speeds are too high).

The energy produced by the generator is sent to the transformer which increases the low-voltage electricity generated by the generator to an ideal level for electrical transmission through the electrical collector system to the substation.

B.13.2.4 Turbine Rotor and Blades

The rotor is attached to the nacelle, and is comprised of a hub and three turbine blades, shaped similar to the wings of an airplane. The blades collect the wind and transfer its power to the generator inside the nacelle.

The blade design uses a new airfoil shape, developed in conjunction with the Riso National Laboratory in Denmark. It is also extremely light, using carbon fibers in place of fiberglass for the load-carrying structure of the blade, reducing the fiberglass content overall and cutting weight even further.

B.13.2.5 Safety Lighting

The V90 wind turbine, as with all structures over 200 feet high, must have aircraft warning lights installed in accordance with FAA guidelines. Wind farms around the country share the same challenge: to meet the need for aviation safety while minimizing annoyance to the project's neighbors and avoiding undue attraction and collision risk to migrating birds and bats.

The lighting plan will follow FAA requirements, i.e.; red lights are required at night, flashing with a slow-on, slow-off profile, similar to a lighthouse. It is anticipated that FAA lights will be mounted on approximately half of the nacelles, in accordance with the Project-specific determination made by the FAA. TransCanada will work with the FAA, as it has done in the past, to appropriately balance the safety and impact potential of this lighting requirement.

B.13.3 Turbine Pads

Each turbine site will be located in a 200-foot long by 150-foot wide (approximately 0.7-acre) cleared area next to the crane road. Each location will be leveled to a grade of approximately 0.5 percent or less to accommodate the turbine delivery and assembly process. The turbine foundation is generally located within one corner of the pad with the heavy lift crawler crane used to erect the turbine on a level compacted area next to the turbine foundation. During construction, about 80 percent of the cleared pad area will be used as temporary work space storing tower sections in preparation for assembly. The location and features of the 15 turbine pad areas are shown on the Project Plan and Profile Drawings C-1 through C-9 located in Attachment B.13-1. Detail of the turbine pad can be found in Detail drawing C-17. Blasting or ripping of bedrock is expected to be required to level the crane and turbine pad area. Blasting will be performed safely and efficiently with minimal impact to adjacent areas in accordance with the Blasting Plan provided in Attachment B.13-2.

The turbine site locations have been selected to ensure adequate spacing between turbines to avoid wind current interference between adjacent turbines, while avoiding the most difficult

slopes and wetland impacts to the greatest extent practicable. In accordance with TransCanada's consultations with the MDIFW, no turbines have been placed within the Bicknell's thrush core habitat or bog lemming habitat.

Following construction the entire area cleared and leveled area will be restored with the soil/ECM mixture and allowed to revegetate with the exception of a 70-foot by 70-foot permanent crane pad area and a 50-foot radius (approximately 0.3 acre) around the base of each turbine.

B.13.4 Roads

Existing and new access roads need to support the transport of heavy and long turbine tower sections, the 70-ton nacelles and the 144-foot blades to the WTG sites. Where the Project will use existing roads, some improvements are necessary to ensure safe use of those roads during construction.

Primary access for the project will be from Route 27 via Gold Brook Road, located on KWF and Plum Creek property. No new improvements to the Gold Brook Road will be required. Only normal grading and maintenance activities will occur as needed. Access to the Sisk Ridgeline will require improvement of approximately 2.2 miles of the Mile 5 Road, an existing Plum Creek logging road, and construction of approximately 1.1 miles of new access road from the end of the Mile 5 Road improvements to the ridge. Once on the ridge, approximately 3.6 miles of new crane roads will be necessary to access the 15 turbine sites. In addition, approximately 1,200 feet of the existing Wahl Road will need to be improved to allow for delivery and ongoing maintenance of the new transformer within the Kibby Expansion substation.

The engineering design for the roads has been accomplished with the following goals in mind:

- To use existing logging roads as much as possible, and build new roads only where necessary;
- To locate the roads to minimize cut and fill, and maintain average grades of approximately 10 percent, with steeper grades of 12 to 15 percent allowed for short distances to minimize cuts, fills and road length;
- To make the roads as narrow as possible, and minimize turning radii; and
- To achieve load-carrying functionality, drainage and erosion control while minimizing width and wetland, stream and visual impacts.

The routing for Project roads has included careful, site-specific field investigation and design. However, all construction conditions cannot be fully characterized and quantified until work is underway. Therefore, a series of "toolbox" design measures have been specified for certain conditions expected to be encountered in the construction process, and will be applied on the basis of conditions encountered in the field. This approach, developed with meetings and consultations with state agencies prior to and during the Kibby Project construction, allows for a level of certainty in the construction process, but also allows for the use of engineering judgment in the construction process to best respond to actual field conditions.

The Kibby Expansion construction contractor will be responsible for maintenance of the affected roads during construction. Following construction, the landowner will be responsible for maintaining the existing logging road network. TransCanada operations personnel will be responsible for maintaining new Project roads.

The following sub-sections describe the characteristics of the crane road along the ridge and the access road to the ridge, and provide a discussion of the design measures included for the Project. New or improved Project roads are shown on Figure B.2-1. Plan and Profile Drawings of all new or improved Project roads are provided in Attachment B.13-1. Table B.13-2 summarizes roadway technical specifications.

Dimensions		
Ridgeline crane roads	 Travel surface 34 feet in width to allow crane to travel between sites, reduced to 20 feet after construction Side slopes 1.5H:1V (max 1:1, all rock fill) 	
Access road to ridge and Wahl Road	 Travel surface 20 feet Side slopes 2H:1V (in mineral soil), 1.5H:1V (max 1:1 all rock fill) 	
Ditches	 - 1 to 2 feet height - 3-foot bottom width – upslope side of access road - Side slopes 1.5H:1V - Top width 6 to 10 feet 	
Curves	 Distance between curves: 150 feet Ridge: Minimum internal radius of curve: 150 feet¹ Access: Minimum internal radius of curve: 175 feet 	
Slope and Leveling		
Typical slope	10%	
Maximum slope	Up to 15% short distances	

Table B.13-2: Technical S	Specifications for Cran	e and Access Roads
	Productions for oran	

¹The minimum distance between curves was a general goal but could not always be achieved due to geometric constraints and efforts made to minimize cut/fill and impacts to environmental features, particularly wetlands.

Ridgeline Crane Roads

Mountaintop roads connecting turbine sites must carry the same heavy loads as access roads, but must also be wide enough for transporting the wide-tracked heavy-lift erection crane. The crane roads will utilize a super-elevated design and will be built with on-site blast rock with 34-foot travel surfaces to allow for safe movement of the turbine erection crane. Following construction, only 20 feet of the 34-foot construction road width will be maintained. Approximately 7 feet along each edge of the crane roads will be covered with an organic soil/ECM mixture and natural vegetation will be allowed to grow back. Stormwater control measures make maximum use of the rock sandwich design and other stormwater management techniques from the "toolbox" implemented during construction of the Kibby Project. Extensive blasting of rock is anticipated.

The crane will be brought to the site disassembled, and will be assembled near the first turbine pad. The crane will then travel from one site to the next as each turbine site is ready. As shown on the Project drawings in Attachment B.13-1, crane assembly areas have been incorporated into the crane road design at WTGs #5 and 15. The crane assembly areas are generally 34 feet wide and 400 feet long. These areas will be restored with the soil/ECM mixture and allowed to revegetate.

The locations of the crane roads and crane assembly areas have incorporated site grade requirements as well as environmental factors. These areas have been located and designed to avoid impact to wetland resources as much as possible. Special emphasis was placed on totally avoiding any disturbance within the Bicknell's thrush core habitat and bog lemming habitat and minimizing to the maximum extent practicable impact to the overall Bicknell's thrush and subalpine fir habitats, as requested by MDIFW and Maine Natural Areas Program ("MNAP"). Plan and Profile Drawings C-1 through C-9 (Attachment B.13-1) provide the design details of the crane roads and turbine assembly areas.

Approximately 0.4 mile of crane road is proposed to be located outside the P-MA non-expedited permitting area in Chain of Ponds Township. Construction of Level C roads within P-MA subdistricts is an allowed use by special exception upon issuance of a permit from the Commission pursuant to 12 M.R.S.A. §685-A(10) and subject to the applicable requirements set forth in Sub-Chapter III, provided that the applicant shows by substantial evidence that (a) there is no alternative site which is both suitable to the proposed use and reasonably available to the applicant; (b) the use can be buffered from those other uses and resources within this subdistrict with which it is incompatible; and (c) such other conditions are met that the Commission may reasonably impose in accordance with the policies of the Comprehensive Land Use Plan. Chapter 10.23.G.3.d. This standard applies to the portion of the ridge road between WTG 12 and WTG 15, which is located in the P-MA subdistrict outside of the expedited permitting area.

Because the turbines are located in areas above 2,700 feet, a portion of the ridgeline roads are necessarily also located above 2,700 feet. Locating the turbines below 2,700 feet is not practicable for the following reason: in order to effectively utilize the wind resource, the WTGs must be located on the ridgeline and, because no portion of the Sisk Mountain ridgeline is located below 2,700 feet, the turbines associated with the Project must also be located above 2,700 feet. The only practicable means for bringing in the turbine components and the large crane required to erect the turbines is to construct a road that allows the transportation of such equipment to the WTG locations, including construction of Level C roads located outside the expedited area, within the P-MA. No alternative location was suitable to the proposed use.

As described previously, the crane roads located above 2,700 feet have been sited to incorporate site grade requirements while minimizing environmental impacts. These areas have been located and designed to buffer the road from other uses and resources in the P-MA subdistrict. Special emphasis was placed on totally avoiding any disturbance within the Bicknell's thrush core habitat and bog lemming habitat and minimizing to the maximum extent practicable impact to the overall Bicknell's thrush and subalpine fir habitats. In addition, TransCanada evaluated possible means of reducing the width of the footprint of the proposed road alignment within the non-expedited area. First, the Project Plan and Profile drawings for the crane road assume a 1.5H:1V slope for rock fill areas. This is expected to be the worst case (i.e., widest footprint) scenario. It may be possible to safely construct and maintain portions of this road with rock fill slopes up to 1H:1V. This is the most effective way to significantly reduce the footprint; however, the amount of that reduction can only be determined once construction is underway. The area of permanently maintained road within the non-expedited area will be 0.97 acres, which cannot be significantly reduced.

Access Road to the Ridgeline

The first approximately 1.3 miles of the Mile 5 Road is a gravel road with gradual slopes, averaging about 10 feet wide under current conditions. This portion of the road is a drivable road for moderately-sized, high clearance vehicles under most conditions. The Mile 5 Road then becomes a winter road of approximately the same width. This portion of the road has only been grubbed and sufficient grading done to allow for woods vehicles to travel it under frozen ground conditions, with little additional gravel or improvements. Drainage and runoff control is poor along the improved section of the Mile 5 Road, and essentially non-existent along the woods road portion. To support Project construction access and egress needs and ongoing year round Project maintenance activity, the road bed of approximately 2.2 miles of the Mile 5 Road will be improved significantly with rock and gravel, the travel surface will be widened to 20 feet, and appropriate drainage and stormwater management controls will be installed. Where existing bridge weights are not sufficient, structural improvements or replacement bridges will be installed. A load carrying capacity of 90 to 100 tons is required. A drainage swale on the

upslope side and new or replacement culverts for streams will be required that will be oversized to enhance fish passage. At other wetland crossing and wet areas, the roadbed incorporates extensive use of rock sandwich design to allow for proper drainage without channelized flows. (See Plan and Profile Drawings C-10 through C-14 in Attachment B.13-1).

A new section of road will be required from approximate milepost 2.2 on the improved Mile 5 Road to the Sisk ridgeline. This portion of the access road will be approximately 1.1 miles long. Routing of this road has been designed to take advantage of existing previously cleared areas (the first approximately 1,600 linear feet), avoid wetland and other protected resource impacts as much as possible while, at the same time, allow for slopes that can be safely traveled by heavy equipment and loads. This was accomplished by incorporating a switchback design to minimize and balance cuts and fills, and keep the length of the road as short as practicable. It would be built as a rock and gravel road, with a 20-foot wide travel surface, and make maximum use of the super-elevated road construction, rock sandwich and other stormwater management techniques developed during construction of the Kibby Project. Ditches or other measures that channelize runoff will be avoided to the maximum extent possible. Vegetation may be cut back along the edges during construction to allow for the passage of wide loads. Where bedrock is encountered, ripping or blasting will be utilized. (See Plan and Profile Drawings C-14 and C-15 in Attachment B.13-1).

The design of the access road to the ridgeline also includes 5 pull offs, approximately 20 feet wide by 300 feet long, to allow for safe management of construction and logging traffic vehicles at the lower elevations and to facilitate safe passage of construction equipment on the steeper grades up to the ridge line. Pull offs are located only in upland areas and utilize previously cleared areas as much as practicable. The location of pull offs are shown on the Project drawings in Attachment B.13-1.

Wahl Road Improvements

Approximately 1,200 linear feet of the existing Wahl Road will be improved, beginning at the existing Kibby Project Substation and ending at the entrance to the proposed Kibby Expansion Substation. Road grades will be improved to modify the sharp crowns and dips in the existing road so that the transformer can be delivered to the site on a low bed trailer. The improvements will also widen the gravel travel surface from approximately 15 feet to 20 feet to provide for ongoing safe use of the road during construction and operation of the Project. Plan and Profile Drawing SS-4, located in Attachment B.13-1 shows the design details of the Wahl Road improvements.

B.13.5 34.5 kV Electrical Collector System

The electricity generated by each turbine must be collected and transmitted to the existing power transmission system (the grid). That will require the construction of an electrical collection system and, as will be discussed below, a substation and a 115 kV tap line into the existing Kibby Project 115 kV transmission line.

The electrical collection system (shown on Figure B.2-1 and Project Plan and Profile Drawings C-1 through C-15 and CS-1 through CS-3 in Attachment 13.B-1) is necessary to interconnect the individual wind turbines to a single exit power line. Underground collector lines will be installed from the turbine base through the turbine pad area to the edge of the road where they will connect above grade to the riser pole as part of the above ground collector system between the turbines. The collection system will consist of a single 34.5 kV, three-phase cable circuit on overhead poles located adjacent to the crane roadways for WTG's 1 through 6 and another single 34.5 kV, three-phase cable circuit on overhead poles adjacent to the crane roadways for WTG's 7 through 15 (the collector system on the ridge will have two 34.5 kV three-phase circuits on common poles from the WTGs #8 spur road to the intersection with the access road to the ridge). The total length of the collector system corridors on the ridge will be approximately 3.1 miles. Typical collector pole height will be approximately 45-50 feet. Typical collector pole structure designs are shown on the 34 kV Structure Detail Drawings CS-4 through CS-6 (Attachment 13.B-1). Pole placement has prioritized avoidance of wetland and sensitive habitat areas.

The collector system will deliver the gathered electricity to the proposed Kibby Expansion Substation, located on Wahl Road, via two three-phase collector "home run" circuits on common poles from the ridgeline generally following the Mile 5 (ridgeline access) Road to Gold Brook Road and then generally following Wahl Road to the new substation. The collector lines have been located adjacent to roads as much as possible, deviating only to avoid major bends or switchbacks in the roads. Following long or sharp curves requires additional collector line length and extensive guying of the pole structures, which adds substantially to Project construction and maintenance costs. A shorter collector line increases the efficiency of bringing the power generated to the grid (i.e., decreases electric power loses along the power lines). The home run collector system corridor will be approximately 5.8 miles long. As for the ridgetop pole placement, wetlands have been avoided to the extent practicable as the lines extend to the Kibby Expansion Substation.

In the limited areas where the collector system leaves the roadway corridors, a 60-foot wide cleared right-of-way will be required. Where the collector lines are adjacent to roads or where the collector lines will be placed in areas that have been cleared previously by others, the additional affected area varies from 60 to approximately 30 feet wide. Following construction,

the right-of-way will be allowed to revegetate with low-growing species. Future maintenance of this cleared right-of-way will be performed.

Along with the three-phase electrical collector wires, fiber optic communication cabling will be strung on the same poles for the System Control and Data Acquisition ("SCADA") system that controls, monitors, and collects performance data from each turbine.

B.13.6 Substation and 115 kV Tap Line

The Kibby Expansion Substation will be located along Wahl Road, as shown on Figure B.2-1 and on the Project Drawings in Attachment B.13-1, approximately 800 feet east of the existing Kibby Substation. The substation will consist of a 140- by 140-foot fenced area, including a grounding mat, and will contain the main 34.5 kV-to-115 kV step-up transformer, connection points for the incoming and outgoing power lines, and small weather-protected enclosures for backup power generation, SCADA connection and other communication needs. Plan view and cross section drawings of the proposed substation design (SS-2 and SS-3) are provided in the Permit Drawing Set in Attachment B.13-1. Access to the substation will be via a short driveway off of Wahl Road. Signs will be placed on the substation fence to warn the public of the high voltage present and restrict public access.

A short, approximately 325-foot long, three-phase 115kV transmission line will be required to connect the power generated from the Kibby Expansion Project to the electrical grid via the existing Kibby Project 115-kV transmission line. The existing transmission line connects to the grid at the Bigelow Substation located in Carrabasset Valley. The new 115 kV tap line will require an additional cleared right-of-way 100 feet wide and approximately 100 feet long (See Drawing SS-3 in Attachment B.13-1). The new substation and the right-of-way for the 115 kV tap have been located so they avoid any wetland impact.

Perimeter lighting and equipment lighting will be provided at the substation but it will normally be shut off. The lighting will be set up to be turned on manually or by motion sensors to allow for emergency inspection or repair. Portable generators and lights will be used for supplemental lighting in confined areas.

B.13.7 Kibby Project O&M Building Expansion

The existing Kibby Project O&M Building at the intersection of the Gold Brook Road and State Route 27 will require a small addition to provide new office space for the additional person needed to operate the expanded project and additional working space for operations personnel in general. The existing O&M building is 70 feet long by 50 feet wide. A 15-foot expansion to the width of the existing building is planned resulting in a 15-by 70-foot addition (1,050 square feet). The addition will be made in an area cleared for Kibby Project construction and currently covered with a gravel surface. There will be no new clearing or increase in the permanently developed area from what currently exists. There will be no change in outside lighting or other exterior features of the existing O&M Building.

B.13.8 Meteorological Tower(s)

One or two permanent met towers will be incorporated into the Project at a later time for use in ongoing operations. The specific locations of these towers will be determined based upon final layout and operational assessment needs. The met towers will utilize a similar design employed for the Kibby Project and for the existing temporary met tower located on Sisk Mountain. The heights of the permanent met towers will be designed such that measurements are taken at precise turbine hub height. At this time it is assumed that approximately 4 acres of new clearing would be needed to access and install each met tower, with 3 acres of area permanently maintained for operation and maintenance of each tower. However, the location(s) for the permanent met tower(s) may require a lesser amount or possibly no new impact area, if they could be co-located in areas that are proposed to be affected by construction or operation of the 15 WTGs. A Development Plan Amendment Application will be submitted to the LURC for review and approval when the met tower location(s) and other specifications are finalized.

B.13.9 Temporary Construction-Only Facilities

There are a several construction facilities or areas that are only necessary during the construction phase of the Project. These include:

- Temporary skidder trail/construction access road;
- Temporary laydown areas;
- Temporary access spur roads for 34.5 kV collector construction.
- Expanded construction control center/parking area; and
- Rock crushing plant and material handling and storage areas.

These temporary construction facilities are described below.

B.13.9.1 Temporary Skidder Trail/Construction Access Road

In order to allow for efficient progression of ridge line clearing activity, a skidder trail from the vicinity of WTG #15 to the existing access trail to the temporary met tower located on the Sisk Mountain ridge will be needed to avoid the disruption of construction activity on the permanent Project roads for the purpose of hauling logs down from the ridge. The skidder trail will be approximately 0.6 miles long, 12 feet wide and is located to avoid wetlands and other sensitive resources and the steeper terrain in this area. To minimize the amount of new land area affected,

the trail will then utilize approximately 1 mile of the existing access trail to the temporary met tower down to the Mile 2.5 and Gold Brook Roads. The portions of the Mile 2.5 and Gold Brook Roads utilized to access the trail are not included in the calculation of the length of the skidder trail or in the calculation of the area of new disturbance that would result from the Project.

The approximate location of the skidder trail is shown on Figure B.13-2. It should be noted that the actual location of portions of this trail could change based on the recommendations of the clearing contractor once the contractor has inspected the area. Any re-location of the trail will avoid new wetland impacts.

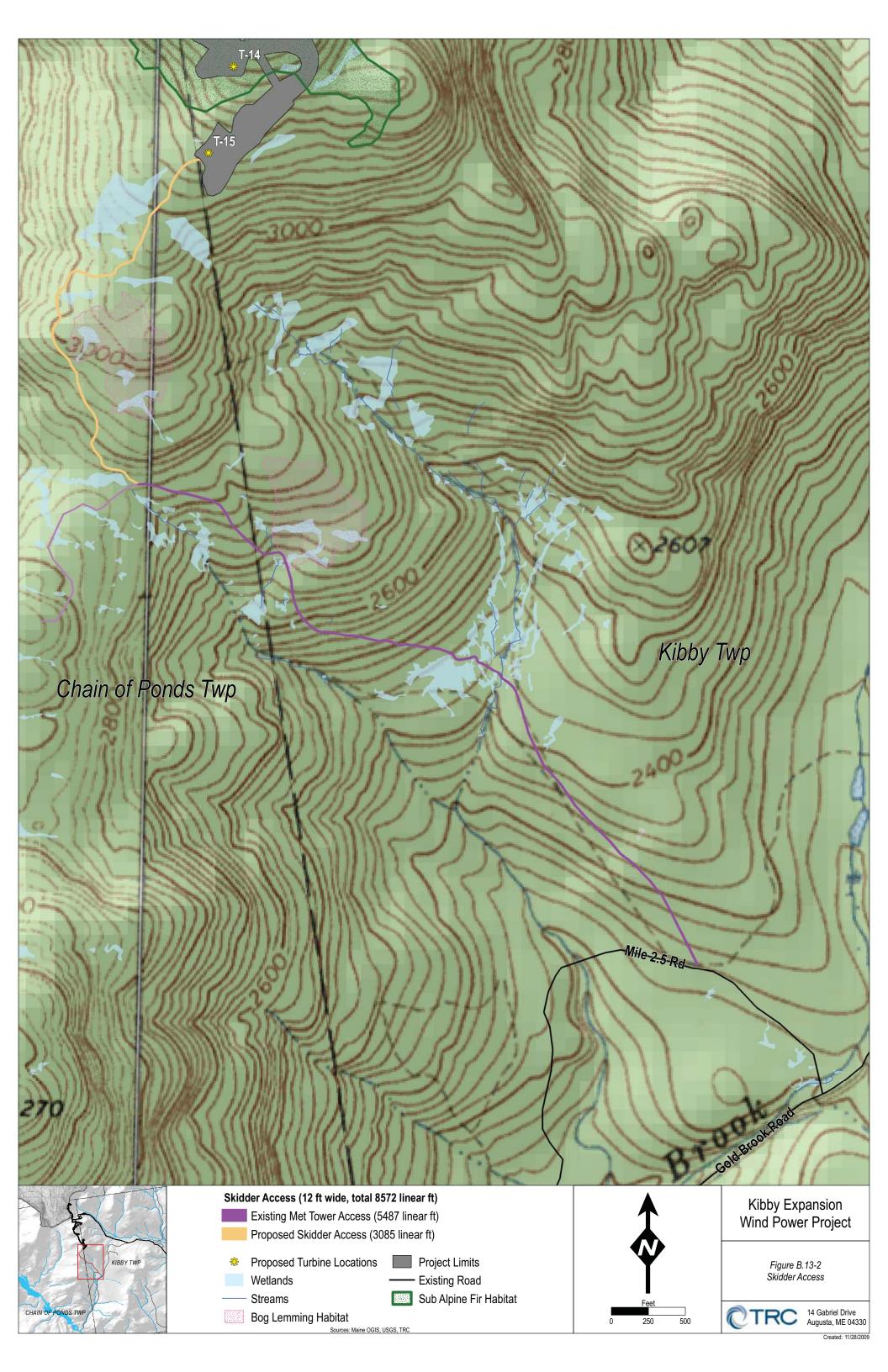
Once clearing activities have been completed on the ridge, rock fill from on-site blasting activities will be added to reduce some of the steeper slopes, and the trail will be used for temporary construction access by vehicles capable of traveling the steep grades that remain. Following construction, the fill will be removed and unvegetated areas will be stabilized and allowed to revegetate.

B.13.9.2 Temporary Laydown Areas

Two temporary laydown areas are planned for Kibby Expansion construction. The first will be the existing 2.4-acre Kibby B Ridge laydown area located on Mile 3.5 Road. The area is well-located for use during Kibby Expansion construction and avoids the creation of any new clearing or affected area. No alterations to the existing laydown area will be required other than typical maintenance grading of any rutted areas. As a result, the Kibby B-Series laydown area is not included in the calculation of the area of new disturbance that would result from the Project. The approximate location of the B-Series laydown area is shown on Figure B.2-2.

A new temporary laydown area, approximately 2.5 acres in size, is proposed where the access road to the ridge line diverges from the Mile 5 Road. This laydown area avoids wetland impacts and is located on previously cleared land that has started to grow back with small trees and shrubs. The area will be cleared, as needed, and the existing grade modified to be less steep using materials excavated from ongoing construction activities or imported fill. The location of the new temporary laydown area is shown on Drawing C-14 in Attachment B.13-1 and on Figure B.2-2.

It should be noted that, while the Project has been designed to utilize all earthen and rock spoils and removed stumps for construction purposes, should any of the materials not be used in the



construction process they would be brought to one or both of the temporary laydown areas for permanent disposal. Additional details regarding the handling and disposal of these materials is provided below.

Following completion of construction, it is expected that these two laydown areas will be stabilized with soil/ECM mixture and allowed to revegetate. Should either of these areas be used for permanent disposal of earthen or rock spoils or stumps, these waste materials would be spread out in a manner so that the final contours blend in with the surrounding grade surface as much as possible and to avoid altering the basic drainage characteristics of the site prior to construction. These areas will meet the LURC Standards in Section 10.27 of the Land Use Districts and Standards. The area would then be stabilized, as needed, with soil/ECM mixture and allowed to revegetate.

B.13.9.3 Temporary Access Spur Roads for Collector Construction

A limited number of temporary spur roads may be required for construction of the 34.5 kV collector system construction. These spur roads would only be needed where the collector line corridor is not immediately adjacent to an existing road. The locations of temporary spur roads will be determined by the contractor but will not cross wetlands, waterbodies, or other sensitive natural resources. Clearing, if any, for spur roads will be limited to 20 feet in width and only minimal grading or temporary fill will be required. Following construction any fill will be removed and the area will be allowed to revegetate.

A total of 1200 linear feet of spur roads has been assumed in the impact calculations.

B.13.9.4 *Kibby Project Construction Control Center/Parking Area Expansion*

The Kibby Project temporary construction control center established at the intersection of Route 27 and Gold Brook Road will be expanded by approximately 1 acre to approximately 2.5 acres in size. The construction control center provides a central location from which construction management logistics can be controlled and construction trailers can be located, as well as for temporary storage for construction supplies and for visitor and limited construction personnel parking. The existing potable water well that also serves the existing O&M Building will supply water for use during construction. As is currently the case, sanitary waste for the construction control center will be managed by use of portable storage tanks.

After construction is completed, construction trailers, debris and unused material will be removed, the area stabilized with soil/ECM mixture and allowed to return to essentially the same conditions as existed prior to construction.

B.13.9.5 Rock Crushing Plant and Temporary Material Handling/Storage Areas

A portable rock crushing plant will be used to process blasted and excavated rock into appropriately sized crushed stone for on-site construction purposes, and will be co-located with related material handling and temporary rock storage areas. The locations where rock crushing and material storage and handling will occur will be determined by the contractor during construction, based on the most efficient use of these materials for nearby construction purposes (primarily road construction) and to avoid creating space or travel conflicts between various construction activities at a particular location which could result in delays in the construction schedule. In any case, no additional clearing or ground disturbance will result from these activities since the areas used for crushing, storage and handling of rock will be within areas already designated for clearing or other Project construction activities.

Following construction, these areas will be restored or become part of the permanent Project facilities, depending on the locations ultimately chosen for rock crushing and related material handling and temporary storage.

B.13.10 Control of Fugitive Emissions

Excessive fugitive dust emissions will be controlled, as needed, by application of water to active construction areas provided ambient temperatures are above freezing. The amount of water applied will be controlled to avoid the creation of runoff leaving the construction area. Water will be applied using a water truck or other similar means.

B.13.11 Land Area Affected

Table B.13-3, on the following page, provides a summary of the permanent and temporary land area affected by the Kibby Expansion Project.

Project impacts to wetlands, streams, vernal pools, and other sensitive natural resource areas are described in Exhibit B.15.

B.13.12 Signs

Permanent Signage

As discussed previously, signs will be placed in the following locations:

- At the construction control center/O&M Building;
- At each turbine location;
- At the substation; and
- Along various Project roads.

Project Element		New Clearing		Total Area Affected by	New Permanently Developed/Maintained
		Total	Permanent	Construction ¹	Area
	Turbine Pads	17.6	4.4	17.6	4.4
	Total Permanent Roads (7.1 miles)	70.3	12.4	81.6	13.8
	Crane Roads ² (3.6 miles)	56.4	9.4	56.4	9.4
	Subtotal Access Road to Ridge $(3.3 \text{ miles})^3$	13.9	3.0	23.7	4.3
	Mile 5 Road (2.2 miles)	0.7	0	10.5	1.34
	New Road (1.1 miles)	13.2	3.0	13.2	3.0
	Wahl Road Improvements (0.2 miles)	0	0	1.5	0.1 ⁵
	34.5 Collector Corridor (8.9 miles)	31.0	31.0	42.0	41.0
Permanent Facilities	On Ridge (3.1 miles)	6.9	6.9	6.9	6.9
	Homerun to Substation ⁶ (5.8 miles)	24.1	24.1	35.1	34.1
	Substation ⁷	1.2	1.2	1.2	1.2
	O&M Building Expansion	0	0	0.6	0
	Met Towers (2)	8.0	6.0	8.0	6.0
	Subtotal Permanent Facilities	128.1	151.0	151.0	66.4
Temporary Facilities	Temporary Skid Trail Construction Access (0.6 miles)	7.0	0	19.5	0
	Temporary Laydown Areas (2)	2.5	0	4.9	0
	Construction Control Center and Parking	1.0	0	2.5	0
	Rock Crusher/Temporary Material Storage	0	0	0	0
	Subtotal Temporary Facilities	10.5	0	26.9	0
PROJECT TOTALS		138.6	55.0	177.9	66.4

Table B.13-3: Land Area (acres) Affected by the Kibby Expansion Project

¹ Includes areas with existing disturbance within contractor work areas except Gold Brook Road, Mile 2.5 Road and Wahl Road up to the Kibby Project Substation.

² Includes crane assembly areas at WTGs 5 & 15.
 ³ Includes road pull-offs.

⁴ Does <u>not</u> include the existing area of the Mile 5 Road that will be improved. ⁵ Does <u>not</u> include the existing area of the Wahl Road that will be improved.

⁶ Includes temporary access spurs.

⁷ Includes 115 kV tap line.

During construction, the primary sign will be located at the existing Kibby Project construction control center which is also the location of the permanent, existing O&M Building. Sign information will include the Project name and ownership, construction contractor name and, contact information. The sign will direct visitors to check in at the construction control center (later, the O&M Building) for additional Project information or to access the site. Signage for the Project during construction, other than the primary sign, will be limited to informational signs associated with site activities and roadway closures as necessary. Most of the signage will be for information dealing with traffic management or health and safety issues. Where required or relevant, specific signage will be developed with the landowners for shared roads and facilities.

Following construction, the permanent sign near the O&M Building will remain (revised to reflect post-construction information). Permanent signs will be posted near each turbine and at the last access road pull off before the ridge warning of the potential for falling ice and snow and restricted access. In addition, signs will be placed on the substation fence to warn the public of the high voltage present and restrict public access.

Project signage will meet the requirements of Chapter 10.27.J.

B.13.13 Setbacks and Dimensional Requirements

B.13.13.1 Chapter 10.26.D Setback Requirements

The applicable setback requirements from Chapter 10.26.D are listed and discussed below. The property line public safety setbacks for wind turbines are discussed in Exhibit A.5.

Setback of Structures from Property Lines

Chapter 10.26.D.2.e requires commercial, industrial, and other non-residential principal and accessory structures to be set back 25 feet from the side and rear property lines. The Commission may reduce the property line setback where there is no practical alternative and upon prior written agreement of the adjoining property owner (Chapter 10.26.G.13). The structures associated with the Kibby Expansion Project have been sited in order to optimize the use of the well-known, significant wind resource in the area, while avoiding or minimizing to the greatest extent practicable potential impacts on the natural resources. Access for the project has been designed to utilize existing logging roads and currently cleared areas to the maximum extent possible, keeping the length of new or improved roadways to the minimum necessary to ensure safe and efficient access. Due to site or other constrains, where setbacks could not be met, TransCanada has obtained the requisite landowner consents.

<u>Turbines</u>: Table B.13-4 summarizes the distance of each wind turbine from the closest property line. The base of all turbines is well over 25 feet from property lines.

WTG Number	Distance to Property Line (feet) ¹
1	1501
2	1888
3	2040
4	1549
5	1359
6	1524
7	1509
8	457
9	309
10	782
11	443
12	252
13	171
14	363
15	106

Table B.13-4: Turbine Property Line Setback

¹Measured from the closest point of the tower base to the property line.

<u>O&M Building</u>: The width of the O&M Building will be expanded by approximately 15 feet to the east. The closest point of the O&M Building, once expanded, will be located more than 25 feet from the nearest property line.

<u>Kibby Expansion Substation</u>: The Kibby Expansion Substation will be located more than 25 feet from the nearest property line.

<u>Poles/collector lines</u>: One pole structure and a portion of the collector lines will be located less than 25 feet from the nearest property line. TransCanada has obtained express consent from the affected landowners to do so. (See Exhibit B.5, Easement with Plum Creek, pages 4 and 13, and Consent regarding Setback with KWF.

Setback of Structures from Waterbodies

Chapter 10.26.D.2, a requires commercial, industrial, and other non-residential principal and accessory structures to be set back 100 feet from the nearest shoreline of a flowing waterbody

draining less than 50 square miles, a body of standing water less than 10 acres and from the upland edge of wetlands designated as P-WL1 subdistricts.

<u>Turbines</u>: All turbines are located more than 150 feet from any streams or P-WL1 wetlands.

<u>Kibby Project O&M Building</u>: The Kibby Project O&M Building is located over 150 feet from any streams or P-WL1 wetlands.

<u>Kibby Expansion Substation</u>: The Kibby Expansion substation is located where the new access road to the ridge diverges from the improved Mile 5 Road and is set back 100 feet from the nearest streams, which drain less than 50 square miles.

There are no standing water bodies within 150 feet of proposed structures.

Setback of Structures from Roads

Chapter 10.26.D.2, c requires commercial, industrial, and other non-residential principal and accessory structures to be set back 75 feet from the traveled portion of the nearest roadway to which the public has access.

<u>Turbines</u>: Turbines are set back well over 75 feet from the Gold Brook Road and the Mile 5 Road, the closest existing roads accessed by the public.

<u>The Kibby Expansion Substation</u>: The Kibby Expansion Substation is setback 75 feet from Wahl Road, the closest existing road accessed by the public.

<u>O&M Building</u>: The O&M Building is setback more than 75 feet from State Route 27 and Gold Brook Road, the closest existing roads accessed by the public. The expansion of the existing O&M Building will not result in it being located closer to a road.

Setback of Roads from Waterbodies

Except at stream crossings, all new roads or road improvements are located more than 100 feet from streams. There are no standing water bodies within 150 feet of proposed structures or streams in the area that drain more than 50 square miles.

B.13.14 International Boundary Commission

In consultations with the International Boundary Commission ("IBC"), the IBC indicated that as long as any of the Kibby Expansion facilities were not placed within or extended into the clearing that is maintained by the IBC along the Maine/Quebec border, their requirements would be met and no permit would be needed. WTGs 1-6 have been located so that the furthest extent

of any turbine blades would be at least 10 feet from the edge of the boundary clearing. The base of each turbine is more than 150 feet from the boundary.

B.13.15 Earthen Spoils and Stump Disposal

As mentioned previously, it is expected that all earthen spoils and rock that are excavated or blasted during construction will be re-used on-site. All rock and good quality gravel material removed during construction will be reused on site for roadbeds and other purposes. Similarly, it is expected that all stumps will be ground to make ECM and used for site stabilization and restoration. Excavated organic soils will be mixed with the ECM to promote revegetation of restored areas. Therefore there should be no need for disposal areas for fill material and stumps.

In the event that an excess of either of these materials is generated, they would be brought to one or both of the temporary laydown areas. Earthen materials would be spread out so that the final contours blend in with the surrounding grades as much as practical and to avoid altering the basic preconstruction drainage characteristics of the site. The area would then be stabilized, as needed, with soil/ECM mixture and allowed to revegetate. Disposal of earthen spoils will be conducted in accordance with applicable Chapter 10.27.F requirements.

In accordance with Chapter 10.25.H, any disposal of stumps will be conducted as required by the Maine DEP Solid Waste Disposal Rules.

B.13.16 Disposal of Solid Waste Other than Stumps

Solid wastes from the Kibby Project are currently picked up by J & J Disposal of Farmington, Maine (also doing business as Archie's, Inc of Mexico, Maine) and taken to the Waste Management Crossroads Landfill in Norridgewock, Maine. It is anticipated that the same licensed solid waste haulers and licensed disposal facilities for collection and disposal of Kibby Project solid wastes will be used for the Kibby Expansion Project.

B.13.17 Spill Prevention Control and Countermeasure ("SPCC") Plan

The minimum SPCC Plan requirements for the Kibby Expansion Project are provided in Attachment B.13-3. Prior to construction, TransCanada will require its contractor to provide a site-specific SPCC Plan that incorporates these minimum requirements. This approach and the minimum SPCC Plan requirements are the same as those utilized for the Kibby Project.

B.13.18 Geotechnical Evaluation

As mentioned previously, comprehensive geotechnical testing and evaluation have not been completed because of the substantial clearing and other work that would be required to provide access for drilling equipment to the ridgetop turbine locations. Such studies will be conducted for the purposes of finalizing turbine foundation design. Geotechnical information may also be important for areas along the new access road where soil or rock stability is of concern to the contractor. As construction gets underway additional borings may be performed if adequate access to the relevant locations is available. As shown in the Construction Schedule, provided as Figure B.11, the comprehensive geotechnical evaluations are expected to be conducted from mid-August until early November of 2010. The intended geotechnical investigations will not meet the definition of Level A mineral extraction in Chapter 10.02.87, and will be conducted in accordance with Chapter 10.27.C.1 requirements. Essentially all of the geotechnical work would be conducted above 2,700 feet msl.

TransCanada has, however, completed preliminary geological reconnaissance investigations for the primary purpose of gathering general geologic information to identify rock type and depth to bedrock along the Sisk Mountain ridge, and to evaluate the likelihood of encountering acid rock. This preliminary work found the geologic conditions of the Sisk Mountain ridge to be generally consistent with published geologic information from the area. The samples collected and analyzed for acid rock properties were not found to be considered toxic for acidity or alkalinity.

A copy of the Preliminary Geologic Investigation report is provided as Attachment B.13-4. Please note that the preliminary geological reconnaissance was conducting using an early turbine configuration that has since changed as a result of agency consultations and other factors. As a result, the geologic investigation and rock sampling cover some areas that would not be affected by the proposed Project. Nevertheless, as indicated in the report, the observations and rock samples analyzed are considered to be "generally representative of the bedrock in the Sisk Mountain area, and therefore the results from the acid-base accounting are also representative."

TransCanada is aware that this preliminary work is not sufficient to preclude the possibility of encountering acid rock during construction of the Project. As a result, TransCanada has adapted its Acid Rock Testing and Mitigation Plan (the "Acid Rock Plan") for the Kibby Project for use during the Kibby Expansion Project. Should rock be encountered that displays potential acid properties, the Acid Rock Plan will be implemented and appropriate safeguards to control and mitigate potential adverse effects from acid runoff will be implemented, as necessary. The Acid Rock Plan is provided as Attachment B.13-5.

B.13.19 Blasting Plan

The minimum Blasting Plan requirements for the Kibby Expansion Project are provided in Attachment B.13-2. Prior to construction, TransCanada will require its blasting contractor to provide a site-specific blasting plan that incorporates these minimum requirements. This approach and the minimum blasting plan requirements are the same as those utilized for the Kibby Project.

B.13.20 Cut and Fill Estimates

The Project has been designed to balance the total Project cuts and fills to the greatest extent practical. All rock or good quality gravel materials excavated during construction is expected to be crushed on-site and used for roadbeds and to level or stabilize other areas during construction. Table B.13-5 provides a summary of the cut and fill estimates. As can be seen in Table B.13-5, the engineering calculations indicate that there will be a net deficit of fill material of approximately 25,000 cubic yards, requiring imported fill to make up the deficit. It should be noted that these estimates have been made using best engineering practices and state-of-the-art civil engineering design software. However, these calculations can only be considered estimates and the actual balance of cut and fill will only be known based on the actual site conditions encountered as construction gets underway. As a result, Project planning has assumed that up to approximately 50,000 cubic yards of high quality fill will need to be imported into the site from existing commercial gravel pits in the Franklin County area.

PROJECT AREA	CUT	FILL	NET
RIDGE TOP	616,300 CY (523,850 CY @ 85% total, 15% material losses)	543,800 CY	19,950 CY FILL
ACCESS ROAD TO RIDGE	105,850 CY (89,975 CY @ 85% total, 15% material losses)	95, 225 CY	5,250 CY FILL
PROJECT TOTALS	722,150 CY (613,825 CY @ 85% total, 15% material losses)	639,025 CY	25,200 CY FILL

Table B.13-5 Cut and Fill Estimates

B.13.21 Clearing

Table B.13-3, above provides a summary of all temporary and permanently cleared areas. Clearing required to construct and operate the Kibby Expansion Project will be in accordance with applicable standards of Chapter 10.27.B.

ATTACHMENT B.13-1

Permit Plan Set/Erosion and Sedimentation Control and Stormwater Management Detail Drawings (Bound Separately)

ATTACHMENT B.13-2

Blasting Plan

BLASTING PLAN

1. Pre-Blasting Survey/Blasting Plan Update

The construction contractor/blasting subcontractor shall submit a detailed Pre-Blasting Survey/Blasting Plan to TransCanada for approval prior to the start of any blasting operations that is consistent with the requirements of this Blasting Plan. The Pre-Blasting Survey/Blasting Plan shall include locations and site plans for areas known to require blasting, and the scope of blasting required.

The Pre-Blasting Survey/Blasting Plan must include, at a minimum, the following information:

- 1. Explosive type
- 2. Type of detonation
- 3. Delay type and interval
- 4. Initiating methods
- 5. Delay pattern
- 6. Maximum shot hole depth and diameter
- 7. Maximum charge per hole
- 8. Maximum charge per delay
- 9. Distance to nearest below-ground structures including existing buried pipelines, cables, etc., if any
- 10. Distance to nearest above ground structures including existing buildings, utility poles, etc., if any
- 11. Peak particle velocity monitoring and control
- 12. Proposed fly-rock control method
- 13. Wet sand cover
- 14. Matting (type construction)
- 15. Safety Reference to federal, state, county and local requirements including the documents referenced in Section 4
- 16. Environmental Reference to federal, state, county and local requirements including the documents listed in Section 4
- 17. Mitigation methods
- 18. Contingency planning

The construction contractor/blasting subcontractor is to conduct pre-blast inspections on all properties within and abutting all blast sites and present it to TransCanada for final approval prior to undertaking the work. A minimum distance of 500 feet must be considered in identifying relevant properties and structures.

Inspections shall include interior and exterior conditions (cosmetic as well as structural findings). These inspections are for the benefit of property owners as well as the construction contractor/blasting subcontractor.

Acceptance of the Survey/Plan by TransCanada shall not relieve the construction contractor/blasting subcontractor of responsibility for harmful consequences of its blasting operations, whether performed in accordance with the Plan or not.

2. Transportation, Storage and Use of Explosives

The construction contractor/blasting subcontractor shall ensure that transportation, storage and use of explosives is in accordance with federal and state regulations and the stipulations contained in applicable permits.

The construction contractor/blasting subcontractor shall provide TransCanada with all copies of permits obtained by the construction contractor/subcontractors prior to commencement of blasting operations.

2.1 Transportation

- A. Vehicles used for the transportation shall not be loaded beyond rated capacity for the vehicle.
- B. Explosives shall be transported in vehicle(s) with covered body(s) to prevent dislodgment from the vehicle.
- C. Explosives vehicles shall be marked with reflective signs on both sides, front and rear, bearing the word EXPLOSIVES in red letters on a white background in addition to the diamond-shaped signs listing the class of explosives.
- D. When blasting caps are transported on the same vehicle as explosives, the blasting caps shall be contained in a cap magazine designed for that purpose as defined in 49 CFR I77.835(g).
- E. No spark-producing materials will be transported in the truck bed with explosives.
- F. Vehicles used to transport explosives shall be inspected prior to each use. A record of inspections will be kept with the vehicle.
- G. Explosives vehicles shall be operated in a safe and prudent manner.
- H. No person shall smoke within 50 feet of explosives.
- I. All vehicles transporting explosives shall have two ABC fire extinguishers of 10

pound size location in the cab of the vehicle.

2.2 Storage

- A. Magazines shall comply with Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) regulations and placed no closer than 100 feet of each other.
- B. The area around each magazine shall be kept free of combustible materials for a distance of 25 feet.

2.3 Use

- A. Drilling and loading operations shall not occur within 50 feet of one other.
- B. Drilling equipment will be equipped with a suitable dust control apparatus and will be kept in repair and use during all drilling operations.
- C. Tamping of explosives shall be done using a wooden tamping pole.
- D. Blast mats will be utilized when deemed necessary. The number of mats and the position of the mats used on any one shot will be at the discretion of the blaster; however, whenever a question occurs of whether or not to use mats, the blaster will always decide to go with the safest procedure. If necessary, depending upon encountered conditions, every shot could be matted.
- E. Prior to each blast, the person responsible for shooting shall determine that the area is clear of personnel and equipment and that a TransCanada Representative is on site and aware of the conditions and procedures.
- F. The TransCanada Representative shall be advised of the time of each planned shot as far in advance as possible.
- G. The following blast signals shall be used: 3 blasts = 5 minutes to shot; 2 blasts = shot imminent; 1 long blast = all clear.
- H. Signs shall be posted warning of the blast signals.
- I. The blaster shall determine after each blast that no misfire has occurred.
- J. In the event of misfire, the area shall be cleared for not less than 30 minutes after which the blaster shall take appropriate steps to determine the cause of the misfire. All misfires shall be reported to the safety engineer.
- K. Detonation of each shot will be by means of a non-electric system. Each series of holes will be delayed for a minimal fly rock and ground concussion using millisecond interval delays.
- L. Blasting operations will be restricted to daylight hours.
- M. The blasting operation will be under the direction of a blasting foreman. The blaster and driller are experienced at both drilling and blasting.

- N. Drilling patterns will depend upon the depth of the rock and its condition.
- O. Test Blast Program will be performed in accordance with the typical blasting plan and typical loaded hole for determination of shot design performance relative to required job specifications. Plans will be adjusted relative to meeting desired performance.

2.3.1 Vibration Control

- A. When a blast is being planned, the following information will be documented in a blasting log to be kept by the person responsible for blasting operations.
 - 1. Location
 - 2. Depth and patterns of holes
 - 3. Number of holes
 - 4. Amount and type of explosives per hole per delay
 - 5. Type of detonation
 - Scaled distance as defined in EM385-I-1 25.COB as a scaled factor (ft/lb units) of the potential damage to a structure, based on the distance from the nearest structure to the blast site and the weight of explosives per delay. When scaled distance is less than 70, seismograph(s) will be used to monitor and record vibration.
 - 7. Time and date of shot.
 - 8. Location of closest structure (building and/or utility pole).

In addition, the blasting log shall include the following information as outlined in 38 MRSA 490-Z(14)(L):

A record of each blast, including seismographic data, must be kept for at least one year from the date of the last blast, must be available for inspection at the development or at the offices of the owner or operator if the development has been closed, completed or abandoned before the one-year limit has passed and must contain at a minimum the following data:

- (1) Name of blasting company or blasting contractor;
- (2) Location, date and time of blast;
- (3) Name, signature and social security number of blaster;
- (4) Type of material blasted;
- (5) Number and spacing of holes and depth of burden or stemming;
- (6) Diameter and depth of holes;
- (7) Type of explosives used;
- (8) Total amount of explosives used;
- (9) Maximum amount of explosives used per delay period of 8 milliseconds or greater;
- (10) Maximum number of holes per delay period of 8 milliseconds or greater;
- (11) Method of firing and type of circuit;

- (12) Direction and distance in feet to the nearest dwelling, public building, school, church or commercial or institutional building neither owned nor controlled by the developer;
- (13) Weather conditions, including factors such as wind direction and cloud cover;
- (14) Height or length of stemming;
- (15) Amount of mats or other protection used;
- (16) Type of detonators used and delay periods used;
- (17) The exact location of each seismograph and the distance of each seismograph from the blast;
- (18) Seismographic readings;
- (19) Name and signature of the person operating each seismograph; and
- (20) Names of the person and the firm analyzing the seismographic data.

Documentation of seismograph and other instrumentation calibration must be presented to the TransCanada Representative prior to blasting

Copies of all blasting logs and seismic records shall be submitted to the TransCanada Representative on a weekly basis.

B. All shots that will produce a maximum of 2 inches per second peak particle velocity at 250' or less and a peak air over pressure of 129 dB. Ground vibration will be controlled by use of delays and loading patterns.

3. Monitoring

All shots that could affect structures will be monitored by seismographs. The units will be set and operated by the blaster and will be positioned between the blast and the nearest structure. These units not only record the results of each blast for the logs, but they also serve as indicators to help guide in determining the type, size, and patterns of the shots.

4. Reference Documents

Code and Federal Regulations (CFR):

49 CFR Part 177

29 CFR, Part 1910.109 – Explosives and Blasting Agents OSHA U.S. Army Corps of Engineers: Manual No. 385-1-1, Safety and Health Requirements. Maine Revised Statues Annotated (MRSA):

38 MRSA 490-Z(14)(L), Performance Standards for Quarries. Office of Surface Mining Reclamation and Enforcement, Maine Department of Environmental Protection, Maine Department of Transportation, U.S. Bureau of Mines

ATTACHMENT B.13-3

SPCC Plan

ENVIRONMENTAL CONTROL REQUIREMENTS FOR CONTRACTORS AND SUBCONTRACTORS OF TRANSCANADA – OIL AND HAZARDOUS MATERIAL

The criteria listed below are the requirements for oil and hazardous material use compliance by contractors and subcontractors for TransCanada. All contractors and subcontractors are required to comply with these requirements while working for or on behalf of TransCanada.

Penalties: Failure to abide by these requirements will constitute grounds for termination of contractor/subcontractor services.

General Requirements:

- Contractors/subcontractors will store, transport, and use oil, hazardous materials, and wastes in accordance with all applicable local, state, and federal regulations and these requirements.
- At a minimum, contractors/subcontractors will follow best management practices when storing, transporting or using oil, hazardous materials, and wastes.
- Contractors/subcontractors, at all times, will take care not to cause an uncontrolled spill or release of oil or hazardous materials to the environment.
- Contractors/subcontractors will provide and maintain on-site sufficient spill cleanup and containment supplies (absorbent pads, containment booms, protective clothing, debris containers, etc.) to control releases of oil, hazardous materials, or wastes.
- Contractors/subcontractors will remove all oils, hazardous materials, wastes and unused materials from the work site at the completion of the job. This includes full and partially full containers of waste material such as, but not limited to, rags, gloves, trash, scrap material, and empty containers.

NOTE: If large quantities of oil or hazardous materials are involved, written agreements with emergency response contractors may be required.

Storage and Handling Requirements:

- Contractors/subcontractors will store only the minimal amount of material (at each work site) necessary to complete the work.
- Handling and application of pesticides and herbicides shall only be in accordance with regulations under the Maine Pesticide Control Act of 1975, as amended, Title 7 M.R.S.A., Section 601.

- Materials will be stored in D.O.T. approved containers or approved tanks in areas not considered to be environmentally sensitive.
- Containers will be kept closed unless material is being transferred.
- Contractors/subcontractors will ensure that all transferring operations are monitored and not left unattended.
- Containers will not be stored on the ground, but will be stored in cabinets or on a firm working surface such as a portable trailer bed or other secure decking.
- If at any time a contractor/subcontractor needs to store oil including, but not limited to, fuel oil, petroleum products, sludge, and oil refuse in excess of an aggregate amount of 1,320 gallons (excluding 55-gallon or less containers) that is located near a pathway to navigable waters, the Federal requirements for oil pollution prevention (40 CFR Part 112) must be met. Contractor/Subcontractor Spill Prevention Control and Countermeasure (SPCC) plans will be approved by a licensed, professional engineer and a copy will be sent to TransCanada no later than one week prior to the commencement of the oil storage activities.
- Storage and handling of flammable and combustible liquids including gasoline and diesel fuel will be in accordance with rules developed under Title 25 M.R.S.A., Section 2441 (Fire Prevention and Fire Protection), as amended (See also Code of Maine Rules 16-219 Chapter 317). These regulations include, but are not limited to, bonding and grounding during transfer operations, fire protection requirements, storage quantity limitations, and spacing and location requirements.
- All gasoline and fuel storage tanks must have secondary containment constructed of an impervious material and be capable of holding 110% of tank capacity.
- Handling and disposal of hazardous wastes will be in accordance with Maine Department of Environmental Protection (DEP) Hazardous Waste Management rules (06-096 Chapters 853 through 857) developed pursuant to Title 38 M.R.S.A., Section 1301 et. Seq., and U.S. Environmental Protection Agency regulations (40 CFR 260 through 272). Handling and disposal of waste oil will be in accordance with Maine Department of Environmental Protection Waste Oil Management Rules (06-096 Chapter 860) and U.S. Environmental Protection Agency regulations (40 CFR 279).

Spill Reporting Requirements:

All spill reporting requirements are the responsibility of the contractor/subcontractor. As required by Title 38 M.R.S.A., Section 543 and Department of Environmental Protection regulations (06-096 Chapters 600 4.B and 800 4.1), spills of oil or hazardous materials in any amount and under any circumstances must be reported to the Department within two hours from the time the spill was discovered at 1-800-482-0777.

As required by the Federal Clean Water Act (40 CFR Part 110.4), a discharge of oil "which causes a sheen upon the surface of the water or adjoining shore line or oily sludge deposits beneath the surface of the water" must be reported within 24 hours to the National Response Center at 1-800-424-8802.

The need to report spills to the National Response Center of hazardous materials other than oil will be determined by the contractor/subcontractor by consulting the CERCLA list of hazardous substances and reportable quantities (40 CFR Table 302.4). Any spills that involve a reportable quantity of any hazardous substance must be reported to the National Response Center by the contractor/subcontractor. The contractor/subcontractor must also report all spills immediately to TransCanada and the construction manager.

Spill Cleanup Requirements:

It is the contractor's/subcontractor's responsibility to ensure and oversee immediate and complete cleanup of all spills involving oil or hazardous materials. The contract/subcontractor is also responsible for all health and safety issues related to the cleanup of oil or hazardous materials. The contractor/subcontractor is also responsible for expediting the disposal of spill debris waste and restoring the site to its original condition.

ATTACHMENT B.13-4

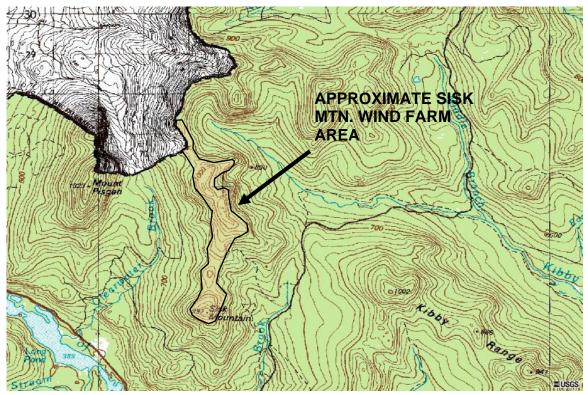
Preliminary Geologic Investigation

SECOND REVISION PRELIMINARY GEOLOGIC INVESTIGATION PROPOSED SISK MOUNTAIN WIND POWER PROJECT CHAIN OF PONDS AND KIBBY TOWNSHIPS, MAINE

09-0657 G NOVEMBER 25, 2009



FOR TRC COMPANIES, INC.



NOTE: Base Map from terraserver.com. Map not to scale.



• Geotechnical Engineering • Field & Lab Testing • Scientific & Environmental Consulting

09-0657 G

November 25, 2009

TRC Companies, Inc. Attention: Dan Butler 249 Western Ave. Augusta, ME 04330

Subject: Preliminary Geologic Investigation-Second Revision Proposed Sisk Mountain Wind Power Project Chain of Ponds and Kibby Townships, Maine

Dear Dan:

In accordance with our Agreement dated August 20, 2009, we have provided geological reconnaissance services associated with the proposed Sisk Mountain Wind Power Project in Chain of Ponds and Kibby Townships, Maine. The purpose of this reconnaissance was to collect samples from bedrock outcrops and perform hand borings to estimate overburden depths at potential turbine locations along the ridgeline. Samples were collected to identify rock type and for preliminary Acid Base Analysis (ABA) testing and evaluation. We understand that this geological reconnaissance is associated with the Sisk Mountain Wind Power LURC application. The contents of this report are subject to the limitations set forth in Attachment A.

INTRODUCTION

The proposed Sisk Mountain Wind Power project is located in portions of Chain of Ponds and Kibby Townships, Maine. The approximate location of the wind farm is shown on a portion of the U.S. Geological Survey 7.5 Minute Topographic Map (Chain of Ponds and Kibby, Maine Quadrangles) presented on the cover page of this report. Rock sample locations and hand borings locations are shown on the Sample Location Map attached as Sheet 1. The area for the proposed Sisk Mountain Wind Farm is generally oriented in a north/south direction. Gold Brook/Beaudry Road is located east of the ridge. The international border is located less than 100 feet west of the northern end of the proposed wind farm. Drainage from the northeast area of the ridge is to the Kibby Stream which drains to the Middle Branch of Kibby Stream. Drainage from the

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southeast area of the mountain is to Gold Brook. Drainage from the western side of the ridge is to Clearwater Brook which ultimately drains to Long Pond. Topographic mapping indicates that elevations on the ridge are between 2,900 and 3,270 feet above mean sea level.

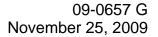
SCOPE OF WORK

S. W. COLE ENGINEERING, INC. performed the following tasks:

- Geological reconnaissance mapping of bedrock outcropping at proposed turbine sites along Sisk Mountain ridges.
- Collecting of representative bedrock samples as reference hand specimens and for laboratory characterization of acid generation potential.
- Measuring depth to bedrock in hand auger soil borings at eight proposed turbine locations.
- Selecting of four samples for analysis of acid generation potential.
- Preparing this report summarizing bedrock field observations and testing results.

PUBLISHED GEOLOGICAL DATA

The area of Sisk Mountain and the adjacent Kibby Mountain range has been the subject of multiple geological publications. The *Bedrock Geologic Map of Maine* (Osberg et al., 1985), maps the bedrock in the area as migmatite gneiss of the Chain Lakes Massif. The Maine Geologic Survey (MGS) describes the Chain Lakes Massif as being Precambrian age (>650 million years old). The area of Sisk mountain has been specifically mapped as quartzofeldspathic gneiss/schist belonging to the Sarampus Falls facies. A Devonian aged granite intrusive is mapped west of the ridge. Several granitic boulders thought to be glacial erratics were observed on the eastern flank of the ridgeline. As part of the geological evaluation, we also reviewed publications by Gerbi (2005), Boudette (1989), and Solar (2001).





The diatexitic¹ Chain Lakes Massif has highly variably textures (Gerbi, 2005), that are arguably the result of melting-driven disaggregation of a volcanic-sedimentary stratigraphy. Gerbi (2005) describes four facies within the Chain Lakes Massif, these include the quartzofeldspathic McKenney Stream, Sarampus Falls, and Twin Bridges facies, and an amphibolite facies. The Sisk Mountain area has been interpreted by Gerbi to be Sarampus Falls facies. The Sarampus Falls facies contains schlieric to highly contorted wispy bands of mica and quartz throughout the facies.

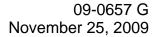
FIELD WORK

Access to the southern end of Sisk Mountain was gained off skidder roads near mile marker 2.5 on Gold Brook Road. Northern sections of the ridgeline were accessible from skidder roads and game trails at mile marker 5 off Gold Brook Road. Five bedrock samples, SGS-1 to SGS-5, were collected from rock outcrops observed near proposed turbine locations (SGS-4 is a composite of an area with extensive outcrop; points on map represent extent). Sample locations were selected to be representative of proposed future work areas and based on site access. Hand specimens were observed to be variably banded quartz-feldspar-mica gneiss (SGS-1 to SGS-5). Samples collected were found to be generally fresh to slightly weathered. Surficial oxidization associated with weathering was observed on exposed areas of the outcrop. Oxidation observed in association with weathering was observed to occur as thin (less than 0.2 inches) weathered rims. An effort was made during sample collection to trim the weathered material from the sample.

Eight hand auger borings (HB-1 to HB-8) were excavated to measure approximate soil depths along the Sisk Mountain ridgeline. Generally soils were found to be moist, consisting of 0-3 inches of moss/forest duff overlying gray silty sand, brown silty gravelly sand and glacial till. Refusal depths varied between 0.6 and 2.6 feet. Based on the

¹ In the Chain Lakes Massif (Solar and Brown, 2001), migmatitic diatexite is more homogeneously textured at outcrop than migmatite and characterized by discontinuous, weakly-defined foliation with variable attitude. Diatexite varies in mineral assemblage and texture from granite-dominated to biotite-sillimanite-dominated 'patchy' and schlieric migmatite, and to schlieric granite with blocks (schollen) of vein migmatite. Diatexite shows evidence of partial melting.

Migmatite: A rock with both igneous and metamorphic characteristics that shows large crystals and laminar flow structures, probably formed metamorphically in the presence of water and without melting.





proximity of bedrock outcrops in relation to hand borings, refusal was interpreted to be bedrock near SGS-1, and at HB-4, HB-1, HB-6, HB-7, and HB-8. A hand boring was not done near SGS-4 as outcrop was extensive in the area.

Hand borings were also made at proposed substation locations accessible from the Wahl Road. Refusal depths varied between 0.8 and 2.0 feet. Soils at Sub-1 were moist consisting of brown sand and gravel (fill) overlying brown silty sand and gravel with wood debris. Dark brown silty sand with organics overlying dark brown silty sand and gravel were observed at Sub-2 and Sub-3. Several large boulders and cobbles were observed in proposed substation locations and refusal is interpreted to be probable cobble or boulder.

Locations were surveyed using hand held GPS survey equipment. Sampling and soil boring locations are shown on Sheet 1. Photographs of samples and field conditions are also included in Attachment B.

The four rock samples (SGS-2, SGS-3, SGS-4, and SGS-5) were submitted to Sturm Environmental Services (SES) of Bridgeport, West Virginia for acid-base accounting (ABA) analysis. Analyses for Fizz, Color, Paste pH, Neutralization Potential (NP) and total sulfur are used to calculate Maximum Potential Acidity (MPA) and Net Neutralization Potential (NPP). NP, MPA and NPP are expressed in calcium carbonate equivalent Tons/100 Tons of Material.

RESULTS AND DISCUSSION

Depths to bedrock will vary between locations as a result of variations in rock composition, weathering, fracturing, and deposition of glacial sediments. Based on hand auger boring depths and outcrop observations, we anticipate that the depth to bedrock for proposed wind turbine locations near SGS-1, SGS-2, SGS-3, SGS-4 and SGS-5 will generally be less than 5 feet. Locations with bedrock fracturing and greater weathering are generally evidenced as saddles in the ridge-line.

Bedrock sampling results were received from SES on October 08, 2009, and are included as Attachment C. Summarized on Sheet 2, all of the samples have a Fizz of 0,



are generally light gray in color, and have a paste pH of between 5.9 and 6.1. Sulfur concentrations range from 0.007 to 0.015 percent. With sulfur concentrations less than 0.5%, sulfur fractionation, chloride and sulfate analyses were not performed.

NP is presumed to be a measure of carbonate minerals, exchangeable bases and weatherable silicate minerals to produce an index of available acid neutralizers in the rock. Formulas to calculate Maximum Potential Acidity (MPA) and Net Neutralization Potential (NNP) from percent total sulfur and Neutralization Potential (NP) are:

MPA = %S x 31.25 NNP = NP - MPA

The formula for MPA assumes that sulfide sulfur is the only acid generating source, with sulfate and organic sulfur assumed to be nonacid generating. In addition, the MPA formula assumes that carbon dioxide gas is exsolved and no carbonic acid is generated.

Guidelines from the Pennsylvania DEP (Perry 1998) on the interpretation of analytical results used for acid base accounting (ABA) were used to interpret the results from the Sisk Mountain samples. The following summarizes this comparison:

- Rocks with NNP (Excess CaCO₃) less than -5 ppt are potentially toxic All samples have a NNP greater than 4 ppt;
- Rocks with pH <4.0 are considered acid toxic All samples have a pH of 5.9 or greater;
- Rocks with greater than 0.5% sulfur may generate significant acidity *All samples have less than 0.016% total Sulfur;*
- Rocks with NP >30 ppt CaCO₃ and Fizz are a significant source of alkalinity All samples have an NP less than 13 ppt;
- Rocks with NNP >20 ppt CaCO₃ produce alkaline drainage All samples have an NNP less than 13 ppt;
- Rocks with NNP less than -20 ppt CaCO₃ produce acid drainage All samples have an NNP greater than 2.3 ppt;



- Rocks with NNP greater than 0 ppt CaCO₃ do not produce acid All samples have an NNP greater than 4.7 ppt;
- NP/MPA ratio less than 1 likely results in acid drainage *Ratios vary from 21.1 to 37.8 for the samples analyzed*; and
- Theoretical NP/MPA ratio of 2 or greater is needed for complete acid neutralization -Ratios vary from 21.1 to 37.8, indicating a similarity of rock type and the ability for complete acid neutralization.

In summary, using the above acid base accounting criteria, the rock samples analyzed from the Sisk Mountain area are not considered toxic for either alkalinity or acidity. Based on mapping by others and our observations from this geological reconnaissance, we interpret the rock samples submitted to SES to be generally representative of the bedrock in the Sisk Mountain area, and therefore the acid-base accounting results are also interpreted to be representative of the low potential to generate acid drainage.

If future work in the area should encounter rock types containing significant amounts of sulfide or carbonate minerals, then additional sampling and analyses may be warranted. Field observations of rock types and sulfide minerals should be noted during the evaluation of the bedrock during future site evaluation and development activities (geotechnical investigation).

CLOSING

It has been a pleasure to assist you in this matter. If you have any questions, please contact us.

Very truly yours,

S. W. COLE ENGINEERING, INC.


Patrick J. Otto Environmental Scientist

OF CLIFFORD R TIPAT GE292 Clifford R. Lippitt GO Senior Geologist

PJO-CRL:crl/SIh P:2009/09-0657 S - TRC Companies, INC - Chain of Ponds Township - T2 R6 WBKP - Proposed Kibby PH II- Sisk Mtn - Prelim Geotech - PFK\Reports and Letters\Revised 2 09-0657 Bedrock Recon Report.docm

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<u>LEGEND</u>



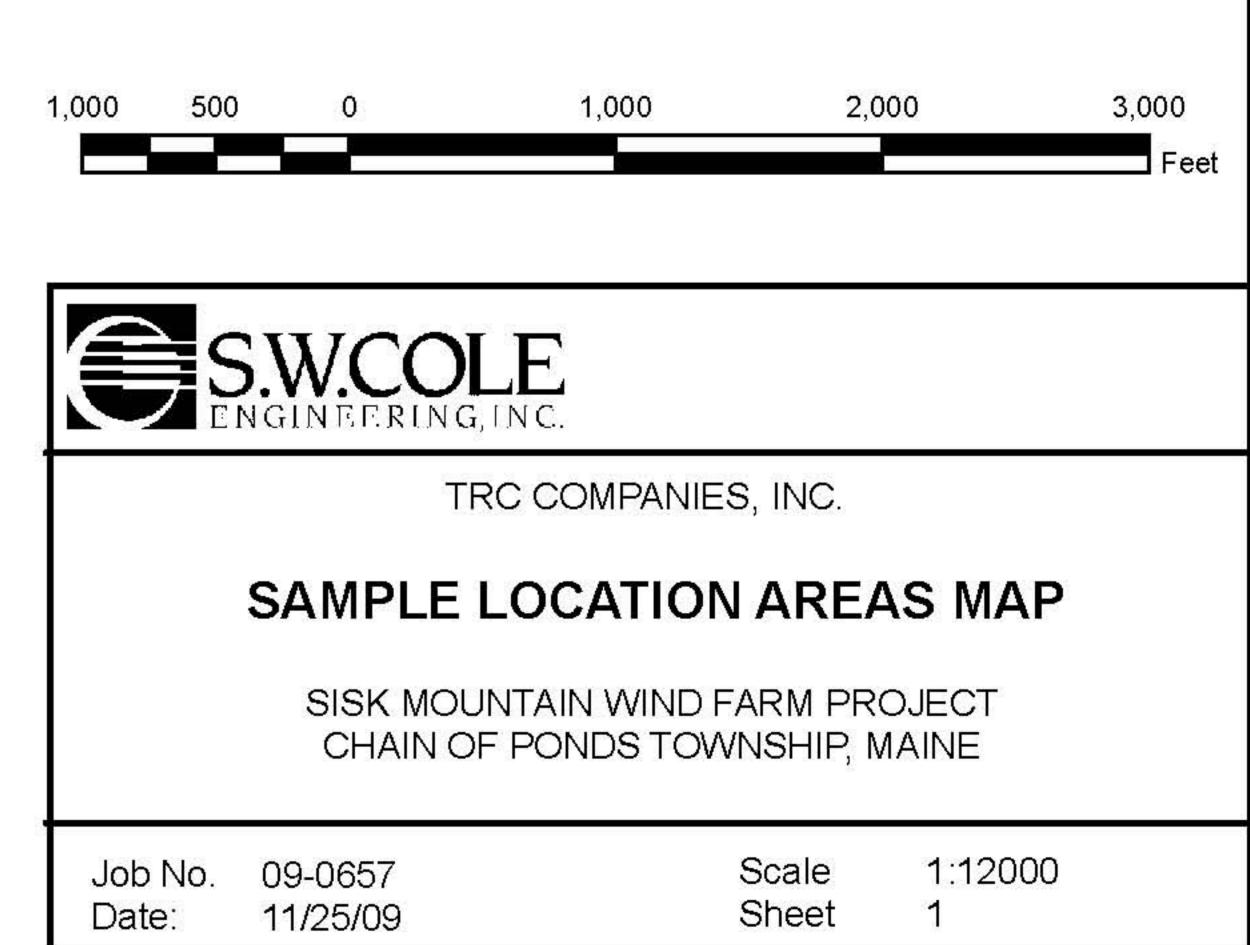
SISK GEOLOGIC SAMPLES

ACCESS ROUTES

NOTES:

1. SAMPLE LOCATION AREAS MAP PREPARED FROM ESRI ArcGIS ONLINE AND DATA PARTNERS INCLUDING USGS AND ©2007 NATIONAL GEOGRAPHIC SOCIETY.

2. HAND BORING AND GEOLOGIC SAMPLE LOCATIONS WERE DETERMINED IN THE FIELD USING A GARMIN GPS RECEIVER.



SHEET 2 PROPOSED SISK MOUNTAIN WIND POWER PROJECT ACIB BASE ACCOUNTING - RESULTS SUMMARY

ACID - BASE ACCOUNTING^a

Calcium Carbonate Equivalent Tons/1000 Tons (ppt) of Material

Sample ID	Depth (ft)	NP/ MPA	Rock Type	Fizz	Color	% S	Max. From %S (MPA)	N.P. CaCO₃ Equiv.	Max. Needed (pH-7)	Excess CaCO ₃ (NNP)	Paste pH
SGS-4	Outcrop	37.8	Chain Lakes	0	2.5Y 6/2	0.011	0.34	12.85		12.51	5.9
SGS-5	Outcrop	21.1	Chain Lakes	0	2.5Y 7/2	0.015	0.47	9.92		9.45	6.1
SGS-2	Outcrop	22.4	Chain Lakes	0	5Y 7/2	0.007	0.22	4.93		4.71	6.1
SGS-3	Outcrop	30.5	Chain Lakes	0	2.5Y 7/1	0.010	0.31	9.45		9.14	6.1

^aDefinintions: NP - neutralization potential; NNP - net neutralization potential; MPA - Maximum potential acid

Criteria for interpretation of ABA data for ARD potential, modified from Pennsylvania DEP guidelines.

1. Rocks with NNP (Excess $CaCO_3$) < -5 ppt $CaCO_3$ are potentially toxic

2. Rocks with pH <4.0 are considered acid toxic

- 3. Rocks with greater than 0.5% sulfur may generate significant acidity
- 4. Rocks with NP >30 ppt CaCO₃ and Fizz are a significant source of alkalinity
- Rocks with NNP less than -20 ppt CaCO₃ produce acid drainage
 Rocks with NNP greater than 0 ppt CaCO₃ do not produce acid
- 8. NP/MPA ratios less than 1 may result in acid drainage
- 9. Theoretical NP/MPA ratio of 2 or greater is needed for complete acid neutralization

5. Rocks with NNP >20 ppt CaCO₃ produce alkaline drainage

ATTACHMENT A

Attachment A Limitations

This report has been prepared for the exclusive use of TRC Companies, Inc. for preliminary evaluation of the acid generation potential of bedrock in the proposed Sisk Mountain Wind Farm area in Chain of Ponds (T1 R6 WBKP) and Kibby (T1 R6 WBKP), Townships, Maine. S. W. COLE ENGINEERING, INC. has endeavored to conduct the work in accordance with generally geological practices. No warranty, expressed or implied, is made.

The bedrock descriptions are based on visual observations of outcrop samples. Variations in bedrock composition and texture may occur as referenced in the report. Geological mapping is based on work performed by others.

Observations have been made during exploration work to assess bedrock acid producing potential in the area investigated. Results may vary by location within the area of investigation and for other areas not included in this investigation.

ATTACHMENT B

ATTACHMENT B SITE PHOTOGRAPHS



OUTCROP AT SGS-4



OUTCROP AT SGS-5

ATTACHMENT B SITE PHOTOGRAPHS



OUTCROP AT SGS-3



OUTCROP NORTH OF SGS-2

ATTACHMENT B SITE PHOTOGRAPHS



PROPOSED SUBSTATION SITE - ADJACENT TO WAHL ROAD



ROAD CUT NEAR HB-4

ATTACHMENT C

1

Services Broinentel	ACID	SAMPLE ID DEPTH (feet)	T-1 / 554-4 J	T-3 (80E) // 565-5	10	T10/T11//565-7-	1000	T-9 // 568-3					
nen te	ACID BASE ACCOUNT												
		Rock Type											
DNU		Fiz	0	0		0		0					
COMPANY: SITE: DATE:		Color	2.5Y 6/2	2.5Y 7/2		5Y 7/2		2.5Y 7/1					
S. W. COLE ENGIN PROJECT # 09-0657 OCTOBER 2, 2009		% Sulfur	.011	.015		.007		.010					
LE ENGINE # 09-0657 ⁻ { 2, 2009	Calcium Carbonate Equilvalent Tons/1000 Tons of Material	Max from % Sulfur	.34	.47		.22		.31					
S. W. COLE ENGINEERING, INC PROJECT # 09-0657 TRANS-CANADA OCTOBER 2, 2009		N.P. CaCO ₃ Equiv	12.85	9.92		4.93		9.45					
السمين الم	ite Equilvalent is of Material	Max Needed (pH-7)											
RECEIVED 0CT 0.8 2009 S.W. COLE BANGOR		Excess CaCO ₃	12.51	9.45		4.71		9.14					
/ED 2009 ANGOR		Paste pH	5.9	6.1		6.1		6.1					
NGOR NGOR		aste pH	5.9	6.1		6.1		6.1					

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Ohn Stern

APPROVED_

ATTACHMENT B.13-5

Acid Rock Testing and Mitigation Plan

ACID ROCK TESTING AND MITIGATION PLAN

1.0 GEOTECHNICAL INVESTIGATION PROGRAM ACID-BASE ANALYSIS

Geotechnical investigations at the Kibby Expansion site will be undertaken during the summer and fall of 2009 after approval by LURC. As part of these investigations, field and laboratory analysis will be conducted to determine if areas of planned bedrock excavation have the potential to result in acid drainage.

1.1 Technical Approach

The overall approach to geotechnical investigations will focus on the collection of field and laboratory data across two sites to identify baseline conditions prior to construction. During the investigations, special emphasis will be focused on areas where bedrock changes are observed and where groundwater and surface water quality can be measured.

1.2 Geotechnical Investigation Sampling Program

Geotechnical investigations planned for the Kibby Expansion site involve rock coring at each turbine site and test pits along access roads and other support areas to evaluate subsurface conditions at the site. During these investigations, field observations at each subsurface investigation site will be made by a geologist or geotechnical engineer to identify any bedrock outcrops and potential locations for surface water quality sampling. These observations will be noted in the field and be identified as potential data collection points.

The collection of bedrock samples for acid-base account analysis will involve the following:

- Rock coring will occur at each of the 15 turbine pad locations to a depth of ~ 35 feet below ground surface.
- Once the coring is completed, lithologic data will be reviewed to identify the different lighologic zones encountered and confirm that samples from these zones have been selected for laboratory testing. From this information acid base accounting samples will be collected by a geologist to represent the various rock stratums that will be exposed during construction. A primary emphasis of the sampling will be to identify mudstones, or other potentially sulfur-containing materials.
- Rock coring will occur at selected locations along access roads and within support areas. At each investigation location, one sample from the core will be selected and designated for acid-base testing. If the bedrock changes within the bedrock core, then an additional sample will be taken.
- One bedrock sample will be taken at the base of each test pit where bedrock is encountered. If the bedrock is observed to change across the base of the test pit, then an additional sample will be taken.

It is planned that over 25 bedrock samples will be collected across A and B Ridges to evaluate the potential for acid drainage to occur on the Kibby Expansion site.

1.3 Technical Approach

The overall approach to acid drainage monitoring during construction will focus on the collection of field and laboratory data across the ridge as construction progresses. During the construction activities, special emphasis will be focused on areas where bedrock changes and where groundwater and surface water quality can be measured.

1.4 Field Water Quality Testing

Water quality will be evaluated during construction activities by collecting surface water quality samples at rock cut locations and analyzing them in field for measuring pH, acidity, alkalinity, temperature and specific conductance. Water quality analysis will be performed in the field using a Hach Model MD-2 Acid Mine Drainage Test Kit or equivalent and conductivity meter. It is expected that field measurements will be taken from over 5 locations along the ridge. The coordinates for these locations will be located by GPS and placed on a site map. Foundation and road cut locations will be monitored at minimum of three times during construction activities to establish conditions at each location.

1.5 Laboratory Testing Progam

Laboratory testing planned for rock samples will include past pH, Neutralization Potential (NP), total sulfur, sulfur fractionation, fizz and color. Over 10 bedrock samples will be analyzed in order to confirm the potential for acid drainage generation during construction.

2.0 ACID DRAINAGE MITIGATION MEASURES

Preliminary acid-base accounting tests from the ridge do not indicate that bedrock is either acidic or toxic. However, if acid drainage conditions are revealed by the geotechnical investigation or encountered during construction, the following mitigation options would be undertaken.

2.1 Mitigation Overview

Baseline rock and water quality testing to be undertaken during the geotechnical investigation and construction should identify potential areas where bedrock could generate acid drainage. These results will be reviewed to identify potential acid producing rock zones and classifying their potential severity. In addition, site specific plans for addressing mitigation of the acid or potentially acid producing zones will be developed for construction. Mitigation options for acid drainage in the event that conditions are encountered are identified in the subsequent subsections.

2.2 Mitigation Measure Planning

Baseline rock and water quality testing undertaken during the geotechnical investigation should identify potential areas where bedrock could generate acid drainage. These results will be reviewed to identify potential acid producing rock zones and classifying their potential severity. In addition, site specific plans for addressing mitigation of the acid or potentially acid producing zones will be developed for construction. Site plans will focus on several measures to eliminate and address impacts from potential acid producing rock and include:

- Modify construction plans to avoid potentially acid producing rock to the extent possible.
- Where areas are unavoidable, the anticipated quantities of the target rock will be estimated and a plan to address the area will be developed. Plans will include neutralization of the material with neutralization rock or its substitute (limestone, lime) and specify the type and volumes of cover material required.
- Where material is to be excavated for disposal, the planned disposal areas (located below 2,700 feet mean sea level) will be designated to receive the material.

Mitigation options for acid drainage in the event that conditions are encountered during construction are identified in the subsequent sections.

2.3 Temporary Mitigation Measures

Temporary mitigation options will be used to address acid drainage when initially encountered (i.e., when encountered during the construction phase). These measures are intended to mitigate potential impacts and stabilize conditions until permanent mitigation measures are implemented. Temporary measures fall into three categories: neutralization, isolation and removal.

<u>Neutralization</u> – If an area of acid producing rock is encountered, the initial measure will involve the placement of lime sand or soda ash briquettes within drainage ditches immediately down gradient of the area to neutralize the acid drainage. The pH of the water will be monitored on a daily basis and additional lime sand will be placed in drainage until permanent measures can be implemented. Lime may also be incorporated as an additive to excavated soil and rock for pH adjustment where appropriate.

<u>Isolation Measures</u> – Acid drainage conditions may be isolated and mitigated if water drainage on the exposed area can be diverted or the area can be covered with impermeable material to prevent precipitation from contacting the exposed rock face.

<u>*Removal Actions*</u> – If a small area of acid producing material is encountered and can be removed, then the material will be excavated and transported to a planned disposal area for placement and isolation.

2.4 Permanent Mitigation Measures

Permanent mitigation measures would follow temporary measures and are intended to permanently store potentially acid producing rock to control and prevent acidic runoff. Permanent mitigation measures generally include the following, depending upon the severity of the target zone's acid potential severity. Blending is appropriate for potentially *acid producing materials* (NNP between -5 and 0), but not for *acid producing materials* (NNP less than -5). *Acid producing materials* (NNP less than -5) will be encapsulated.

<u>Blending</u>

In the event that the acid base testing reveals potentially acid producing materials (NNP between -5 and 0), the target rock zones may be blended as described below. Generally, the subject rock is mixed with alkaline producing rock (NNP > 50 Tons CaCO₃/ 1,000 tons) in the fill zones to

provided a resulting volume based acid-base accounting to provide for an overall NNP value of at least NNP > 12 ton CaCO₃/ 1000 tons. The neutralizing material should have a particle size of one third less than that of the median particle size of the target material. The materials should be placed in horizontal lifts and "ripped" or "disked" in both directions to ensure a homogenous mass. Blending of material should not begin until the fill has been constructed to at least 10 feet above the natural ground water table, to keep groundwater out of potentially acid producing material.

Encapsulation

For acid producing materials (NNP below -5), encapsulation will be used to segregate the material from air and water. Encapsulation areas shall be constructed at least 10 feet above the natural ground water table.

The base of the encapsulation cell will consist of a minimum of 2 feet of clay materials that will extend at least 2 feet beyond the placed target material. The top of the base material shall be sloped at a 1 to 3% grade and a drain pipe installed to allow infiltration to exit the cell. The target material should be placed in horizontal lifts and compacted until stable, but minimizing any breakage of the rock. After the rock is placed, it will be covered with 2 to 6 feet of clay to isolate the material from precipitation.

Road Excavation

Options for treating potential acid producing and acid producing materials during road excavation and construction are based on where to dispose of the excavated material and how to prevent air and water contact with the materials left in the cut slope. Though this is generally best handled through site layout (minimization) and field engineering, the following guidelines will be used to address the mitigation of acid rock during road construction. For a successful handling of these materials, a full time geologist or geo-technical engineer should monitor the excavation.

(a) <u>Disposal in Road Fills</u>

Potentially acid producing materials (NNP between -5 and 0) can be handled by the blending techniques discussed above, provided sufficient room is available at the fill zone and the material is placed 10 feet above the water table or water course. Similarly, acid producing material (with NNP less than -5) can be placed in the road rills with cover and base provided by an impermeable geotextile. Other methods for isolating the target material can be implemented based on engineering judgment and site specific conditions. If sufficient room does not exist for the disposal of the target material, it will be stockpiled and protected from the elements until a suitable disposal site is provided.

(b) <u>Cut Slopes</u>

To the degree practical, cut slopes should be designed as steep as possible to promote rapid runoff along the exposed horizon. In dipping bedrock strata, where the target horizon intercepts a bench or the road/ditch grade, the target material should be removed to provide a recess that can be filled with impermeable material (clay or shotcrete). Bench levels can also be planned to allow fill placement along the bench to cover and isolate the target material. The bench areas would be graded to facilitate rapid surface runoff across the disposal area.

Other Potential Mitigation Measures

Additional mitigation measures that could be considered if appropriate include:

- Acid rock removal for disposal in other areas above the water table,
- Lime sand addition within water courses, and
- Lime dosers within water courses.

2.5 Mitigation Monitoring and Laboratory Analysis

Monitoring of mitigation measures is critical to determine their success in addressing acid drainage. Mitigation monitoring would involve periodic inspection of the mitigation measure and field and laboratory analysis to confirm the measures are performing as designed and mitigating potential impacts. Water quality will be evaluated following implementation of mitigation measures by collecting surface water quality samples and analyzing them in field for measuring pH, acidity, alkalinity iron, temperature and specific conductance. Water quality analysis will be performed in the field using a Hach Model MD-2 Acid Mine Drainage Test Kit or equivalent, and a conductivity meter. The coordinates for field measurement locations will be located by GPS and placed on a site map. The monitoring schedule for these measures will be established as part of the planning for the mitigation measure. In addition to water quality measurements, selected rock samples may be sent for geotechnical analysis.

3.0 SUMMARY

Preliminary testing for acid generating rock potential at the Kibby Expansion Wind Power Project site indicated there was little potential for the generation of acid drainage. This plan identifies the program to further evaluate and monitor the potential for acid drainage generation at the Kibby Expansion Wind Power Project site as a matter of due diligences throughout the construction period. After geotechnical investigations and associated testing are complete, the results will need to be reviewed by a geotechnical engineer or geologist to order to determine whether planned construction monitoring and mitigation measures will be necessary to develop site specific recommendations.

4.0 **REFERENCES**

AMEC, 2008, Report of Preliminary Geotechnical Engineering Evaluation, Kibby Wind Farm, Franklin County, Maine dated February 28, 2008.

Maine Department of Conservation, Geological Survey, 2002, Simplified Bedrock Geologic Map of Maine.

NRCS Web Soil Survey

State Wide Surveys, Inc., 2006, Kibby Wind Power Project, Class "C" Medium High-Intensity Soil Survey, December 2006, prepared for TransCanada, AMEC, and TRC by Statewide Surveys, Inc.

S.W.Cole, February 2006, Excavation Observation Services, Proposed A1 Met Tower Construction, Kibby Mountain Site, February 16, 2006, prepared for AMEC by SW Cole Engineering, Inc. (SWC)

S.W. Cole, December 2006, Geological Reconnaissance, Proposed "A" Ridge and "B" Ridge, Kibby Wind Power Project, December 14, 2006.

USDA Natural Resources Conservation Service (NRCS), 2003, Soil Survey of Franklin County Area and Part of Somerset County, Maine.

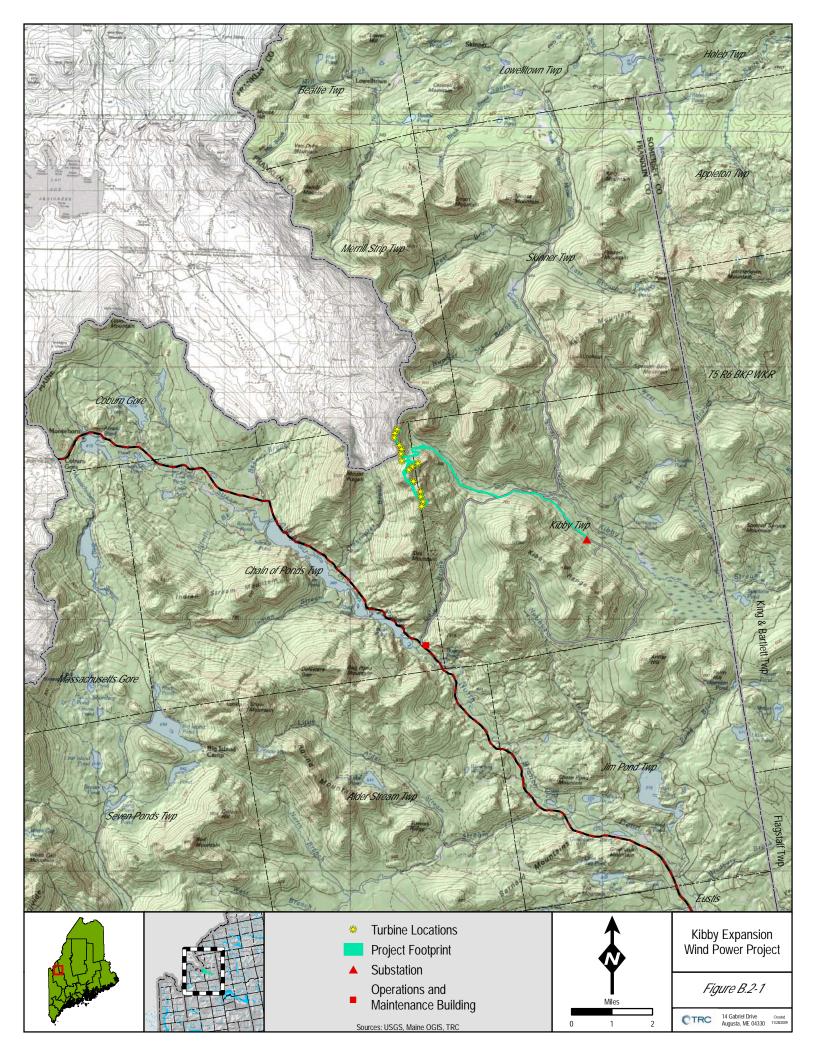
EXHIBIT B.2 PROJECT LOCATION

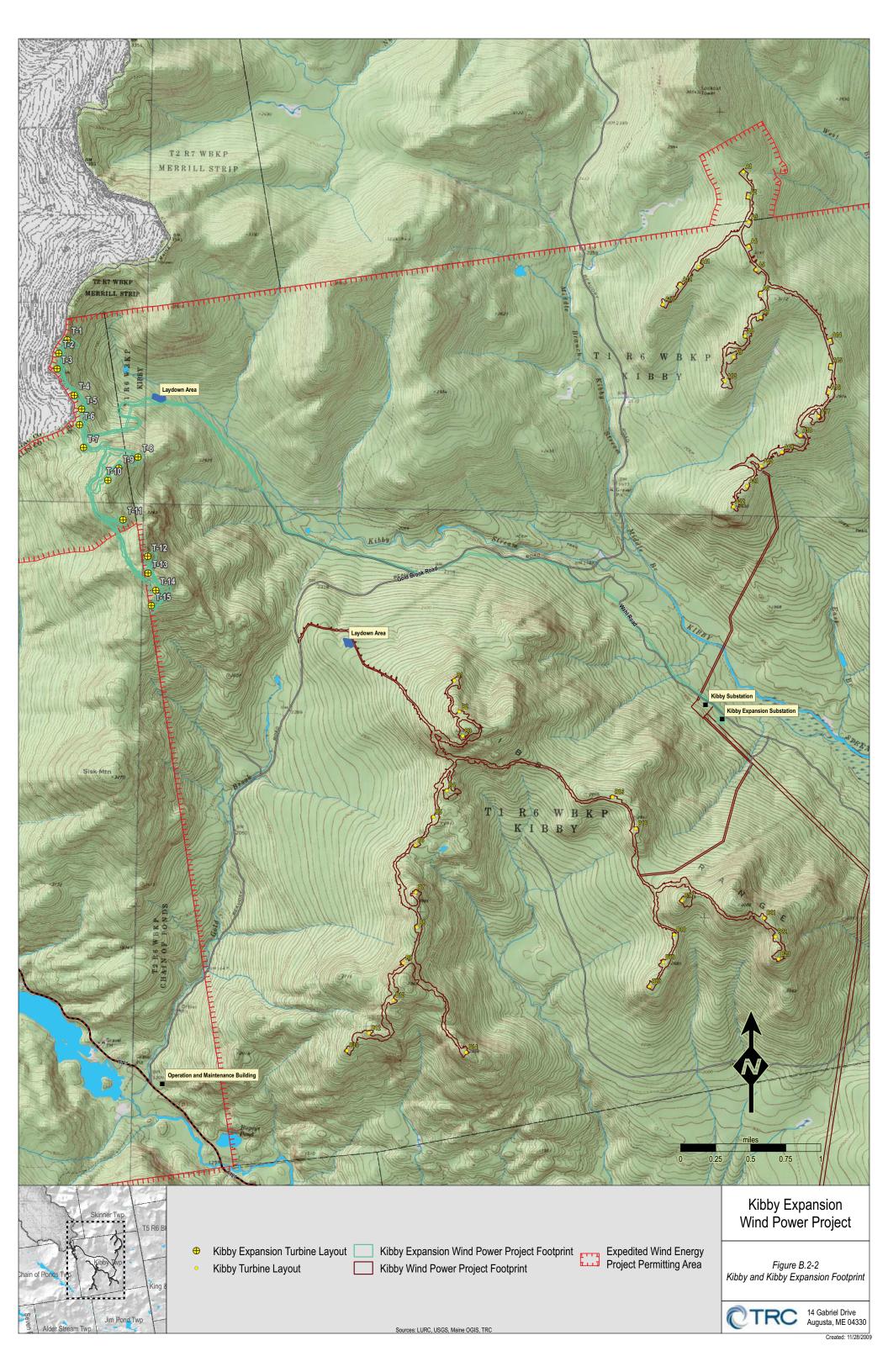
The Kibby Expansion Project is located in the unorganized townships of Kibby and Chain of Ponds, Franklin County, Maine (Figure B.2-1), close to and along the U. S. / Canada border in an area known as the Boundary Mountains. The Kibby Expansion Project consists of 15 Vestas V90 3 MW wind turbines along the Sisk Mountain ridgeline, adjacent and to the west of the current Kibby Project (Figure B.2-2). Associated elements of the Project include: access to the turbines utilizing the existing forestry roadway network to the greatest extent possible, new ridgeline roads, 34.5 kV collector lines between the turbines and to a common, newly proposed Kibby Expansion Substation, and a short 115 kV electric transmission tap line between the new Kibby Expansion Substation and the existing Kibby Project 115 kV electric transmission line (that already extends to the Bigelow Substation in Carabassett Valley).

The property in Kibby Township is owned by Plum Creek, and the property in Chain of Ponds Township is owned by KWF. The surrounding area is currently actively managed for forest products and hosts the existing Kibby Project, which is an 132 MW wind energy facility. The forest resource consists predominantly of mixed softwoods and northern hardwoods in the valleys and spruce-fir on the summits. The highest elevations (starting at 3,160 feet in some locations) display characteristics of a subalpine forest community. More detailed information about the physical characteristics of the Project area is provided in Exhibits B.6, B.8, B.14 and B.15

Tax map and lot numbers and Registry of Deeds book and page numbers are included on the LURC Permit Application for Residential and Non-Residential Development located in the Application Forms tab at the front of this application.

Table B.2-2 provides a summary of the previously undeveloped land area affected by the Kibby Expansion Project. More detailed discussion of land area impacts are provided in Exhibits B.6, B.11, B.13 and B.15.





Project Element	Comment	Estimated New Disturbance Area (Acres)					
		Total	Temporary	Permanent			
WTGs	For construction, WTG pads will be approximately 200 feet long by 150 feet wide. The WTG pads permanent disturbance area will be approximately 70 feet long by 70 feet wide for the crane pad in addition to a 50-foot radius around the WTG foundation. The remaining WTG pad will be restored with an organic soil/Erosion Control Mix ("ECM") mixture. The WTG foundations are included in these area calculations.	17.6	13.2	4.4			
Crane roads	Approximately 3.6 miles of access roads along the ridgeline between the turbine pads will have a 34-foot wide travel surface for use by the large crane during construction. The travel surface will be reduced to 20 feet wide for ongoing operation by restoring the edges of the roads with organic soil/ECM mixture and allowing those areas to revegetate.	56.4	47	9.4			
Access road to the ridgeline	Mile 5 Road will be widened from about 15 feet to 20 feet in width for a distance of about 2.2 miles starting from the Gold Brook Road. Approximately 1.1 miles of new access road (also 20 feet wide) will be constructed from the end of the Mile 5 Road improvements to the ridgeline. Pull-offs along the existing Mile 5 Road are included in these calculations. * The existing Mile 5 Road is not new disturbed area and therefore not included in these area calculations.	19.7*	15.4*	4.3*			
Wahl Road improvement activities	Wahl Road will be widened from about 15 feet to 20 feet in width for a distance of about 0.2 mile from the existing Kibby Substation to the Kibby Expansion substation. * The existing Wahl Road is not new area and therefore not included in these area calculations.	1.1*	1.0*	0.1*			

Table B.2-2: Previously Undeveloped Land Area Affected

Project Element	Comment	Estimated New Disturbance Area (Acres)					
		Total	Temporary	Permanent			
34.5 kV collector system corridor	An approximately 8.9-mile long corridor, approximately 60 feet wide, will be cleared and maintained as scrub/shrub vegetation along the crane roads and generally following the new, improved or existing access roads to the Kibby Expansion substation. Where the collector line corridor is immediately adjacent to a road, the required new clearing may be less than 60 feet. Temporary spur roads for construction access are included in these area calculations.	42	1	41			
Substation	The fenced substation area will be 140 feet long by 140 feet wide. The 315-foot long 115 kV tap line and substation entrance road are included in these area calculations. *The portion of the existing Kibby 115 kV transmission line and 34.5 kV B Ridge collector corridors overlapped by the new 115 kV tap line corridor is not new disturbed area and therefore not included in these calculations.	1.2*	0*	1.2*			
O&M Building Expansion	The existing Kibby Project O&M Building will require a expansion of approximately 70 feet long x 15 feet wide to accommodate additional operating personnel. The O&M Building Expansion will be located within area already cleared and in use for the existing building. Therefore there is no new disturbed area.	0	0	0			
Met towers (2)	One or two additional permanent met towers will likely be required for operation of the Project, but the locations and affected areas have not yet been identified. These disturbance areas are therefore estimates only, based on past experience. These areas assume new access is required to construct and maintain the met tower(s). Permanent met towers will not be located in wetlands or other sensitive resource areas.	8.0	2.0	6.0			

Project Element	Comment	Estimated New Disturbance Area (Acres)					
		Total	Temporary	Permanent			
Temporary skidder trail/construction access road	A temporary skid trail/construction access way, approximately 0.6 miles long, is planned to facilitate clearing of the ridge while construction of the permanent access road to the ridge is occurring. The skid trail will be used for construction access following completion of clearing on the ridge. *The new skid trail will utilize portions of the existing access trail to the temporary met tower on Sisk Mountain and the existing Mile 2.5 Road which are not new disturbed area and therefore not included in these area calculations.	7.0*	7.0*	0			
Temporary laydown areas	A new approximately 2.5-acre laydown area will be located at the end of the Mile 5 Road improvements. The existing 2.4-acre laydown area for the Kibby B Series will also be utilized for Kibby Expansion construction. *The existing Kibby-B laydown area is not new disturbed area and therefore not included in these area calculations.	2.5*	2.5*	0			
Construction control center and parking areas	The existing area used for the Kibby Project construction control center and parking will be expanded by approximately 1 acre to allow sufficient room for Kibby Expansion Project construction activity in conjunction with Kibby Project operations. *The existing approximately 1.5-acre area Kibby Project construction control center and parking area is not new disturbed area and therefore not included in these area calculations.	1.0*	1.0*	0			
Rock crusher and temporary material storage areas	On-site rock crushing and associated material storage areas are required. These activities will be located in areas already disturbed for Project construction.	0	0	0			

Project Element	Comment	Estimated New Disturbance Area (Acres)					
		Total	Temporary	Permanent			
Disposal Areas	For rock, earth spoil or stumps not used during construction. Temporary storage of these materials will be located in areas already disturbed for other construction. Permanent disposal of these materials, if any, will be within one of the two laydown areas.	0	0	0			
Project Totals		156.5	90.1	66.4			

EXHIBIT B.3 LURC SUBDISTRICTS AFFECTED

The Kibby Expansion Project is located in the following LURC Subdistricts:

- General Management Subdistrict (M-GN)
- Mountain Area Protection Subdistrict (P-MA)
- Shoreland Protection Subdistrict (P-SL2)
- Wetland Protection Subdistricts (P-WL)
 - P-WL1: Wetlands of Special Significance
 - o P-WL2: Scrub Shrub and Other Non-forested Wetlands
 - P-WL3: Other Forested Wetlands.

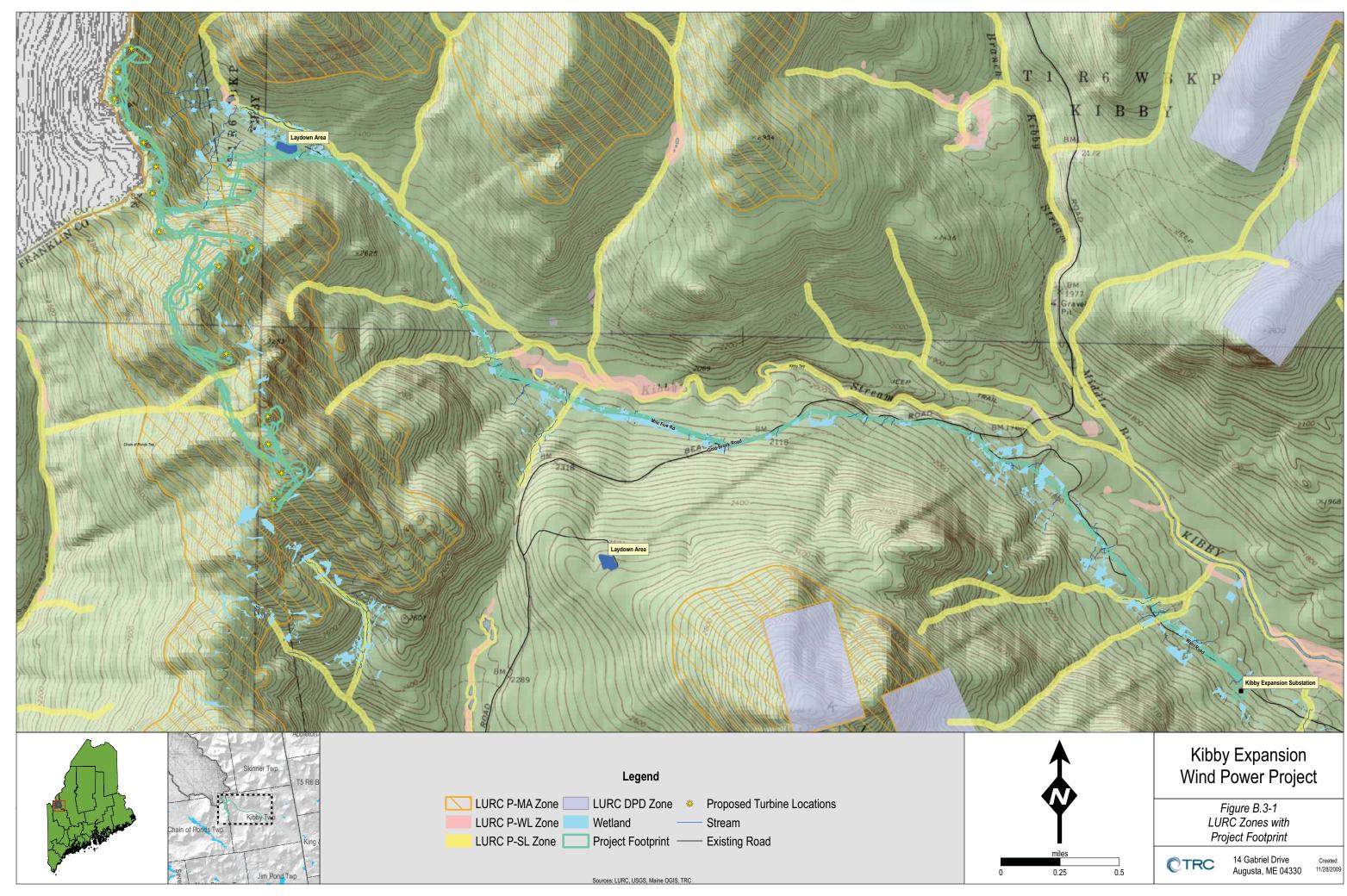
Figure B.3-1 is a site map that shows the LURC Subdistricts affected by the Project. Figure B.3-1 includes those Project areas that overlap zoning boundaries as found on the LURC zoning maps for Kibby and Chain of Ponds Townships as well as wetlands and streams delineated for the Project environmental assessment. Please note that the LURC zoning maps show P-SL2 subdistricts for two tributaries to Clearwater Brook extending up to the west side of the Sisk Mountain ridge and that would be within the Project footprint. Field surveys conducted for the Kibby Expansion Project found no streams in this area that would be affected by construction or operation of the Project. As a result, these P-SL2 subdistricts do not extend into the Project area and no impacts to P-SL2 subdistricts in this area would occur.

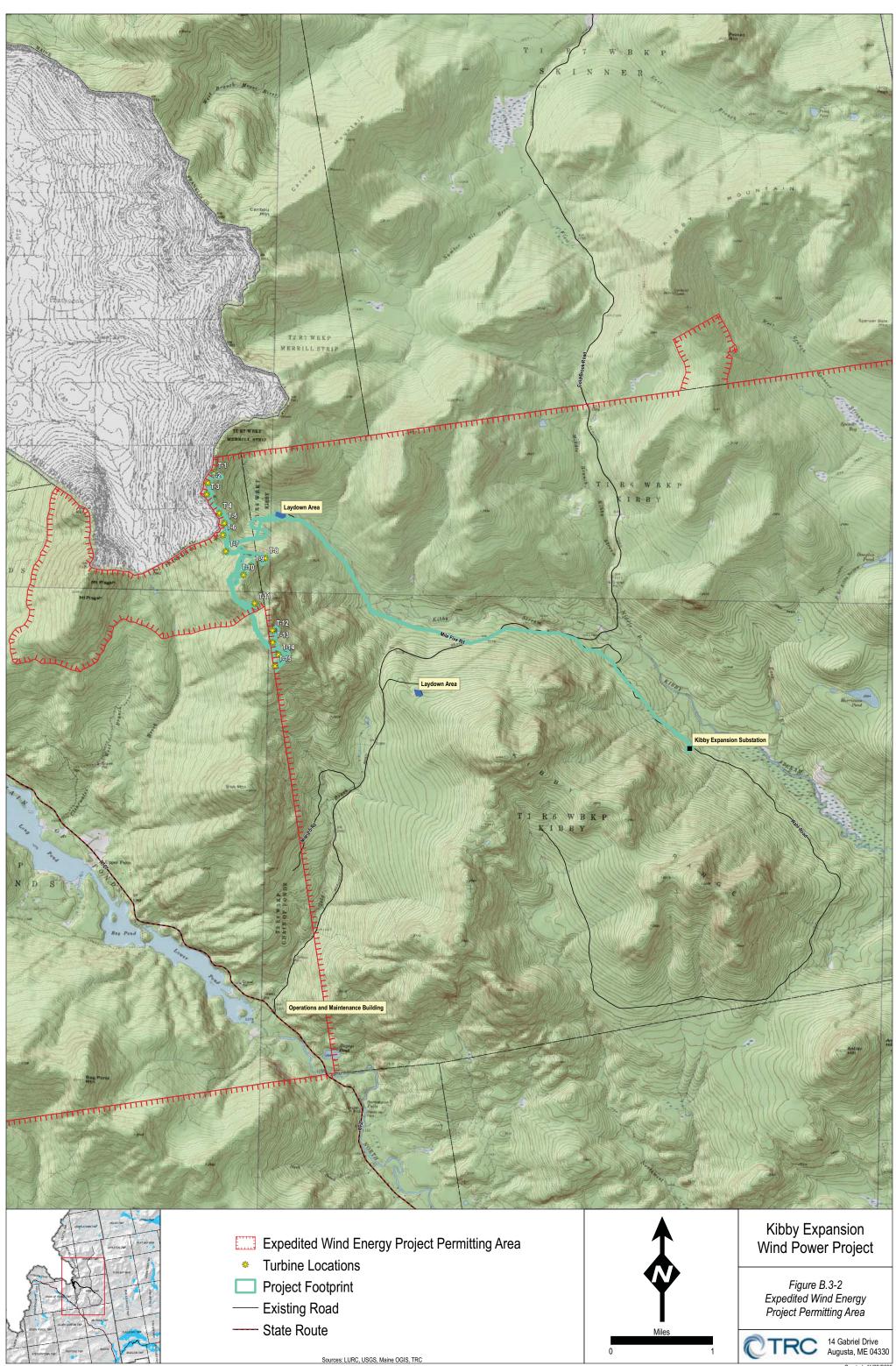
Table B-15-1, located in Exhibit B.15, provides calculations of the area of P-WL subdistricts that would be affected by the Project.

No Project components would be located adjacent to a lake or within a prospectively zoned area. Figure B.3-2 shows the Project footprint in relation to the expedited permitting area established by PL 2007, Chapter 661.

B.3.1 Floodzones

Federal Energy Management Agency ("FEMA") flood zone mapping is not available for the Project area. The entire Project is located in the upper reaches of the Dead River watershed. The subwatersheds at the HUC 12 level that make up this area include Kibby Stream, Chain of Ponds and the North Branch of the Dead River at Alder Stream. Kibby Stream, located along the northwestern toe of Sisk Mountain and between Kibby Range and Kibby Mountain, is the largest stream in the Project area. Kibby Stream flows into Spencer Stream, a tributary to the Lower Dead River, which in turn is a tributary to the Kennebec River. WTGs #1-6, 8, 9 and a portion of 12, approximately 2.2 miles of the crane roads and collector lines, as well as the remainder of the collection lines, the entire access road to the ridge and the Kibby Expansion Substation would be located in the





Created: 11/28/2009

Kibby Stream watershed. Like most of the smaller streams in the area, Kibby Stream has a rocky substrate at the higher elevations, flowing over boulders and cobbles, with few stretches of flat water.

Many other smaller streams, mostly unnamed, flow from the mountains. Clearwater Brook is one of those streams, which flows into Long Pond in Chain of Ponds and then the North Branch of the Dead River, Flagstaff Lake, and then to the Lower Dead River. The west side of Sisk Mountain drains into Clearwater Brook. WTGs #7, 10, 11, 13 and 14 and approximately 1.4 miles of crane road and associated collector lines are located in the Chain of Ponds watershed.

Gold Brook is another of the named smaller streams. Gold Brook drains into the North Branch of the Dead River and Flagstaff Lake. WTG #15 and approximately 0.3 mile of crane road are located in the Gold Brook watershed.

Neither FEMA mapping or historical stream elevation and flow data are available for the small streams in the Project area. While calculations could be performed to approximate the elevation that would result in a given stream following a 100-year storm event, the value of these calculations would be limited. The Kibby Expansion Project is located primarily near the headwaters of minor, mostly first and second order streams with high gradients and few stretches of flat water, which typically do not have significant floodplains associated with them. The largest stream in the Project area is Kibby Stream, which also contains in its watershed the majority of the proposed Project components. Based on a comparison of topographic information developed for the Project and USGS topographic information the shows the location of Kibby Stream, the stream would have to rise over 30 feet to reach any Project component (most likely a pole structure along the collector line). While the 100-year flood elevation for Kibby Stream in this area is unknown, it would appear that the likelihood that the water level would rise enough to contact any Project components is remote, especially given the location of most of the Project in the upper portion of the watershed.

B.3.1.1 Project Elevations

The portions of the Project that are located within the P-MA Subdistrict (above an elevation of 2,700 feet above mean sea level ("msl")) are:

- all 15 wind turbines;
- approximately 3.6 miles of crane roads along the ridge;
- approximately 3.6 miles of collector lines;
- approximately 0.6 mile of the access road to the ridge; and
- approximately 0.6 mile of the temporary skidder trail/construction access.

Elevations in the Project area range from approximately 1,720 feet msl on the proposed collector line near the proposed Kibby Expansion Substation to approximately 3,420 msl near WTG #12. The existing Kibby construction control center and O&M Building, which will continue to be used for the expansion, is located at approximately 1,400 feet msl. The elevation at the base of each of the proposed turbines is as follows:

WTG #1 - 3,168 feet	WTG #9 - 3,364 feet
WTG #2 - 3,090 feet	WTG #10 - 3,356 feet
WTG #3 - 3,150 feet	WTG #11 - 3,361 feet
WTG #4 - 3,000 feet	WTG #12 - 3,414 feet
WTG #5 - 2,984 feet	WTG #13 - 3,362 feet
WTG #6 - 3,015 feet	WTG #14 - 3,310 feet
WTG #7 - 3,042 feet	WTG #15 - 3,175 feet
WTG #8 - 3,188 feet	

EXHIBIT B.4 PUBLIC NOTICE OF FILING

A public notice of TransCanada's intent to file an application for the Kibby Expansion Project was published in the Kennebec Journal on November 25, 2009, the Sun Journal on November 24, 2009, the Original Irregular on November 25, 2009, the Franklin Journal on November 27, 2009 and the Daily Bull Dog on November 23, 2009. A copy of the public notice is provided in Attachment B.4. The names and addresses of the people and organizations that received a copy of the public notice are also provided in Attachment B.4.

B.4.1 Public Outreach

TransCanada recognizes the importance of stakeholder input to the proposed Expansion Project. Through consultation with landowners, communities, and other interested stakeholders, questions and concerns can be identified and addressed, and important input can be incorporated into the Project design. From the earliest consideration of the original Kibby Project, through ongoing construction efforts, and most recently as part of the proposed expansion, TransCanada has incorporated a robust outreach effort into its overall Project plans.

Since late 2005, TransCanada has been allocating considerable resources to ensure that the public is informed about its wind power development plans in the Boundary Mountain region. In addition to the public information efforts related to the permitting of the Kibby Project, TransCanada has also continued extensive outreach efforts related to construction. As soon as the Expansion Project was proposed, these outreach efforts included information related to the new as well as the existing project. Through these consultations TransCanada has maintained existing relationships developed during the permitting phase of the original Kibby Project and created opportunities to connect with addition, construction and recent commencement of operation of the original Kibby Project has provided area residents with an opportunity to experience first-hand the significant economic benefits associated with that project and allowed stakeholders to accurately assess the actual nature and extent of visual and other impacts associated with wind power development in this region.

Methods of outreach undertaken since the Kibby Project permit application was filed include:

- Newsletters: Beginning in the Summer of 2008, three construction related newsletters have been circulated to interested stakeholders as well as one expansion related newsletter distributed in the Fall of 2009.
- Site Visits/Tours: TransCanada has organized approximately one dozen site visits with stakeholders to view construction of the Kibby Project, listen to operating turbines as well as to discuss the proposed location of the Expansion Project. In addition, TransCanada has conducted site visits with stakeholders to specific to locations proposed

for development on Sisk Mountain including: the Appalachian Mountain Club, Maine Audubon Society Maine Natural Areas Program, the Army Corps of Engineers, U.S. Fish and Wildlife Service, Maine Department of Inland Fisheries and Wildlife and the Chewonki Foundation.

- Website: TransCanada's Project website is continually updated with information related to the construction of the Kibby Project as well as the Expansion Project.
- Advertisements: When appropriate, TransCanada has used paid advertising to publicize events and ensure access to important safety related information.
- Individual meetings and communications: During construction of the Kibby Project, TransCanada's Construction Project Manager took time to personally meet with stakeholders who were both supportive of and opposed to construction of the project to provide progress updates and to address questions/concerns identified as a result of construction. Stakeholders included members of the Friends of the Boundary Mountains, who actively opposed the permitting of the Kibby Project. In addition to the meetings, TransCanada representatives kept members of the Friends of the Boundary Mountains well-informed and all aspects of construction by providing them with copies of each third-party inspector report generated during construction.

In connection with this filing, TransCanada has met with local area residents and landowners, local businesses and recreational clubs, Chain of Ponds camp owners, local officials and State Representatives, conservation and environmental groups, commerce and energy related organizations, government agencies, and other stakeholder groups. Where specific issues or concerns have been raised by stakeholders, TransCanada has attempted to address those concerns in the siting and design of the Expansion Project.

• Open House: Following submission of this application, TransCanada will hold an Open House in order to share information included in the application with interested members of the public. Attendees will also be able to meet Project team members and review Project specific information.

Throughout the consultation process on this expansion, stakeholders have spoken openly with TransCanada regarding the Project and significant input has been received. Issues raised during consultation efforts have been similar to those raised during the initial project and include:

- Need for renewable energy to combat global warming and improve air quality;
- Need for lower cost and diverse energy supplies;
- Environmental impacts (avian, visual, wetland, and protected species);
- Socioeconomic benefits (jobs, taxes, community investment plan);
- Continued access to the existing road network in the Project vicinity; and
- Appropriate balancing of mountain impacts through reducing environmental impact and ensuring benefits to Maine.

One example of how stakeholder input has influenced Project planning is in regards to visual impacts. Early consultation with property owners on the Chain of Ponds revealed concerns about views of turbines on the southern portion of Sisk Mountain due to its prominence in the viewshed from many rustic camps. TransCanada considered these comments as Project layouts were developed and sought to avoid these visual impacts as much as possible. The resulting layout proposed in this application was developed to minimize or eliminate views of the turbines from these rustic camps.

TransCanada's three plus year local outreach effort continues to result in positive interactions that have provided an opportunity for stakeholders and TransCanada to engage in productive discussions and resolution of concerns. The Project team appreciates feedback received in the course of its public outreach efforts and will continue to work with interested members of the public throughout development of the Expansion Project.

ATTACHMENT B.4

Public Notice of Intent to File

List of Public Notice Recipients

NOTICE OF FILING OF DEVELOPMENT PERMIT APPLICATION

This is to notify you that TransCanada Maine Wind Development, Inc. ("TransCanada"), 3647 The Arnold Trail, Chain of Ponds Township, Maine, intends to file a Grid Scale Wind Energy Development Permit Application with the Maine Land Use Regulation Commission ("the Commission") pursuant to the provisions of 35-A M.R.S., § 3451 et seq. and 12 M.R.S., § 685-B to build a wind power project to be located in Kibby and Chain of Ponds Townships, Franklin County, Maine. This area is zoned Mountain Area Protection Subdistrict (P-MA) and General Management Subdistrict (M-GN) with areas of Wetland Protection Subdistrict (P-WL) and Shoreland Protection Subdistrict (P-SL).

TransCanada is seeking development permit approval from the Commission for 15 Vestas V90 wind turbines with a potential output of 3 megawatts (MW) per turbine, and a combined potential output of 45 MW. The turbines will be located along a ridgeline north of Sisk Mountain, adjacent to and west of TransCanada's existing Kibby Wind Power Project (KWPP). The project would also include: access to the turbines utilizing existing and new roads, 34.5 kilovolt (kV) collector lines between the turbines and a new substation, and a short 115 kV electric transmission tap line between the new substation and the existing KWPP 115 kV electric transmission line.

The Grid Scale Wind Energy Development Permit Application will be submitted to the Commission's office in Augusta on or about November 30, 2009, and will be available for public inspection by appointment. Notice will be provided when the application is deemed complete for processing and copies of the complete application will then also be made available at the Franklin County Commissioners Office at 140 Main Street in Farmington, Maine 04938, the Eustis/Stratton Town Office at 88 Main Street in Stratton, Maine, 04982 and the Carrabassett Valley Town Office at 1001 Carriage Road Carabassett Valley, Maine 04947.

The Notice of the Complete Application will also include details and the timeframe for requesting a public hearing, and for submitting comments on the application. Please contact Marcia Spencer-Famous of Maine Land Use Regulation Commission staff, by calling (207) 287-4933 if you have questions. Project updates for the review of this permit application may be found at LURC's website:

http://www.maine.gov/doc/lurc/projects/Transcanada/Transcanada.shtml

Public Entities Receiving Notice

Town Clerk Carrabassett Valley Town Hall 1001 Carriage Road Carrabassett Valley, ME 04947

Town Clerks Eustis/Stratton Town Office 88 Main Street Stratton, Maine 04982

Franklin County Commissioners 140 Main Street Farmington, Maine 04982

Newspapers Publishing Public Notice

Kennebec Journal 274 Western Avenue Augusta, Maine 04330

Sun Journal P.O. Box 4400 Lewiston, Maine 04243-4400

The Original Irregular PO Box 616 239 Main Street Kingfield, Maine 04947

Franklin Journal 187 Wilton Road Farmington, Maine 04938-6120

Daily Bull Dog (Web only) Dailybulldog.com Notice published on 11/25/09

Notice published on 11/24/09

Notice published on 11/25/09

Notice published on 11/27/09

Notice published on 11/23/09

Property Interest Holders Receiving Certified Mail Notice

<u>Abutters</u> (located within 1000 feet of the Project)

- 1. Plum Creek Maine Timberlands LLC, 49 Mountain Ave., Fairfield, ME 04937
- 2. David A. Gray, PO Box 387, Gray, ME 04039-0387
- 3. Joel A. Bernier, 378 Collins Mills Road, West Gardiner, ME 04345
- 4. Kennebec West Forest LLC c/o American Forest Management, 40 Champion Lane, Milford, ME 04461 Attn: Steve LeBlanc
- 5. Maine State Department of Transportation, 16 State House Station, Augusta, ME 04333
- 6. Bayroot LLC, c/o Thomas J. Colgan, Wagner Forest Management Ltd., 150 Orford Road, P.O. Box 160, Lyme, NH, 03768

<u>Additional Property Interest Holders Receiving Notice</u> (located beyond 1000 feet of the Project)

Properties located on a "Chain of Pond" Lake

- 1. Leon Baker, 424 Round the Pond Rd., Norway, ME 04268
- 2. William F. Baker, 2 Highgate Rd., Riverside, CT 06878
- 3. Black Bear Cub Inc., AFM, 40 Champion Lane, Milford, ME 04461
- 4. Chain of Pond Camp Owners Assoc., c/o Phil Kiendl, Jr., PO Box 188, Waitsfield, VT 05673
- 5. Anne M. Charron, 33 Meadow Road Extension, Topsham, ME 04086
- 6. Charles A. & Debra D. Clark, 1022 West 50th St., Pine Bluff, AR 71603
- 7. Scott T. & Linda T. Cunningham, PO Box 291, Eliot, ME 03903-2124
- 8. Wendy A. Glenn, Settlers Lots #7, Carrabassett Valley, ME 04947
- 9. William Hanson, PO Box 21, West Peru, ME 04290
- 10. Philip R. & Audrey O. Kiendl, 1168 German Flats, Waitsfield, VT 05673
- 11. Lidstone Family Camp Inc, 1820 Perkins Ridge, Auburn, ME 04210
- 12. State of Maine, Bureau of Parks and Lands, Attn: Willard Harris, Director, 22 State House Station, 18 Elkins Lane, Augusta, ME 04333-0022
- 13. Janet Newberry & John Antram, 250 Autum Hill Rd., South Burlington, VT 05403
- 14. Nyoka D. Nixon, 864 Barrymoore Loop, The Villages, FL 32162-3363
- 15. Donald E. Olen Sr. & Donald E. Olen Jr., 6 Pine Ridge Rd., Cumberland Foreside, ME 04110
- 16. Brian G. & Tracy E Ricker, Box 131, Eustis, ME 04936
- 17. Wayne G. & Ruthann Thibodeau, 17 McLellan St., Brunswick, ME 04011

Other Properties in Chain of Ponds Township

- 1. James & Julie Brochu, 1181 Guy Lot Rd., Craftsbury, VT 05826
- 2. Robert H. & Terese M. Goings, 116 Chester Turnpike, Hooksett, NH 03106
- 3. Ken Jones, 30 Red Gate Lane, Meredith, NH 03253

- 4. Megantic Fish & Game Corp., 6 Fundy Circle, Falmouth, ME 04105
- 5. Michael Morgan, Box 178, Phillips, ME 04966
- 6. Lee Morin, 512 Main St., Lewiston, ME 04240-6200
- 7. Michael & Linda Reeve, 23 Morris Springer Rd., Fayette, ME 04349
- 8. Brian J. & Tricia L. Roy, 11 Andies Dr., Fayette, ME 04349
- 9. Robert S. Smith, 50 Riverside Dr., New York, NY 10024
- 10. Kenneth & Sharon Thomas, PO Box 46, East Dixfield, ME 04227
- 11. Wesley S.D. Witherly, 61 Chicks Road, Industry, ME 04938

EXHIBIT B.5 TITLE, RIGHT AND INTEREST

TransCanada has obtained all landowner agreements required to construct and operate the Kibby Expansion Project. The agreements are summarized below. These agreements include the rights to use the land required to construct and operate all Project components, as well as to utilize existing private access roads.

B.5.1 Kennebec West Forest, LLC ("KWF")

KWF is the fee owner of all land located in Chain of Ponds Township related to the Project. The KWF parcel is approximately 25,427 acres in size. TransCanada has obtained a wind energy easement for the access to and installation, use, replacement, operation and repair of wind power facilities and related development on the portion of the Kibby Expansion Project property owned by KWF and identified in Exhibit "A" of the easement. A redacted copy of the KWF Wind Energy Easement is provided in Attachment B.5-1.

B.5.2 Plum Creek Maine Timberlands, LLC ("Plum Creek")

Plum Creek is the fee owner of all land in Kibby Township and TransCanada has easements for a portion of that land related to the Project as follows:

- 1. TransCanada has obtained a wind energy easement for any turbines installed on Plum Creek lands located in Kibby Township.
- 2. TransCanada has obtained a separate easement from Plum Creek for the remaining Project elements, including the collector line, substation, access roads, sound and setback easement and temporary staging areas.

Short-form recorded copies of the Plum Creek easements are provided in Attachment B.5-1.

B.5.3 Underlying Deeds

The underlying KWF and Plum Creek deeds are provided in Attachment B.5-2.

ATTACHMENT B.5-1

Right, Title and Interest Documentation

WIND ENERGY EASEMENT

THIS WIND ENERGY EASEMENT (this "Agreement") is made, dated and effective as of August <u>300</u>, 2009 (the "Effective Date"), between **KENNEBEC WEST FOREST LLC**, a Delaware limited liability company having offices at 77 Franklin Street, Boston, MA 02110 ("GRANTOR"), and **TRANSCANADA MAINE WIND DEVELOPMENT INC.**, a Maine corporation with a mailing address of 110 Turnpike Road, Suite 203, Westborough, MA, 01581 ("GRANTEE"). Grantee is proposing to develop and build a Wind Energy Project (as defined below) that would be built on GRANTOR lands and on adjoining lands, owned by third parties, in Kibby Township and Chain of Ponds Township, Franklin County, Maine, and in connection herewith, GRANTOR and GRANTEE agree, covenant and contract as set forth in this Agreement.

1. **Definitions**. The following terms shall have the following meanings when used in this Agreement:

"Access Rights" means the rights of ingress to and egress from the Windpower Facilities located on the Property, adjoining properties and elsewhere over and across the Property by means of the private road known as the Gold Brook Road, or otherwise by such route or routes as GRANTEE may construct from time to time, subject to the reasonable approval of GRANTOR.

"Agreement" means this Wind Energy Easement, as the same may be amended from time to time.

"Annual Minimum Fee" means the minimum annual per-megawatt payment to be made by GRANTEE to GRANTOR during the Extended Term pursuant to <u>Section 5.3(a)</u> and as set forth in <u>Table 5.3(a)</u>. "Annual Revenue Percentage"

"Auditor" means GRANTOR, its officers, agents, employees, accountants and auditors, when performing an audit of the relevant books and similar records of GRANTEE pursuant to the audit rights set forth in <u>Section 5.3(b)</u>.

"Charges" means the following taxes, assessments, charges, penalties, and payments levied, assessed by, or due to, a governmental entity: (i) any real property, personal property, and/or ad valorem taxes, assessments and other governmental charges levied or assessed by any governmental authority upon the Windpower Facilities installed on the Property by GRANTEE, (ii) any increase in the real property taxes, assessments and/or other governmental charges levied or assessed by any governmental authority against the Property attributable to any reclassification of the Property or an increase in value as a result of the Windpower Facilities or this Agreement, and (iii) any and all penalties or recapture payments or taxes due as a result of the removal or disqualification of the Property from classification under the Tree Growth Tax Program or other current use tax program.

"Completed Site Development Plan" means an as-built plan and/or survey showing the actual locations of all improvements, roads, buffer areas and other Windpower Facilities installed on the Property, to be provided to GRANTOR within six (6) months after the Operations Date, as set forth in <u>Section 2</u>.

"Development Activities" means converting wind energy into electrical energy, and collecting and transmitting the electrical energy so converted, together with any and all activities related thereto, including, without limitation, (i) determining the feasibility of wind energy conversion on the Property, including studies of wind speed, wind direction and other meteorological data, conducting engineering, geotechnical, environmental and other surveys and studies and extracting soil samples; (ii) constructing, installing,

using, replacing, relocating and removing from time to time, and maintaining, repairing and operating Windpower Facilities on the Property; and (iii) exercising the Access Rights.

"Easement" means the easement and grant of rents, royalties, credits and profits created by this Agreement, as more specifically set forth in <u>Section 2</u>.

"Easement Mortgage" means a mortgage, deed of trust or other security instrument in or secured by this Easement or any Windpower Facilities located on the Property entered into by GRANTEE or any assignee, as set forth in <u>Section 12</u>.

"Easement Mortgagee" means the mortgagee, beneficiary, or secured party of an Easement Mortgage.

"Effective Date" means the date set out in the first paragraph of this Agreement.

"Environmental Law" means any federal, state or local laws and the regulations promulgated thereunder relating to pollution or protection of the environment, including laws relating to emissions, discharges, disseminations, releases or threatened releases of Hazardous Materials into the environment (including ambient air, surface water, ground water, soil, land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials and (i) the Comprehensive Environmental Response, Compensation and Liability Act (as amended by the Superfund Amendments and Reauthorization Act), 42 U.S.C. § 9601 et seq.; (ii) the Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901 et seq.; (iii) the Hazardous Materials Transportation Act, 49 U.S.C. §1801 et seq.; (iv) the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq.; (v) the Clean Water Act, 33 U.S.C. §1251 et seq.; and (vi) with respect to the Property, all laws of the State of Maine based on, or substantially similar to, the federal statutes listed in parts (i) through (v) of the foregoing.

"Event of Default" means any of the events constituting a default under this Agreement by either GRANTEE or GRANTOR, as set forth in <u>Sections 11.1(a)</u> and <u>11.1(b)</u>.

"Extended Term"

"Force Majeure" means fire, earthquake, flood, or other casualty or accident; strikes or labor disputes; war, civil strife or other violence; any law, order, proclamation, regulation, ordinance, action, demand or requirement of any government agency; or any other act or condition beyond the reasonable control of a Party hereto.

"GRANTEE" means TransCanada Maine Wind Development Inc., its successors and assigns.

"GRANTEE Affiliate" means an entity controlled by, controlling, or under common control with GRANTEE.

"GRANTEE's Permits" means one or more permits for the development, construction, and/or operation of the Windpower Facilities issued to GRANTEE in connection with the Wind Energy Project.

"GRANTEE's Related Parties" means GRANTEE's agents, employees, investors, principals, contractors, guests, and invitees, collectively.

"GRANTOR" means Kennebec West Forest LLC, its successors and assigns.

"GRANTOR's Related Parties" means GRANTOR's agents, employees, investors, affiliates, principals, contractors, guests, and invitees, collectively.

"Gross Revenues"

"Hazardous Materials" means asbestos-containing materials, petroleum, explosives or other substances, materials or waste which are now or hereafter classified or regulated as hazardous or toxic under any law.

"Installation	Fees"				
"Operating F	Fees"			an an georgeachte Start an georgeachte	

"Operations Date" means the date on which ISO New England Inc. (or other applicable system operator or regional transmission organization) certifies that commercial operations of the Wind Energy Project have commenced or are capable of commencing, or, in the event electrical energy generated from the Wind Energy Project will not be transmitted under the authority or supervision of a system operator or regional transmission organization, then the date on which the Wind Energy Project is capable of delivering electricity on a commercial basis (i.e., in quantities and for periods greater than required for testing) to a third party power purchaser.

"Original Term" means the period beginning on the Effective Date and ending on the fifth (5th) anniversary of the Effective Date, or such later date as is allowed pursuant to Section 4, but in no event later than the seventh (7th) anniversary of the Effective Date.

"Party" means either GRANTEE or GRANTOR.

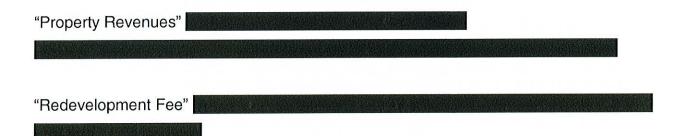
"Parties" means both GRANTEE and GRANTOR.

"Pre-Operating Fees"

"Project Energy" means the aggregate amount of gross energy produced by all Wind Turbines in the Wind Energy Project as measured by the Wind Turbines' energy meters, in the applicable period, measured in MWh.

"Property" means the real property of GRANTOR located in Chain of Ponds Township, Franklin County, Maine that is subject to the Easement and which is more particularly described in <u>Exhibit A</u> attached hereto. References to the "Property" shall refer only to the lands of GRANTOR subject to the Easement from time to time, and shall not include any of the Released Property or any other lands of GRANTOR, except as set forth in <u>Section 2</u>.

"Property Energy" means the aggregate amount of gross energy produced by all Wind Turbines, if any, located on the Property as measured by the Wind Turbines' energy meters, in the applicable period, measured in MWh.



"Released Property" means those portions of the Property that are shown on the Completed Site Development Plan and/or originally included in the Property which are: (i) not occupied by Windpower Facilities located on the Property, (ii) outside a buffer zone measuring five hundred (500) feet in all directions from each Wind Turbine located on the Property, (iii) outside a seventy-five (75) foot buffer zone around the centerline of all transmission lines, (iv) outside a thirty (30) foot buffer zone around the centerline of all roads, the centerline of all connection lines, and around other Windpower Facilities as is reasonably necessary to operate, repair, replace and maintain such other Windpower Facilities, (v) outside a buffer zone measuring two hundred (200) feet in all directions from each meteorological towers located on the Property, (v) not necessary to be included as part of the Property for subdivision compliance purposes, and (vi) not included within any other environmental buffer areas required by governmental permits and or authorizations applicable to the Windpower Facilities.

"Removal Bond" means a performance bond or, at GRANTEE's option, a letter of credit, in the amount of **Sector Constant Constant Sector** for each Wind Turbine, if any, located on the Property at the time the Removal Bond is required pursuant to <u>Section 11.2.3</u>.

"Required Date" means the date specified by the county, state or other municipality for the posting by GRANTEE of a bond, letter of credit, parental guarantee or other security.

"Site Plan" means a site plan indicating the approximate proposed location of Windpower Facilities on the Property and provided to GRANTOR as set forth in <u>Section</u> 8.1.

"Wind Turbines" means wind turbines, including supporting towers and foundations.

"Wind Energy Project" means one or more Wind Turbines and/or associated Windpower Facilities that are constructed, installed and/or operated on the Property and/or on other lands in the general vicinity of Sisk Mountain in Kibby Township and Chain of Ponds Township by or on behalf of GRANTEE, as an integrated energy generating and delivery system, but shall not include the Kibby Wind Project subject to LURC Zoning Permit No. ZP 709, and Development Permit No. DP 4794. "Windpower Facilities" means the Wind Turbines, electrical distribution, collection, transmission and communications lines, substations, electric transformers, telecommunications equipment primarily serving the Wind Energy Project, power generation facilities to be operated in conjunction with commercial wind turbine installations, roads, meteorological towers and wind measurement equipment, control buildings, maintenance yards, and related facilities and equipment.

2. Grant of Easement and Profits; Released Property. For good and valuable consideration, the receipt of which is hereby acknowledged by GRANTOR, GRANTOR hereby grants and conveys to GRANTEE, an easement for the purposes described below upon, over, across and under the Property, together with the right to all rents, royalties, credits and profits derived from Development Activities upon, over and across the Property. Within six (6) months following the Operations Date, GRANTEE shall deliver a Completed Site Development Plan to GRANTOR. Prior to delivery of the Completed Site Development Plan, GRANTEE shall provide to GRANTOR copies of all development plans, and any and all updates, revisions, and modifications thereto, as the same become available to GRANTEE. The Completed Site Development Plan will be recorded in the records of Franklin County, Maine as an amendment to Exhibit "A" of this Agreement (and/or any short from version hereof) to re-define the Property subject to this Agreement and to exclude and release from the effect of this Easement all of the Released Property, and GRANTEE shall promptly execute, acknowledge and deliver to GRANTOR a quitclaim deed and release (in the form attached hereto as Exhibit "D") conveying to GRANTOR all of GRANTEE's right, title and interest in and to the Released Property under this Agreement (other than the easement set out in Section 15) and the Easement, free of any liens or encumbrances placed on the Released Property by GRANTEE or GRANTEE's sublessees, tenants, contractors, agents or assignees. Upon GRANTEE's conveyance to GRANTOR of the Released Property, the term "Property" as used in this Agreement shall exclude the Released Property for all purposes; provided, however, that (i) the indemnities set forth in Section 8.4 shall continue to apply to the Released Property to the extent that conduct, acts, or omissions giving rise to such indemnity occurred during the period in which the Released Property

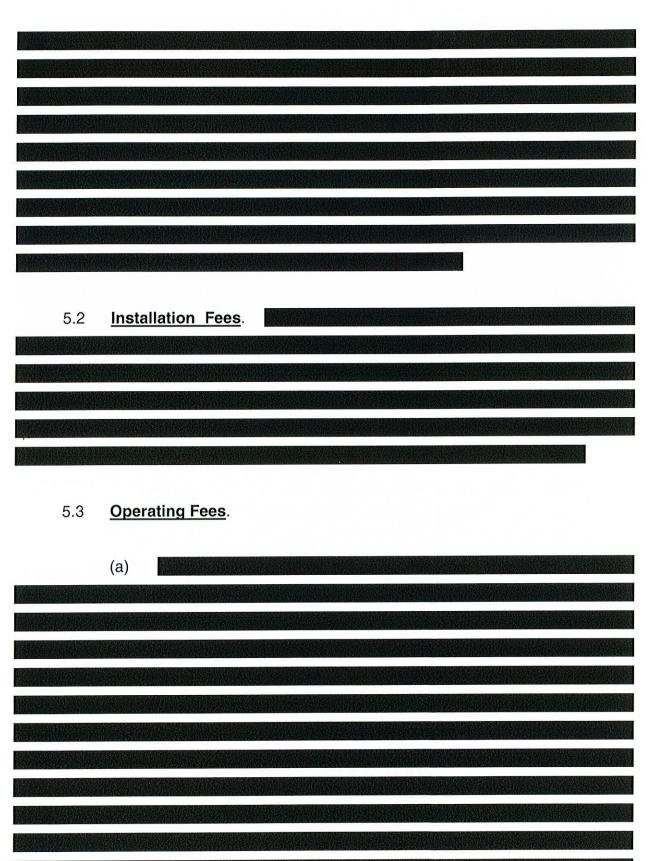
was included in the Property; and (ii) the easement set out in <u>Section 15</u> shall continue to apply to the Released Property for the Original Term and the Extended Term.

3. **Purpose of Easement**. The Easement is solely and exclusively for purposes of the Development Activities, and not for any other purpose, and GRANTEE shall have the exclusive right to use the Property for Development Activities and to derive all profits therefrom; provided, however, that GRANTOR shall have the right to install and/or allow others to install telecommunications facilities and electric lines on the Property, subject to the non-interference provisions of <u>Section 9.2</u>, below. The Parties acknowledge and agree that GRANTEE is not obligated to install any Wind Turbines on the Property, but may install Windpower Facilities other than Wind Turbines on the Property in order to serve Wind Turbines located on adjoining properties.

4. <u>**Term**</u>. This Easement shall be for the Original Term, provided that if, as of the fifth (5th) anniversary of the Effective Date, GRANTEE has commenced and is diligently pursuing construction of the Windpower Facilities (as evidenced by receipt of a valid permit for the installation and construction of the Windpower Facilities, and the diligent undertaking of the activities authorized under such permit without delay or interruption) then the Original Term shall be extended and continue until the Operations Date; provided, however, that in no event shall the Original Term be extended beyond the seventh (7th) anniversary of the Effective Date. If, on or before the expiration of the Original Term, the Operations Date has occurred, then the term of this Easement shall be extended for the Extended Term. If requested by GRANTEE, GRANTOR shall execute and deliver a recordable memorandum acknowledging the Operations Date that may be recorded.

5. **Payments**. In consideration of the rights granted hereunder, GRANTEE will pay GRANTOR the following amounts:

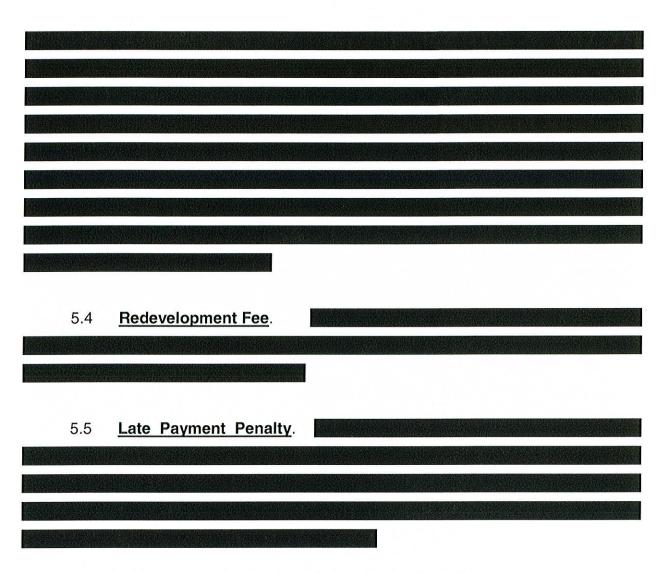
5.1 Pre-Operating Fees.



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- 13 -



6. <u>Ownership of Windpower Facilities</u>. GRANTOR shall have no ownership, lien, security or other interest in any Windpower Facilities installed on the Property, or any profits derived therefrom, and GRANTEE may remove any or all Windpower Facilities at any time. Except for the payments described in <u>Section 5</u> above, GRANTOR shall not be entitled to any other payments or benefits accrued by or from the Wind Energy Project.

7. <u>Charges</u>. GRANTEE shall pay when due all Charges other than any Charges attributable to (a) improvements or facilities installed by GRANTOR on the Property (unless installed for the use of GRANTEE), or (b) the underlying value of the Property absent the Wind Power Facilities. If GRANTOR pays any Charges that are the

responsibility of GRANTEE hereunder, GRANTEE shall repay to GRANTOR the amount thereof within thirty (30) days of receipt of written demand, which written demand shall include sufficient proof of the amount due and the responsible Party.

8. **GRANTEE's Representations, Warranties, and Covenants**. GRANTEE hereby represents, warrants, and covenants to GRANTOR that:

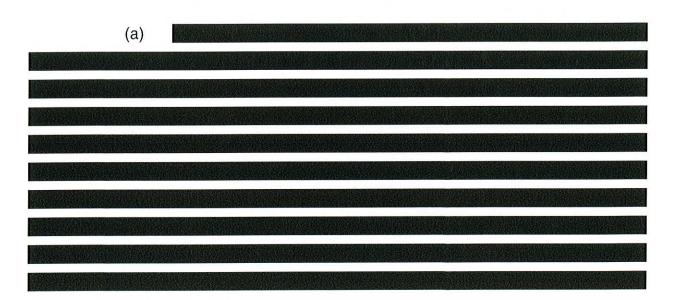
8.1 Minimal Impacts. GRANTEE assumes the risk of use of the Property and agrees to use the minimum amount of acreage that is reasonably necessary, in the reasonable discretion of GRANTEE, for a safe and prudent operation of the Wind Energy Project. Further, GRANTEE agrees to the extent commercially reasonable, to conduct its Development Activities and to locate and operate its Windpower Facilities in such a way as to minimize adverse impacts to the Property and adjacent lands of GRANTOR. Prior to the commencement of construction of any of the Windpower Facilities on the Property, GRANTEE shall give GRANTOR the Site Plan. The Site Plan shall be directed to Christina Petersen at the address for GRANTOR set forth in Section 14.5. Within thirty (30) days of GRANTOR's receipt of the Site Plan from GRANTEE, GRANTOR shall submit in writing to GRANTEE a list of all of GRANTOR's suggestions, concerns and requests regarding the Site Plan and within thirty (30) days of GRANTEE's receipt of such list, GRANTEE shall consult in good faith with GRANTOR and shall give commercially reasonable consideration to any requests made by GRANTOR; provided, however, that if the Parties cannot agree within a ten (10) day period following such consultation as to the locations of the Windpower Facilities, then such locations shall be determined by GRANTEE in its reasonable discretion. GRANTEE shall operate and maintain the Windpower Facilities in good order and repair throughout the Original Term and the Extended Term of this Agreement. lf GRANTOR's Property is fenced by GRANTEE OR GRANTEE's Related Parties, all existing access roads located on the Property used by GRANTEE, and any newly constructed access roads permitted hereunder, shall be gated by GRANTEE at GRANTEE's sole expense, and GRANTOR shall be furnished with keys or other ability to open and close such gate(s). GRANTEE shall maintain such gate(s) as part of the

Windpower Facilities. GRANTEE agrees to pay all costs of improvements to any roads on the Property necessary for its usage, maintain the roads in good condition during such usage, and use the roads in a prudent manner so as not to interfere with GRANTOR's use of such roads; provided however, if GRANTOR grants a third party the right to use the roads during the Original Term and/or the Extended Term, then such third party shall be obligated to pay its pro rata portion of the costs to maintain the roads in good condition; provided, however, that any damage to such roads caused by GRANTEE (other than ordinary wear and tear) shall be repaired at the sole cost and expense of GRANTEE; and further provided that any damage to such roads caused by GRANTOR (other than ordinary wear and tear) shall be repaired at the sole cost and expense of GRANTEE; and further provided that any damage to such roads caused by GRANTOR (other than ordinary wear and tear) shall be repaired at the sole cost and expense of GRANTOR. Subject to <u>Section 9.2</u>, GRANTOR excepts and reserves full and free rights of ingress and egress on, along, over and across the Property, except to the extent such use unreasonably interferes with GRANTEE's exercise of the rights granted by this Agreement.

Forestry Activities. Clearing of the Property for the Windpower Facilities 8.2 shall be conducted in accordance with Best Management Practices guidelines for the State of Maine's forestry industry, as applicable to the Windpower Facilities. Subject to Section 9.2 below, GRANTEE's operation of Windpower Facilities shall not unreasonably disturb or interfere with GRANTOR's current use of the Property as a commercial working forest, and GRANTOR shall retain the right to cut and remove any and all timber, trees, and other vegetation and forest products, and otherwise conduct forest management activities on the Property, in accordance with all applicable laws, rules, and regulations. Notwithstanding the foregoing, however, following the issuance of GRANTEE's Permits, all removal of timber, trees, and other vegetation required to clear areas of the Property to be occupied by any Windpower Facilities shall be undertaken by GRANTEE in compliance with GRANTEE's Permits, and all applicable laws, rules, and regulations. In connection therewith, GRANTEE shall stack any and all merchantable timber, trees, and other forest products roadside at a location designated by GRANTOR (provided such location is no greater than one-half mile by road from the Property). All marketable timber shall at all times remain the property of GRANTOR.

GRANTEE shall dispose of non-merchantable vegetation in accordance with Best Management Practices guidelines for the State of Maine's forestry industry and in a manner to prevent hazards from fire and insect infestation to forest products on the Property and on adjacent lands. Upon completion of construction of the Windpower Facilities, all of the Property disturbed by GRANTEE and not required for continuing operations of the Windpower Facilities shall be restored as near as reasonably practicable to its condition of productivity as it existed on the Effective Date in accordance with Best Management Practices guidelines for the State of Maine's forestry industry. Notwithstanding anything to the contrary in this Agreement, in no event shall GRANTEE be obligated to plant trees on the Property.

8.3 **Insurance**. At all times during the Original Term and the Extended Term, GRANTEE shall, at its expense, maintain insurance in accordance with **Exhibit "B"** that will cover any property damage, personal injuries or accidents that may occur as a result, in whole or in part, of any activities conducted by or on behalf of GRANTEE (including any activities of any of GRANTEE's employees, consultants, contractors, permitees, invitees, sublessees, licensees or other agents) on the Property, or otherwise as a result of the exercise of the rights granted to GRANTEE hereunder.



8.4 Indemnity.

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8.5 **Damages**. Notwithstanding anything to the contrary in this Agreement, neither Party shall be liable to the other Party for incidental, punitive, or consequential damages arising out of or in connection with this Agreement or the Easement.

8.6 **Requirements of Governmental Agencies**. GRANTEE, at its expense, shall comply in all material respects with valid and applicable laws, ordinances, statutes, orders, and regulations of any governmental agency applicable to the Windpower Facilities and its use of the Property permitted hereunder. GRANTEE shall obtain from all governmental agencies having jurisdiction and keep in force all necessary permits for its operations and furnish and keep in force all bonds required to be given. GRANTEE shall comply in every respect with the laws of the State of Maine and its political subdivisions and the United States of America. GRANTEE shall have the right, in its sole discretion, to contest by appropriate legal proceedings, the validity or applicability to the Easement or Windpower Facilities of any law, ordinance, statute, order, regulation, property assessment, or the like now or hereafter made or issued by any federal, state, county, local or other governmental agency or entity. Any such contest or proceeding shall be controlled and directed by GRANTEE.

8.7 <u>Construction Liens</u>. GRANTEE shall keep the Property free and clear of all liens and claims of liens for labor and services performed on, and materials, supplies, or equipment furnished to, the Property in connection with GRANTEE's exercise of the rights granted hereunder; provided, however, that if GRANTEE wishes to contest any such lien, GRANTEE shall, within sixty (60) days after it receives notice of the filing of such lien, remove or bond over such lien pursuant to applicable law.

8.8 <u>Hazardous Materials</u>. GRANTEE, its agents, employees, contractors, guests and invitees shall not violate any Environmental Law and/or any federal, state, or local law, ordinance, or regulation relating to the generation, manufacture, production, use, storage, release, discharge, disposal, transportation or presence of any substance, material, or waste which is now or hereafter classified as hazardous or toxic, or which is regulated under current or future federal, state, or local laws or regulations, on or under the Property.

8.9 **<u>GRANTEE's Authority</u>**. GRANTEE has the unrestricted right and authority to execute this Agreement. Each person signing this Agreement on behalf of

GRANTEE is authorized to do so. When signed by GRANTEE, this Agreement constitutes a valid and binding agreement enforceable against GRANTEE in accordance with its terms.

8.10 <u>Condition of Property</u>. Except to the extent of GRANTOR provided representations, warranties and covenants pursuant to <u>Section 9</u>: (a) GRANTEE has had an opportunity to inspect the Property and enters into this Agreement solely in reliance on GRANTEE's own examination and not by reason of any representation, covenant or warranty (whether written or oral) by GRANTOR; (b) The Property is accepted in its present condition "AS IS WHERE IS"; (c) No reliance shall be placed on any opinion, material, or information provided by or through GRANTOR, and GRANTEE does so at its own risk, cost and expense; (d) GRANTEE understands and acknowledges that the Property has had an extensive commercial forestry history and that GRANTOR shall not be held liable by GRANTEE for damages that might result to GRANTEE's Windpower Facilities from such prior use, including any mineral extraction activities related thereto; and (e) GRANTOR DOES NOT MAKE ANY WARRANTIES, EXPRESS OR IMPLIED, THAT THE PROPERTY CAN BE USED OR IS SUITABLE OR FIT FOR ANY PURPOSE WHATSOEVER.

9. **GRANTOR's Representations, Warranties, and Covenants**. GRANTOR hereby represents, warrants, and covenants as follow:

9.1 **<u>GRANTOR's Authority</u>**. GRANTOR is the sole owner of the Property and has the unrestricted right and authority to execute this Agreement and to grant to GRANTEE the rights granted hereunder. Each person signing this Agreement on behalf of GRANTOR is authorized to do so. When signed by GRANTOR, this Agreement constitutes a valid and binding agreement enforceable against GRANTOR in accordance with its terms.

9.2 **Interference**. GRANTOR's activities on the Property, and/or any grant of rights GRANTOR makes to any person or entity to use the Property shall not materially

interfere with the exercise of the rights granted to GRANTEE hereunder. Without limiting the generality of the foregoing, (i) within One-Half (1/2) mile (or within a greater distance if, in the reasonable opinion of a mutually acceptable third party expert, actual turbulence-related interference would result) of any Wind Turbine, GRANTOR shall not knowingly interfere with the wind speed or wind direction over the Property, whether by placing Wind Turbines, telecommunication towers or antennas or constructing buildings or other structures, or by engaging in any other activity on the Property that could be reasonably expected to cause a decrease in the output or efficiency of the Windpower Facilities located on the Property, and (ii) GRANTOR shall not disturb the subsurface such that it could be reasonably expected to materially and adversely interfere with the structural integrity of the Windpower Facilities located on the Property, whether by mining, drilling or otherwise. For the purposes of this Agreement any building or structure that GRANTOR installs within One-Half (1/2) Mile of any Wind Turbine shall be deemed not to materially interfere with the wind speed or wind direction over the Property or cause a decrease in the output of efficiency of the Windpower Facilities if the height of such structure from the base of any Wind Turbine on the Property is Thirty Feet (30') or less.

GRANTEE acknowledges that the Property is part of a commercial working forest, and GRANTOR shall have the right, but not the obligation, to conduct forest management and/or timber harvesting operations on the Property (in accordance with all applicable laws, rules, and regulations, and any requirements of GRANTEE's Permits), and the Parties agree that such activities shall not constitute an interference with wind speed or direction, or with the structural integrity of the Windpower Facilities. It is further agreed by the Parties that GRANTOR may grant any and all conservation easements or other similar interests in the Property, or portions thereof, provided the same do not prohibit the development, construction and/or operation of the Windpower Facilities or otherwise restrict the rights of GRANTEE hereunder.

9.3 <u>Liens and Tenants</u>. GRANTEE shall be solely responsible for obtaining a preliminary title report or other documentation required by GRANTEE to satisfy itself

as to the existence of recorded liens, encumbrances, covenants, conditions, reservations, restrictions, easements, leases, subleases, occupancies, tenancies, mineral rights, water rights, options, rights of first refusal or other matters affecting, relating to or encumbering the Property or any portion thereof, the existence, use, foreclosure or exercise of which could reasonably be expected to delay, interfere with or impair the exercise of any of GRANTEE's rights under this Agreement or the Easement, or the financing of the Wind Energy Project. To the knowledge of GRANTOR there are no unrecorded liens, encumbrances, leases, mortgages, deeds of trust (except as disclosed to GRANTEE in writing) which could have a material adverse effect on GRANTEE's exercise of the rights granted hereunder, that are not reasonably discoverable through a reasonable inspection of the Property or examination of title thereto. On the Effective Date hereof, GRANTOR agrees to deliver to GRANTEE an affidavit regarding liens in the form attached hereto as **Exhibit "C"**.

Requirements of Governmental Agencies. GRANTOR shall provide 9.4 reasonable assistance and cooperation to GRANTEE, at no out-of-pocket expense to GRANTOR, in complying with or obtaining any land use permits and approvals, building permits, environmental impact reviews or any other approvals required for the financing, construction, installation, monitoring, replacement, relocation, maintenance, operation and/or removal of the Windpower Facilities, including execution of applications for such approvals, and including participating in any appeals or regulatory proceedings respecting the Windpower Facilities. In particular, but without limitation, if requested by GRANTEE, GRANTOR will be a co-applicant with GRANTEE for any application to the Maine Land Use Regulation Commission for zoning approval and/or a development plan or permit for the Wind Energy Project and will consent to the waiver of any setback requirements applicable to the Wind Energy Project. GRANTEE shall reimburse GRANTOR for all out-of-pocket costs and expenses (including reasonable attorney fees) incurred by GRANTOR in connection with GRANTOR's assistance and cooperation hereunder. GRANTOR, at its expense, shall comply in all material respects with valid and applicable laws, ordinances, statutes, orders, and regulations of any governmental agency applicable to its use of the Property, if non-compliance would

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have a material adverse effect on GRANTEE's exercise of the rights granted hereunder and/or would materially and adversely interfere with GRANTEE's operation of the Wind Energy Project. GRANTOR shall obtain from all governmental agencies having jurisdiction and keep in force all necessary permits for its operations and furnish and keep in force all bonds required to be given, to the extent the failure to do so would have a material adverse effect on GRANTEE's exercise of the rights granted hereunder and/or would materially and adversely interfere with GRANTEE's operation of the Wind Energy Project. GRANTOR shall comply in every respect with the laws of the State of Maine and its political subdivisions and the United States of America. GRANTOR shall have the right, in its sole discretion, to contest by appropriate legal proceedings, the validity or applicability to the Property of any law, ordinance, statute, order, regulation, property assessment, or the like now or hereafter made or issued by any federal, state, county, local or other governmental agency or entity. Any such contest or proceeding shall be controlled and directed by GRANTOR.

9.5 Hazardous Materials. GRANTOR shall not violate any Environmental Law and/or federal, state or local law, ordinance or regulation relating to the generation, manufacture, production, use, storage, release, discharge, disposal, transportation or presence of any substance, material or waste which is now or hereafter classified as hazardous or toxic, or which is regulated under current or future federal, state or local laws or regulations on or under the Property, if such violation would result in liability to GRANTEE, or would have a material adverse effect on GRANTEE's exercise of the rights granted hereunder and/or would materially and adversely interfere with GRANTEE's operation of the Wind Energy Project. GRANTOR shall promptly notify GRANTEE of any such violation. To the best of GRANTOR's knowledge, (i) no underground tanks are now located or at any time in the past have been located on the Property or any portion thereof, (ii) no Hazardous Material has been generated, manufactured, transported, produced, used, treated, stored, released, disposed of or otherwise deposited in or on or allowed to emanate from the Property or any portion thereof other than as permitted by applicable law, rule, or regulation, and (iii) there are no other substances, materials or conditions in, on or emanating from the Property or

any portion thereof which may support a claim or cause of action under any Environmental Law. GRANTOR has not received any notice or other communication from any governmental authority alleging that the Property is in violation of any Environmental Law.

9.6 <u>Litigation</u>. No litigation is pending, and, to GRANTOR's knowledge, no other legal or administrative proceedings are pending which would have a material adverse effect on GRANTEE's exercise of the rights granted hereunder and/or would materially and adversely interfere with GRANTEE's operation of the Wind Energy Project. If GRANTOR learns that any such litigation, action, claim or proceeding is threatened or has been instituted, GRANTOR shall promptly deliver notice thereof to GRANTEE.

9.7 **Future Liens**. GRANTOR shall keep the Property free and clear of (a) all liens and claims of liens for labor and services performed on, and materials, supplies, or equipment furnished to, the Property in connection with GRANTOR's use of the Property, and (b) any tax lien or other lien superior to this Easement which could materially adversely affect the use and enjoyment of the Property in accordance with the terms of this Agreement that arises from the act or omission of GRANTOR; provided, however, that if GRANTOR wishes to contest any such lien, GRANTOR shall, within sixty (60) days after it receives notice of the filing of such lien, remove or bond over such lien from the Property pursuant to applicable law. Without limiting the generality or effectiveness of the foregoing provisions in any way, it is hereby specifically agreed and provided that if GRANTOR shall fail to discharge or bond off to the satisfaction of GRANTEE, within thirty (30) days after written demand by GRANTEE, any mechanic's or materialman's lien, tax lien, or other lien or attachment against the Property, or any portion thereof, which is superior to this Easement and that arises from the act or omission of GRANTOR, GRANTEE shall have the right to bond the lien off or to pay such amounts to the holder(s) of any such lien or attachment as shall be necessary to cause the same to be released and discharged, and the amounts paid by GRANTEE may be deducted by GRANTEE from the next installment or next

several installments of fees payable hereunder until such amounts have been fully recovered by GRANTEE. The good faith deduction of fees in accordance with the provisions hereof shall not constitute a default by GRANTEE in the payment of fees or in the performance of its obligations under this Agreement unless GRANTEE shall fail to pay the amount of such deduction together with any interest due thereon to GRANTOR within thirty (30) days after a final adjudication that such amount is due and owing to GRANTOR.

9.8 Indemnity.

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11. Default and Termination.

11.1 Default.

By GRANTEE: Each of the following events shall constitute an (a) Event of Default by GRANTEE and shall, if not cured within the specified time period, permit GRANTOR to terminate this Agreement and pursue such other remedies as may be available under this Agreement, at law or in equity, all of which remedies shall be cumulative: (i) the failure by GRANTEE to pay any amounts required to be paid hereunder when due, and such failure has continued for thirty (30) days after written notice from GRANTOR of such failure; (ii) the failure of GRANTEE to maintain the insurance coverage required by this Agreement (provided, however, that GRANTEE shall not be in default of this Agreement merely for the failure to provide copies of insurance certificates, unless such failure continues for a period of seven (7) days after written notice from GRANTOR of such failure); (iii) the failure of GRANTEE to remain in material compliance with each and every one of its representations and warranties hereunder, including its warranties and representations regarding hazardous wastes and toxic substances and such failure has continued for thirty (30) days (or such longer period of time as may be reasonably required to cure such failure, if such failure cannot reasonably be cured within a thirty (30) day period) after written notice from GRANTOR of such failure; (iv) the failure of GRANTEE to remain in compliance with all laws, regulations, ordinances, approvals and permit conditions applicable to the Wind Energy Project and/or GRANTEE's activities on the Property and such failure has continued for thirty (30) days (or such longer period of time as may be reasonably required to cure such failure, if such failure cannot reasonably be cured within a thirty (30) day period, or such longer period as may be allowed by any applicable governmental or regulatory body pursuant to the applicable law, regulation, ordinance, approval, permit condition, or enforcement action) after written notice from GRANTOR of such failure; provided, however, that compliance with the requirements and conditions of any enforcement action initiated by any applicable governmental or regulatory body such that the enforcement action is closed shall be deemed to be a cure of any such violation; (v) the bankruptcy or insolvency, whether voluntary or involuntary, of GRANTEE; or (vi) the

failure to perform any other obligation of GRANTEE set forth in this Agreement, and such failure has continued for thirty (30) days (or such longer period of time as may reasonably be required to cure such failure, if such failure cannot reasonably be cured within a thirty (30) day period) after written notice from GRANTOR of such failure. Notwithstanding the foregoing, (i) if GRANTEE fails to cure any defaults within the prescribed periods, GRANTOR may not exercise its right to terminate this Agreement unless GRANTOR has provided to any Easement Mortgagee written notice from GRANTOR of GRANTEE's failure to cure, and an opportunity to cure such default(s) (other than defaults for which there is no opportunity to cure), in accordance with the provisions of Section 12, below; (ii) in the event GRANTEE fails to cure a default within the applicable cure period and GRANTOR does not terminate this Easement within ninety (90) days after the expiration of such cure period, GRANTOR may not terminate this Easement without again providing the applicable notice and opportunity to cure; provided, however, that if due to the passage of time the default is no longer able to be cured and the continuation of such default does not have a material adverse effect on GRANTOR, then GRANTOR shall not be permitted to terminate this Agreement based solely on the existence of such default; and (iii) in the event of a default in GRANTEE's obligation to maintain the insurance required under this Easement, GRANTOR shall not have the opportunity to terminate this Easement if, at the time of such termination, all required insurance is in place; provided, however, that GRANTOR shall nevertheless have the right to terminate this Easement if any liability or claim arises or is made against GRANTOR, any of GRANTOR's Related Parties, and/or the Property that is not covered by insurance due to any lapse in coverage of the insurance required to be carried by GRANTEE hereunder.

(b) By GRANTOR: Each of the following events shall constitute an Event of Default by GRANTOR and shall, if not cured with the specified time period, permit GRANTEE to terminate this Agreement within 90 days of becoming aware of such Event of Default and/or pursue such other remedies as may be available under this Agreement, at law or in equity, all of which remedies shall be cumulative: (i) the failure by GRANTOR to pay amounts required to be paid hereunder when due, and such failure has continued for thirty (30) days after written notice from GRANTEE; (ii)

the failure of GRANTOR to remain in material compliance with each and every one of its representations and warranties hereunder, including its warranties and representations regarding hazardous wastes and toxic substances and such failure has continued for thirty (30) days (or such longer period of time as may be reasonably required to cure such failure, if such failure cannot reasonably be cured within a thirty (30) day period) after written notice from GRANTEE of such failure; (iii) the failure of GRANTOR to remain in compliance with all laws, regulations, ordinances, approvals and permit conditions applicable to GRANTOR's activities on the Property if such failure has or is reasonably anticipated to have a material adverse impact on GRANTEE and/or its exercise of any of the rights granted hereunder, and such failure has continued for thirty (30) days (or such longer period of time as may be reasonably required to cure such failure, if such failure cannot reasonably be cured within a thirty (30) day period) after written notice from GRANTEE of such failure; (iv) the bankruptcy or insolvency, whether voluntary or involuntary, of GRANTOR; or (vi) the failure by GRANTOR to perform any other material agreement set forth in this Agreement, and such failure has continued for thirty (30) days (or such longer period of time as may reasonably be required to cure such failure, if such failure cannot reasonably be cured within a thirty (30) day period) after written notice from GRANTEE.

(c) A waiver by GRANTOR of any Event of Default under this Easement shall not prevent the right of GRANTOR to forfeit this Easement for any other cause, or for the same cause occurring at any other time. The receipt by GRANTOR from GRANTEE of payments after the occurrence of any Event of Default, or the continued recognition by GRANTOR of GRANTEE hereunder after the occurrence of any Event of Default shall not be deemed a waiver of GRANTOR's right of forfeiture, so long as the cause of forfeiture continues to exist. Receipt and acceptance by GRANTOR of any amounts tendered by GRANTEE shall not constitute an agreement by GRANTOR that the amounts are the proper amounts due or a waiver of GRANTOR's claims for greater amounts. All payments by GRANTEE to GRANTOR shall apply on the items longest past due, and the receipt of any such payment shall not be a waiver either of the right of distress or the right of forfeiture or any other remedy available to

GRANTOR with respect to items which remain undischarged after crediting the payments.

11.2 Termination.

11.2.1 **GRANTEE's Right to Terminate**. GRANTEE shall have the right to terminate the Easement as to all or any part of the Property at any time and without cause, by giving GRANTOR at least one (1) year's prior written notice and by executing and causing to be acknowledged and recorded in the Official Records of the county where the Property is located, a quitclaim deed describing with particularity the portion of such right, title or interest so quitclaimed and the part of the Property to which it applies. In the event any such notice is delivered to GRANTOR by GRANTEE after Wind Turbines have been installed on the Property, such notice shall be accompanied by a statement by GRANTEE setting forth how GRANTEE shall comply with the provisions of <u>Section 11.2.3</u> within the required time period, and shall include evidence of such compliance.

11.2.2 **GRANTOR's Right to Terminate**. Subject to <u>Section 12.4</u>, and in addition to any other termination rights of GRANTOR set forth in this Agreement, GRANTOR shall have the right to terminate all or any portion of its rights in this Agreement and the easements granted hereunder if (a) Grantee has not completed installation of at least three (3) Wind Turbines on the Property and such Wind Turbines are capable of delivering electricity on a commercial basis (i.e., in quantities and for periods greater than required for testing) to a third party power purchaser within the Original Term, or (b) GRANTEE abandons the Property (which shall be defined for the purposes of this Agreement as the absence of any sales of power produced from the Wind Energy Project for a continuous period of sixty (60) consecutive calendar months, other than as a result of Force Majeure or breakdown of the Windpower Facilities), following the occurrence of the Operations Date.

11.2.3 <u>Effect of Termination; Performance Bond</u>. Within twelve (12) months after the expiration or earlier termination of the Easement, whether as to

the entire Property or only as to part, GRANTEE shall remove above-ground and belowground (to a depth of the lesser of (a) four (4) feet below grade, or (b) the depth of cover over bed rock prior to installation of the Windpower Facilities at the relevant location) Windpower Facilities, other than roads or trails, from the Property or the portion of the Property as to which the Easement was terminated. In the event that GRANTEE gives GRANTOR a notice of early termination pursuant to Section 11.2.1 this Easement shall not terminate as to the Easement Property specified in the notice until such time as GRANTEE has removed its Windpower Facilities from the Easement Property and restored the Easement Property pursuant to this Section 11.2.3. All Property disturbed by GRANTEE shall be restored as near as reasonably practicable to its state and condition of productivity as it existed on the Effective Date. Reclamation shall include, as reasonably required, leveling, terracing, mulching and other reasonably necessary steps to prevent soil erosion. GRANTEE shall comply with any reclamation or land restoration requirements of applicable governmental authorities, submit any reclamation or restoration plan required by such authorities and post such security as required by the governmental authority with respect to the Wind Energy Project in connection with the applicable permitting process. If GRANTEE fails to remove such Windpower Facilities within twelve (12) months of the expiration or termination of the Easement, or such longer period as GRANTOR may provide by extension, GRANTOR may do so, in which case GRANTEE shall reimburse GRANTOR for all costs of removal and restoration incurred by GRANTOR. If (a) a removal bond, letter of credit, parental guarantee or other form of security is not required by the county, the state or any municipality or (b) a removal bond, letter of credit, parental guarantee or other form of security is required by the county, the state or any municipality but is not provided by the Required Date then, in the case of (a) on or before the twentieth (20th) anniversary of the Operations Date, or in the case of (b) within sixty (60) days of the Required Date, GRANTEE shall post the Removal Bond to ensure GRANTEE's performance for removal of aboveground and belowground (to a depth of the lesser of (a) four (4) feet below grade, or (b) the depth of cover over bed rock prior to installation of the Windpower Facilities at the relevant location) Windpower Facilities from the Property. GRANTEE shall provide written proof of the Removal Bond, if required hereunder, to

GRANTOR within sixty (60) days of the twentieth (20th) anniversary of the Operations Date. The Removal Bond shall be issued in favor of GRANTOR by a creditor institution reasonably acceptable to GRANTOR. GRANTEE will renew the Removal Bond each year and provide written proof of such renewal to GRANTOR within sixty (60) days of each such renewal. The term of the Removal Bond shall extend until GRANTEE complies with the removal and restoration provisions in this <u>Section 11.2.3</u>.

12. Mortgagee Protection.

In the event that any mortgage, deed of trust or other security interest in this Easement or in any Windpower Facilities is entered into by GRANTEE or any Assignee (an "Easement Mortgage"), then up to three (3) additional parties who are mortgagees of an Easement Mortgage (an "Easement Mortgagee") at any one time shall, for so long as its Easement Mortgage is in existence and until the lien thereof has been extinguished, be entitled to the protections set forth in this <u>Section 12</u>, but only after GRANTOR has received written notice of the name and address of any such Easement Mortgage from GRANTEE.

12.1 <u>Easement Mortgagee's Right to Possession, Right to Acquire and</u> <u>Right to Assign</u>. An Easement Mortgagee shall have the absolute right: (i) to assign its security interest; (ii) to enforce its lien and acquire title to the easement estate by any lawful means; (iii) to take possession of and operate the Windpower Facilities or any portion thereof and to perform all obligations to be performed by GRANTEE hereunder, or to cause a receiver to be appointed to do so; and (iv) to acquire the easement estate by foreclosure or by an assignment in lieu of foreclosure and thereafter to assign or transfer the easement estate to a third party, provided such third party has the financial and technical capacity to comply with each and every obligation and covenant of GRANTEE hereunder and assumes in writing all of the obligations and covenants of GRANTEE hereunder. GRANTOR's consent shall not be required for any of the foregoing actions on the part of an Easement Mortgagee. 12.2 <u>Notice of Default: Opportunity to Cure</u>. As a precondition to exercising any rights or remedies as a result of any alleged default by GRANTEE, GRANTOR shall give, or must have given, written Notice of Default to each Easement Mortgagee concurrently with delivery of such notice to GRANTEE, specifying in detail the alleged event of default and the required remedy. In the event GRANTOR gives such a written notice of default, the following provisions shall apply:

(a) A "Monetary Event of Default" means failure to pay when due any fee, payment, real property taxes, insurance premiums or other monetary obligation of GRANTEE under this Agreement. Any other Event of Default is a "Non-Monetary Event of Default."

The Easement Mortgagee shall have the same period after receipt (b) of Notice of Default to remedy the default, or cause the same to be remedied, as is given to GRANTEE after GRANTEE's receipt of Notice of Default plus, in each instance, the following additional time periods: (i) ten (10) additional days, for a total of forty (40) days after receipt of the Notice of Default in the event of any Monetary Event of Default; and (ii) fifteen (15) additional days, for a total of forty-five (45) days after receipt of the Notice of Default in the event of any Non-Monetary Event of Default, provided that such 45-day period shall be extended for the time reasonably required to complete such cure. The Easement Mortgagee shall have the absolute right to substitute itself for the GRANTEE and perform the duties of GRANTEE hereunder for purposes of curing such defaults. GRANTOR expressly consents to such substitution, agrees to accept such performance, and authorizes the Easement Mortgagee (or its employees, agents, representatives or contractors) to enter upon the Property to complete such performance pursuant to the rights, privileges and obligations of the original GRANTEE hereunder. GRANTOR shall not terminate the Easement prior to expiration of the cure periods available to an Easement Mortgagee as set forth above.

(c) During any period of possession of the Property by an Easement Mortgagee (or a receiver requested by such Easement Mortgagee) and/or during the pendency of any foreclosure proceedings instituted by an Easement Mortgagee, the Easement Mortgagee shall pay or cause to be paid the Operating Fees and all other monetary charges payable by GRANTEE hereunder which have accrued and are unpaid at the commencement of said period and those which accrue thereafter during said period. Following acquisition of GRANTEE's easement estate by the Easement Mortgagee or its assignee or designee as a result of either foreclosure or acceptance of an assignment in lieu of foreclosure, or by a purchaser at a foreclosure sale, the Easement shall continue in full force and effect and the Easement Mortgagee or party acquiring title to GRANTEE's easement estate shall, within the time periods specified in section 12.2(b), above, complete or commence and diligently pursue to completion, as the case may be, the cure of all defaults hereunder whereupon GRANTOR's right to terminate this Easement based upon such defaults shall be deemed waived for all defaults cured within the applicable time periods.

(d) Any Easement Mortgagee or other permitted party who acquires GRANTEE's easement interest pursuant to foreclosure or assignment in lieu of foreclosure shall be liable to perform the obligations imposed on GRANTEE by this Easement so long as such Easement Mortgagee or other party has ownership of the easement estate or possession of the Property.

(e) Neither the bankruptcy nor the insolvency of GRANTEE shall be grounds for terminating this Easement as long as all obligations of GRANTEE under the terms of this Easement are performed by the Easement Mortgagee in accordance with the terms of this Easement.

(f) Nothing herein shall be construed to extend the Easement beyond the Easement term or to require an Easement Mortgagee to continue foreclosure proceedings after the default has been cured. If the default is cured and the Easement Mortgagee discontinues foreclosure proceedings, the Easement shall continue in full force and effect. 12.3 <u>New Easement to Mortgagee</u>. If this Agreement terminates because the Easement is foreclosed, or if the Easement is rejected or disaffirmed pursuant to bankruptcy law or other law affecting creditors' rights, GRANTOR, upon written request from any Easement Mortgagee within 45 days after such event, shall as reasonably necessary to confirm such Easement Mortgagee's rights, either ratify this Agreement or enter into a new easement for the Property, on the following terms and conditions:

(a) The terms of the new easement shall commence on the date of foreclosure, rejection or disaffirmance and shall continue for the remainder of the terms of the Easement, at the same rent and subject to the same terms and conditions set forth in this Agreement, and shall otherwise be identical to this Easement in all respects other than (i) the name and contact information of the GRANTEE, and (ii) those changes made necessary by the passage of time, where such passage of time has rendered a provision of this Easement no longer applicable.

(b) GRANTOR shall ratify this Agreement or execute the new easement, as applicable, within 45 days after receipt by GRANTOR of written notice of the Easement Mortgagee's election to either ratify this Agreement or enter a new easement, provided said Easement Mortgagee: (i) pays to GRANTOR all rent and other monetary charges then payable by GRANTEE under the terms of the Easement, as if the Easement had not been foreclosed, rejected or disaffirmed; (ii) performs all other obligations of GRANTEE under the terms of the Easement, to the extent performance is then due; and (iii) agrees in writing to perform, or cause to be performed, all non-monetary obligations which have not been performed by GRANTEE and would have accrued under this Agreement up to the date of the ratification or commencement of the new easement. Any ratification or new easement granted to the Easement Mortgagee shall enjoy the same priority as this Agreement over any lien, encumbrances or other interest created by GRANTOR.

(c) The provisions of this <u>Section 12</u> shall survive the rejection or disaffirmance of the Easement and shall continue in full force and effect thereafter to the

- 35 -

same extent as if this Section were a separate and independent contract made by GRANTOR, GRANTEE and such Easement Mortgagee, and, from the effective date of such rejection or disaffirmation of the Easement to the date of execution and delivery of such ratification or new easement, as applicable, such Easement Mortgagee may use and enjoy said Property without hindrance by GRANTOR or any person claiming by, through or under GRANTOR, provided that all of the conditions for a ratification or a new easement as set forth herein are complied with; provided, however, that such use shall be only in accordance with the terms of this Easement, and no use in excess of the rights granted hereunder shall be permitted.

12.4 <u>Easement Mortgagee's Consent to Amendment, Termination or</u> <u>Surrender</u>. Notwithstanding any provision of this Agreement to the contrary, the Parties agree that so long as there exists an unpaid Easement Mortgage, this Easement shall not be modified or amended and GRANTOR shall not accept a surrender of the Property or any part thereof or a cancellation, termination or release of this Easement from GRANTEE prior to expiration of the term without the prior written consent of the Easement Mortgagee, except in the event of a default of the obligations of GRANTEE (beyond any applicable cure periods). This provision is for the express benefit of and shall be enforceable by such Easement Mortgagee.

12.5 <u>No Waiver</u>. No payment made to GRANTOR by an Easement Mortgagee shall constitute an agreement that such payment was, in fact, due under the terms of the Easement; and an Easement Mortgagee, having made any payment to GRANTOR pursuant to GRANTOR's wrongful, improper or mistaken notice or demand, shall be entitled to the return of any such payment, as determined by a court of competent jurisdiction or by agreement of GRANTOR.

12.6 <u>No Merger</u>. There shall be no merger of the Easement, or of the easement estate created by the Easement, with the fee estate in the Property by reason of the fact that the Easement or the easement estate or any interest therein may be held, directly or indirectly, by or for the account of any person or persons who shall own

the fee estate or any interest therein, and no such merger shall occur unless and until all persons at the time having an interest in the fee estate in the Property and all persons (including an Easement Mortgagee) having an interest in the Easement or in the estate of GRANTOR and GRANTEE shall join in a written instrument effecting such merger and shall duly record the same.

13. **Exclusivity**. For a period of five (5) years from the Effective Date, Grantor shall not permit or grant rights to any third party to operate a power generation facility or electrical transmission line on any land owned or leased by Grantor in Chain of Ponds, Jim Pond and Eustis Townships and Coplin Plantation, if doing so would result in an actual, material decrease in the amount of electrical energy that GRANTEE is able to distribute onto the applicable power grid and for which payment would be received by GRANTEE. This provision shall not apply to small, non-commercial power generators producing less than 2 megawatts.

14. Miscellaneous.

14.1 **Force Majeure**. If performance of the Easement or of any obligation hereunder is prevented or substantially restricted or interfered with by reason of an event of Force Majeure, the affected Party, upon giving notice to the other Party, shall be excused from such performance to the extent of and for the duration of such prevention, restriction or interference. The affected Party shall use its commercially reasonable efforts to avoid or remove such causes of nonperformance and shall continue performance hereunder whenever such causes are removed.

14.2 <u>Confidentiality</u>. GRANTOR shall use commercially reasonable efforts to maintain the confidence of all information pertaining to the financial terms of or payments under this Agreement, and the power production or availability of the Windpower Facilities. Notwithstanding the foregoing, GRANTOR may disclose such information to GRANTOR's lenders, attorneys, accountants and other personal financial advisors solely for use in connection with their representation of GRANTOR regarding this Agreement; any prospective purchaser of the Property; or pursuant to lawful

process, subpoena or court order requiring such disclosure, provided GRANTOR in making such disclosure advises the party receiving the information of the confidentiality of the information. It is specifically understood and agreed by GRANTEE that nothing in this <u>Section 14.2</u> or in this Agreement (except as set out in <u>Section 13</u>) shall in any manner restrict or limit GRANTOR's ability to purchase, construct, operate, lease or sell or lease property for the operation of wind power facilities on other properties.

14.3 <u>Successors and Assigns</u>. The Easement shall inure to the benefit of and be binding upon GRANTOR and GRANTEE and, to the extent provided in any Transfer under <u>Section 10</u> hereof, any assignee, and their respective heirs, transferees, successors and assigns, and all persons claiming under them.

14.4 <u>Short Form of Easement</u>. GRANTOR and GRANTEE shall execute in recordable form, and GRANTEE shall then record, a short form of the Easement satisfactory in form and substance to GRANTEE and GRANTOR. GRANTOR hereby consents to the recordation of the interest of a permitted assignee in the Property.

14.5 <u>Notices</u>. All notices or other communications required or permitted by this Agreement shall be in writing and shall be deemed given when personally delivered to GRANTOR or GRANTEE, or in lieu of such personal delivery services, five (5) days after deposit in the United States mail, first class, postage prepaid, certified, addressed as follows:

If to GRANTOR:

Payments to GRANTOR:

Christina Petersen GMO Renewable Resources, LLC 69 South Pleasant Street Amherst, MA 01002 Christine Tongol GMO Renewable Resources, LLC 77 Franklin Street Boston, MA 02110

With Copy to:

Jeffrey T. Selser, Esq. Verrill Dana, LLP One Portland Square Portland, ME 04101

To GRANTEE:

TransCanada Maine Wind Development Inc. 110 Turnpike Road, Suite 203 Westborough, MA 01581 Attention: Director, Marketing Facsimile: (508) 898-0433

With a copy to:

TransCanada Maine Wind Development Inc. 110 Turnpike Road, Ste 203 Westborough, MA 01581 Attention: Legal Department Facsimile: (508) 898-0433

Any Party may change its address for purposes of this paragraph by giving written notice of such change to the other Party in the manner provided in this paragraph.

14.6 <u>Entire Agreement; Amendments</u>. This Agreement constitutes the entire agreement between GRANTOR and GRANTEE respecting its subject matter, and supersedes any and all oral or written agreements. Any agreement, understanding or representation respecting the Property, the Easement, or any other matter referenced herein not expressly set forth in this Agreement or a subsequent writing signed by both

Parties is null and void. This Agreement shall not be modified or amended except in a writing signed by both Parties. No purported modifications or amendments, including without limitation any oral agreement (even if supported by new consideration), course of conduct or absence of a response to a unilateral communication, shall be binding on either Party. This Agreement replaces and supersedes that certain License Agreement by and between GRANTOR and GRANTEE dated December 22, 2008 with respect to the Property, or a portion thereof, which License Agreement shall be of no further force or effect.

14.7 **Legal Matters**. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Maine, without application of its conflicts of laws provisions. If the Parties are unable to resolve amicably any dispute arising out of or in connection with this Agreement, they agree that such dispute shall be resolved in the state courts located in the county in which the Property is situated.

14.8 **Partial Invalidity**. Should any provision of this Agreement be held, in a final and unappealable decision by a court of competent jurisdiction, to be either invalid, void or unenforceable, the remaining provisions hereof shall remain in full force and effect, unimpaired by the holding. Notwithstanding any other provision of this Agreement, the Parties agree that in no event shall the term of this Agreement or the Easement be longer than, respectively, the longest period permitted by applicable law.

14.9 **<u>No Partnership</u>**. Nothing contained in this Agreement shall be construed to create an association, joint venture, trust or partnership covenant, obligation or liability on or with regard to any one or more of the Parties.

14.10 <u>Counterparts</u>. This Agreement may be executed with counterpart signature pages and in duplicate originals, each of which shall be deemed an original, and all of which together shall constitute a single instrument.

15. **Noise Easement**. GRANTOR hereby grants an easement to GRANTEE, over and across all lands now or hereafter owned by GRANTOR located within a two thousand five hundred (2,500) foot radius of any Wind Turbines installed on the Property, for the right to have sound generated from the Wind Energy Project impact the Property and the Released Property and exceed otherwise applicable state or local maximum sound level limits applicable to locations on those lands.

[signatures appear on following pages]

IN WITNESS WHEREOF, GRANTOR and GRANTEE, acting through their duly authorized representatives, have executed this Agreement with the intent that it be effective as of the Effective Date, and certify that they have read, understand and agree to the terms and conditions of this Agreement.

WITNESS:

GRANTOR: KENNEBEC WEST FOREST LLC By: Black Bear Forest, Inc. Its Managing Member

By: Print: Danielk Its: Anthonized ferson

ACKNOWLEDGMENT

State of Massachusetts County of Norfolla

September 174, 2009

Then personally appeared the above-named <u>Danielle</u> <u>Jankeutch</u> in his/her capacity as <u>Authonine P</u> for the property of Kennebec West Forest LLC and acknowledged the foregoing instrument to be his/her free act and deed in said capacity and the free act and deed of Kennebec West Forest LLC.

Before me,



Joanne Jo

WITNESS:

Bitter A. Colinfor

GRANTEE: TRANSCANADA MAINE, WIND DEVELOPMENT INC By: Print: Wittian Taulor Its: Vice President

Bing A. Coliman

By: Print: Mike Hacher Its: Vice President

EGAL

CONTENT

ACKNOWLEDGEMENT

STATE OF COUNTY OF

On this <u>3</u> day of <u>September</u>, 2009, before me personally appeared <u>William C. Tay to</u> and <u>Wichael 2. Hachey</u>, to me known to be the <u>Vice President</u> and <u>Vice</u> <u>President</u>, respectively, of **TransCanada Maine Wind Development Inc.**, the corporation that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of the corporation and that the seal affixed is the seal of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

mya K Mu Notary Public in and for the . State of Massachuse H Residing at WOVCESTLY My Commission Expires 3.25.200

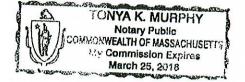


EXHIBIT "A"

All that certain real property now owned by Grantor in Chain of Ponds Township, Franklin County, Maine depicted on the map attached hereto as Exhibit A-1 and more particularly described as follows:

- An approximately 1578.4 acre parcel, bounded by the eastern town line at latitude 45° 22' 22.800" N, longitude 70° 37' 31.728 W, proceeding westerly to latitude 45° 22' 12.313" N, longitude 70° 37' 56.316" W then to latitude 45° 22' 5.376" N, longitude70° 38' 43.454" W where it intersects the 2400 foot contour, proceeding along the 2400 foot contour westerly and then northerly to the intersection of the 2400 foot contour to the northern town line, following the town line eastward and then southward until you reach the beginning point, latitude 45° 22' 22.800" N, longitude 70° 37' 728" W.
- 2. An approximately 631 acre parcel, described as follows: Starting at latitude 45° 22' 22.800" N, longitude 70° 37' 31.741" W, on the boundary between Kibby Twp and Chain of Ponds Twp and following the existing expedited wind power project permitting area boundary West to latitude 45° 22' 11.790" N, longitude 70° 38' 3.156" W. Then following the 2,700' contour South to latitude 45° 20' 38.088" N, longitude 70° 37' 55.905" W. Then proceeding East to latitude 45° 20' 43.724" N, longitude 70° 37' 7.852" W. Then following the boundary between Kibby Twp and Chain of Ponds Twp North to latitude 45° 22' 22.800" N, longitude 70° 37' 31.741" W.

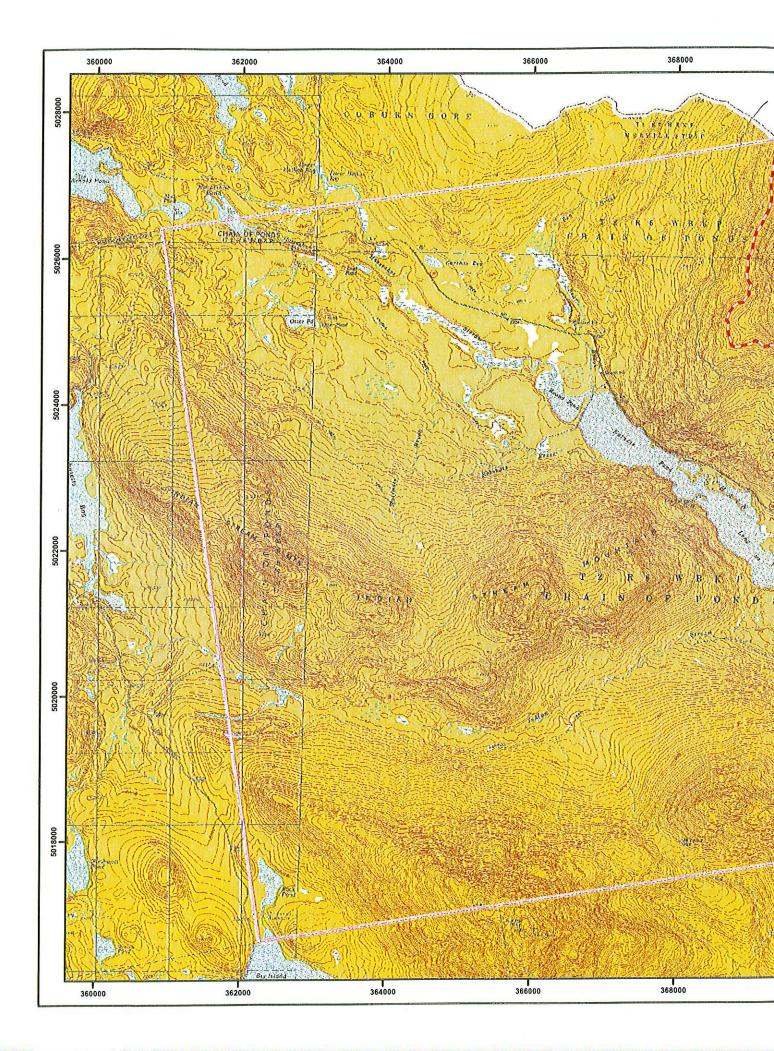


EXHIBIT "B"

GRANTEE Insurance

1. GRANTEE covenants and agrees to obtain and maintain during the Term of this Agreement the following insurance coverage:

- (a) General Liability. Commercial General Liability covering claims for bodily injury, death and property damage, including Comprehensive Form, Premises and Operations, Independent Contractors, Products and Completed Operations, Personal Injury, Contractual, Broadform Property Damage, Cross Liability and Hostile Fire liability coverages, with a combined single limit of \$2,000,000 for bodily injury, death and property damage each or per occurrence and \$2,000,000 general aggregate. Additionally, the policy shall not exclude X, C or U (Explosion, Collapse or Underground) or Subsidence. As used in this Agreement "Subsidence" is defined as sinking or settling of land caused by heavy rains or man-made caverns. Subsidence does not include earth movement caused by an earthquake.
- (b) Umbrella Liability. Excess Liability insurance providing limits of not less than \$ each occurrence and annual aggregate over General Liability, Automobile Liability, and Employers Liability.
- (c) Automobile Liability. Comprehensive Automobile Liability covering owned, non-owned, hired and other vehicles, with a combined single limit of \$1,000,000 for bodily injury, death and property damage per occurrence and \$1,000,000 general aggregate.
- (d) Workers' Compensation. GRANTEE covenants and agrees that all employees of GRANTEE or any other persons performing work on the Property pursuant to this Agreement will be fully covered by or insured

always by Workers' Compensation. GRANTEE shall comply with all applicable Workers' Compensation laws, rules and regulations of the state in which the Property is located and shall make all necessary contributions or other payments.

(e) Employer's Liability. Employer's Liability insurance in an amount of not less than \$500,000 each accident.

Policy Requirements. Upon execution of this agreement, GRANTEE shall provide 2. evidence of insurance coverage. In addition, GRANTEE shall provide thirty days written notice to the designated representative of GRANTOR before the cancellation, material change or non-renewal of any insurance policy referred to in this Agreement. All liability coverages must be written on an occurrence basis, and by insurance companies reasonably acceptable to GRANTOR with a Best's Key Rating Guide of B+ or better, with a financial rating of at least VI. Except for Workers' Compensation Insurance and Employers Liability, GRANTOR, Black Bear Forest, Inc., Penobscot Forest LLC, Fund 8 Domestic LLC, Fund 7 Domestic LLC and GMO Renewable Resources, LLC shall be named as an additional insured on all such required policies during the Agreement term. The additional insured endorsement must be ISO CG20 10, including Completed Operations coverage, or other form with like wording. General Liability insurance including completed operations coverage shall be maintained in effect during the term of this Agreement and for a period ending no earlier than two (2) years following completion and acceptance by GRANTOR of the work performed. GRANTEE shall be responsible for payment of any and all deductibles from insured claims under its policies. The coverage afforded under any insurance policy obtained by GRANTEE pursuant to this Paragraph shall be primary coverage regardless of whether or not GRANTOR has similar coverage. To the extent reasonably obtainable, GRANTEE's insurance carriers shall waive all rights of subrogation in favor of GRANTOR. GRANTEE shall not perform any operations on the Property unless and until evidence of such insurance, including renewals thereof, has been delivered to and approved by GRANTEE shall not self-insure any of the insurance coverages required GRANTOR.

by this Agreement without the prior written consent of GRANTOR. The minimum limits of coverage required by this Agreement may be satisfied by a combination of primary and excess or umbrella insurance policies. The maintenance of this insurance shall not in any way operate to limit the liability of GRANTEE to GRANTOR under this Agreement. The coverages referred to above in <u>Sections 1 (a) through (e)</u> are set forth in full in the respective policy forms, and the foregoing descriptions of such policies are not intended to be complete, nor to alter or amend any provision of the actual policies and in matters, if any, in which the said description may be conflicting with such instruments, the provisions of the policies of the insurance shall govern; provided, however, that neither the content of any insurance policy or certificate nor approval thereof shall relieve GRANTEE of any of their obligations under this Agreement.

3. If GRANTEE retains the services of any subcontractors, GRANTEE shall cause all subcontractors to procure at their own expense and maintain in full force and effect prior to the commencement of the subcontractor's services adequate coverage in accordance with GRANTEE's normal practice consistent with the coverage maintained by prudent contractors and subcontractors for services of similar location and scope. GRANTEE is solely responsible for monitoring compliance with this provision by its subcontractors.

Exhibit "C"

OWNER'S AFFIDAVIT

STATE OF •

COUNTY OF •

Personally appeared before me the undersigned deponent who, being duly sworn, deposes and says on oath as follows:

That he is the duly authorized representative of •, a •, which is the owner of that certain property lying and being in Franklin County, Maine, and being more particularly described on Exhibit "A" attached hereto and by reference made a part hereof (the "Property");

That there are no mortgage or deed of trust liens, pending judgments, bankruptcies, liens or executions against said owner either in the aforesaid county or any other county in the State of Maine affecting the Property, other than as set forth on Schedule 1, attached hereto; and

That no improvements or repairs have been made on the Property the twelve (12) months immediately preceding this date which have not been paid for, and there are no outstanding bills incurred for labor and materials used in making improvements or repairs on the Property, or for services of architects, surveyors or engineers incurred in connection therewith.

DEPONENT:

Sworn to and subscribed before me this _____ day of _____, 2009.

Notary Public My Commission Expires: [NOTARIAL SEAL]

EXHIBIT "D" QUITCLAIM DEED WITHOUT COVENANT (Release Deed) (Maine Statutory Short Form)

KNOW ALL BY THESE PRESENTS, that **TRANSCANADA MAINE WIND DEVELOPMENT, INC.**, a Maine corporation with a mailing address of 110 Turnpike Road, Suite 203, Westborough, MA, 01581 ("TransCanada"), for consideration paid, RELEASES to **KENNEBEC WEST FOREST LLC**, a Delaware limited liability company having offices at 77 Franklin Street, Boston, MA 02110 ("KWF"), all its right, title, and interest in and to certain real estate located in Kibby Township and Chain of Ponds Township, Franklin County, Maine, which is more particularly described in Exhibit A attached hereto and made a part hereof; provided, however, that this release shall not affect that certain easement for sound generation as set forth in Section 15 of that certain Wind Energy Easement between TransCanada and KWF dated August _____, 2009, a memorandum of which is recorded in the Franklin County, Maine Registry of Deeds.

This conveyance is made SUBJECT, HOWEVER, to real estate taxes which are not yet due and payable, which, by acceptance hereof, KWF assumes and agrees to pay.

IN WITNESS WHEREOF, TransCanada Maine Wind Development, Inc. has caused this instrument to be executed on its behalf by its duly authorized undersigned representative, this ____ day of _____, 20____.

SIGNED, SEALED AND DELIVERED

IN THE PRESENCE OF:

TransCanada Maine Wind Development, Inc.

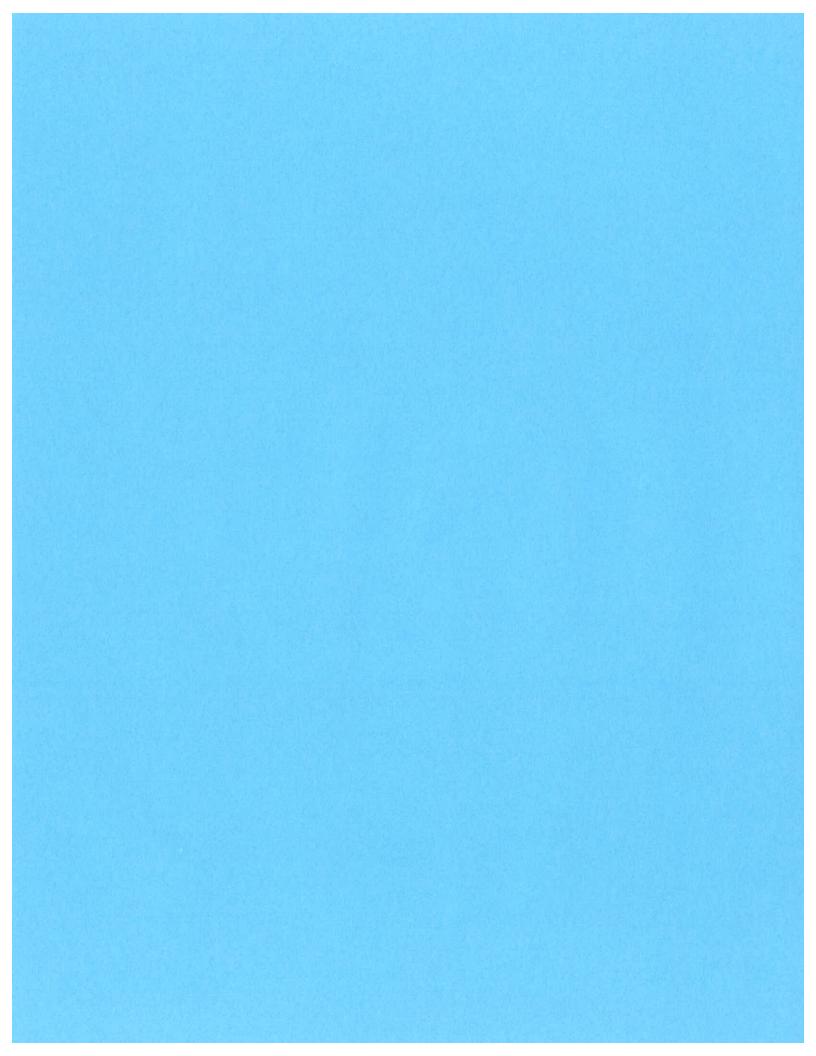
	By:
Witness	Print Name:
	Its:
	By:
Witness	Print Name:
	lts:

STATE OF _________, SS. ________, 20_____

Then personally appeared the above-named ______, ______, of TransCanada Maine Wind Development, Inc. and acknowledged the foregoing instrument to be their free act and deed in their said capacity, and the free act and deed of said TransCanada Maine Wind Development, Inc.

Before me,

Notary Public
Printed Name:_____



CONSENT REGARDING SETBACK

This Consent is made by Kennebec West Forest LLC ("<u>Owner</u>"), the owner of certain land situated at Chain of Ponds Township (No. 2, R. 6), Franklin County, Maine more particularly described in the deed to Owner dated December 30, 2004 and recorded at the Franklin County Registry of Deeds in Book 2551, Page 302 (the "<u>Owner's Land</u>").

Owner hereby acknowledges that TransCanada Maine Wind Development Inc. plans to construct and operate a wind power project, including wind turbine generators, towers and related equipment, on lands on and near Sisk Mountain in Chain of Ponds Township (T2 R6), Franklin County, Maine that are adjacent to the Owner's Land, and that the plans call for wind turbines and/or other structures associated with said project to be located a distance from the boundary of the Owner's Land that is less than (a) the Maine Department of Environmental Protection recommended setback of 1.5 times the turbine height (approximately 610 feet), and/or (b) the Maine Land Use Regulation Commission dimensional requirements set forth in Chapter 10 of the Commission's Rules and Standards. Owner has no objection to any such wind turbine and/or other structure being located less than either such recommended or required setback (including immediately adjacent to the boundary), and hereby consents to having wind turbines and other structures associated with the Sisk Mountain wind power project located closer to the boundary of the Owner's Land than either such recommended or required setback recommended or required setback, or any other setback recommended or required by an agency or instrumentality of the State of Maine.

This Consent shall extend to, be binding upon and shall inure to the benefit of heirs, personal representatives, successors and assigns of the parties hereto.

WITNESS our hands and seals this 30+14 day of November, 2009.

In the presence of:

STATE OF MASSACHUSETTS COUNTY OF <u>HAMPSHIRE</u>

KENNEBEC WEST FOREST LLC By Black Bear Forest, Inc., its Sole Member

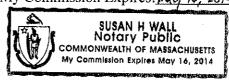
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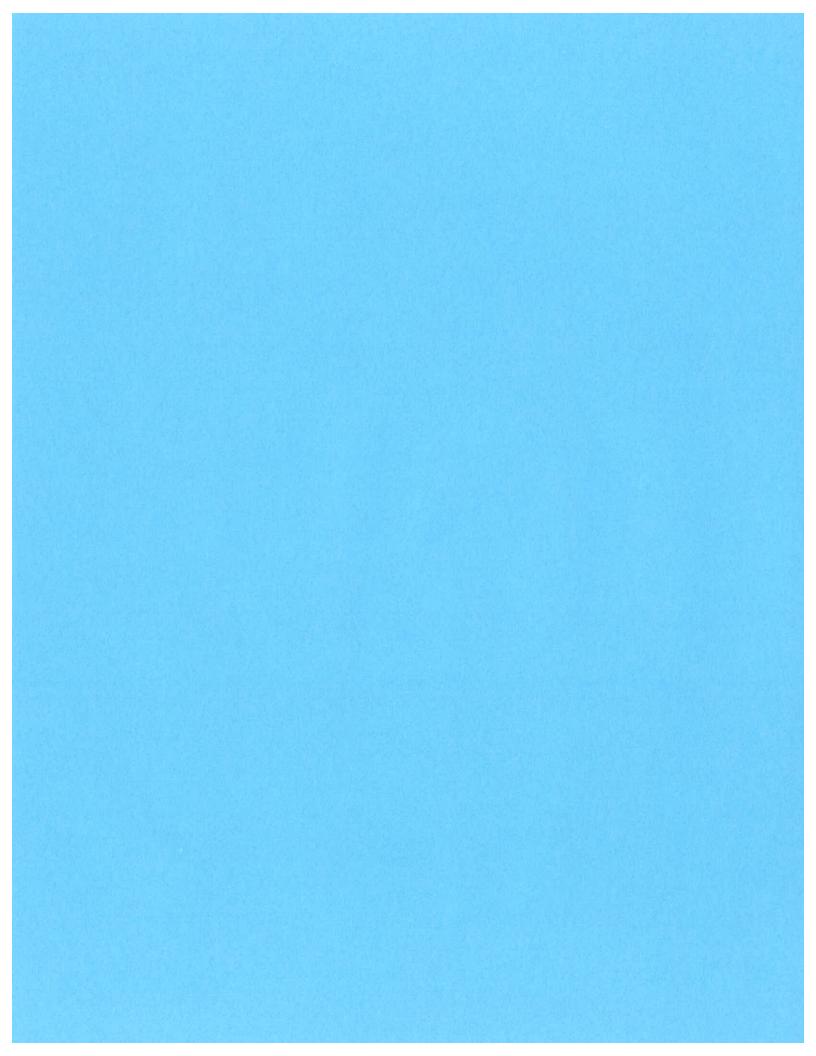
November 30, 2009

Personally appeared the above-named $\underbrace{KoBERT}_{SAVL}$, $\underbrace{OERATINGMEMBER}_{MEMBER}$ of Black Bear Forest, Inc., Sole Member of Kennebec West Forest LLC, and acknowledged the foregoing instrument to be his/her free act and deed in said capacity and the free act and deed of said company in its said capacity.

Before me,

Notary Public Print Name: Susan H. WALL My Commission Expires: May 16, 2014





STATE OF MAINE

COUNTY OF FRANKLIN

SHORT FORM WIND ENERGY EASEMENT

THIS WIND ENERGY EASEMENT (this "Agreement") is made, dated and effective as of <u>DECEABER</u>, 2009 (the "Effective Date"), between **PLUM CREEK MAINE TIMBERLANDS, LLC**, a Delaware limited liability company having offices at One Concourse Parkway, Suite 755, Atlanta, Georgia 30328 ("PLUM CREEK"), and **TRANSCANADA MAINE WIND DEVELOPMENT INC.**, a Maine corporation with a mailing address of 110 Turnpike Road, Suite 203, Westborough, MA 01581 ("GRANTEE"). GRANTEE is proposing to develop and build a Wind Energy Project (as defined below) that would be built on PLUM CREEK lands and on adjoining lands owned by third parties, in Kibby Township and Chain of Ponds Township, Franklin County, Maine, and in connection herewith, PLUM CREEK and GRANTEE agree, covenant and contract as set forth in this Agreement. PLUM CREEK and GRANTEE are sometimes referred to in this Agreement as a "Party" or collectively as the "Parties".

1. **Grant of Easement and Profits; Released Property**. For good and valuable consideration, the receipt of which is hereby acknowledged by PLUM CREEK, PLUM CREEK hereby grants and conveys, without warranty of title, to GRANTEE, an easement for the purposes described below upon, over, across and under the real property of PLUM CREEK consisting of a certain tract of land situated in Kibby Township, Franklin County, Maine, as described on **Exhibit "A"** attached hereto and incorporated herein (the "Property"), together with the right to all rents, royalties, credits and profits derived from wind energy purposes upon, over and across the Property. Within six (6) months following the Operations Date (as defined below), GRANTEE shall deliver an as-built "Completed Site Development Plan" to PLUM CREEK. The Completed Site Development Plan will be recorded in the records of Franklin County, Maine as an amendment to **Exhibit "A"** of this Agreement to re-define the Property

subject to this Agreement to exclude those portions of the Property that are shown on the Completed Site Development Plan and are: (i) not occupied by Wind Turbines and other Windpower Facilities (as hereinafter defined) located on the Property, and (ii) outside a buffer zone measuring five hundred (500) feet in all directions from each Wind Turbine located on the Property and any other buffer zones required by any regulatory permits or approvals for the Wind Energy Project (the "Released Property"), and GRANTEE shall promptly execute, acknowledge and deliver to PLUM CREEK a quitclaim deed and release conveying to PLUM CREEK all of GRANTEE's right, title and interest in the Released Property under this Agreement and the Easement (not including rights in and to Non-Interference Areas set forth in Section 8.2 below or other rights and easements conveyed separately from this Agreement by PLUM CREEK to GRANTEE) free of any liens or encumbrances placed on the Released Property by GRANTEE or GRANTEE's sublessees, tenants, contractors, agents or assignees. Upon GRANTEE's conveyance to PLUM CREEK of the Released Property, the term "Property" as used in this Agreement shall exclude the Released Property for all purposes.

2. **Purpose of Easement**. The easement and grant of rents, royalties, credits and profits created by this Agreement (collectively, the "Easement") is solely and exclusively for wind energy purposes, and not for any other purpose, and GRANTEE shall have the exclusive right to use the Property for wind energy purposes and to derive all profits therefrom. For purposes of this Agreement, wind energy purposes means converting wind energy into electrical energy, and collecting and transmitting the electrical energy so converted, together with any and all activities related thereto ("Development Activities"), including, without limitation, (i) determining the feasibility of wind energy conversion on the Property, including studies of wind speed, wind direction and other meteorological data, conducting engineering, geotechnical, environmental and other surveys and studies and extracting soil samples; (ii) constructing, installing, using, replacing, relocating and removing from time to time, and maintaining, repairing and operating, wind turbines (including supporting towers and foundations) (collectively, "Wind Turbines"), electrical collection, transmission and communications lines, electric

transformers, telecommunications equipment, power generation facilities to be operated in conjunction with commercial wind turbine installations, roads, meteorological towers and wind measurement equipment, control buildings, maintenance yards, and related facilities and equipment (all of the above, including Wind Turbines, collectively the "Windpower Facilities") on the Property; and (iii) the right of ingress to and egress from Windpower Facilities located on the Property and elsewhere over and across the Property by means of roads and lanes thereon if existing, or otherwise by such route or routes as GRANTEE may construct from time to time.

The Parties acknowledge and agree that GRANTEE is not obligated to install any Wind Turbines on the Property. It is specifically understood and agreed by PLUM CREEK and GRANTEE that electricity generated from wind turbines not situated on the Property shall not be transmitted, conveyed, collected or otherwise transported over or across the Property pursuant to this Agreement. It is further understood and agreed that GRANTEE shall not use any roads on the Property to access wind power facilities not located on the Property pursuant to this Agreement.

This Easement shall be for a term (the "Original Term") 3. Term. commencing on the Effective Date and continuing until the fifth (5th) anniversary of the Effective Date, provided that if, as of such date, GRANTEE has commenced and is diligently pursuing construction of the Wind Turbines then the Original Term shall be extended and continue until installation of the Wind Turbines is completed as described in the next sentence. If on or before the expiration of the Original Term GRANTEE has completed installation of Wind Turbines on the Property capable of delivering electricity on a commercial basis (i.e., in quantities and for periods greater than required for testing) to a third party power purchaser (the "Operations Date") then the term of this Easement shall be extended for an extended term of forty (40) years (the "Extended Term"). The Extended Term shall commence on the Operations Date and shall expire on the fortieth (40th) anniversary of the Operations Date. If requested by GRANTEE, PLUM CREEK shall execute and deliver a memorandum of the Operations Date that may be recorded.

4. **Payments**. In consideration of the rights granted hereunder, GRANTEE will pay PLUM CREEK the following amounts:

4.1 [REDACTED FROM THIS RECORDABLE SHORT FORM – SEE COMPLETE AGREEMENT]

4.2 [REDACTED FROM THIS RECORDABLE SHORT FORM – SEE COMPLETE AGREEMENT]

4.3 [REDACTED FROM THIS RECORDABLE SHORT FORM – SEE COMPLETE AGREEMENT]

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For purposes of this Agreement, the term "Wind Energy Project" means one or more Wind Turbines and associated Windpower Facilities that are constructed, installed and/or operated on the Property and on other lands in the general vicinity of Sisk Mountain in Chain of Ponds Township by or on behalf of GRANTEE, as an integrated energy generating and delivery system, but shall not include wind turbines and windpower facilities associated with the Kibby Wind Project currently under construction by the GRANTEE.

4.4 [REDACTED FROM THIS RECORDABLE SHORT FORM – SEE COMPLETE AGREEMENT]

4.5 [REDACTED FROM THIS RECORDABLE SHORT FORM – SEE COMPLETE AGREEMENT]

4.6 If any person to whom GRANTEE is not then paying fees or other charges pursuant to this Agreement shall demand payment from GRANTEE alleging a right to receive such fees or charges as a result of an assignment or transfer of PLUM CREEK's interest in this Agreement or otherwise, GRANTEE shall not be obligated to honor such demand unless GRANTEE shall receive written instructions to do so from the person to whom GRANTEE is then paying fees or charges, or shall otherwise receive evidence reasonably satisfactory to GRANTEE of the right of the person making

the demand. The withholding of fees or charges by GRANTEE from a party claiming to be the assignee or transferee, pending the determination of the right of the party making the demand, shall not be deemed to be a default on the part of GRANTEE.

5. **Ownership of Windpower Facilities.** PLUM CREEK shall have no ownership, lien, security or other interest in any Windpower Facilities installed on the Property, or any profits derived therefrom, and GRANTEE may remove any or all Windpower Facilities at any time. Except for the payments described in Section 4 above, PLUM CREEK shall not be entitled to any other payments or benefits accrued by or from the Wind Energy Project, including renewable energy credits, environmental credits or tax credits.

6. **Charges**. GRANTEE shall pay (i) any real or personal property taxes, assessments and other governmental charges levied or assessed by any governmental authority (collectively, "Charges") upon the Windpower Facilities installed on the Property by GRANTEE, and (ii) any increase in the Charges against the Property attributable to any reclassification of the Property as a result of the Windpower Facilities or this Agreement. Except as provided in the foregoing sentence, GRANTEE shall not be responsible for paying any Charges attributable to (a) improvements or facilities installed by PLUM CREEK on the Property or (b) the underlying value of the Property. If PLUM CREEK pays any Charges that are the responsibility of GRANTEE hereunder, GRANTEE shall repay to PLUM CREEK the amount thereof within thirty (30) days of receipt of written demand, which written demand shall include sufficient proof of the amount due and the responsible Party.

7. **GRANTEE's Representations, Warranties, and Covenants**. GRANTEE hereby represents, warrants, and covenants to PLUM CREEK that:

7.1 Minimal Impacts. GRANTEE assumes the risk of use of the Property and agrees to use the minimum amount of acreage that is reasonably necessary, in the reasonable discretion of GRANTEE, for a safe and prudent operation of the Wind

Energy Project. Further, GRANTEE agrees to the extent commercially reasonable, to conduct its Development Activities and to locate and operate its Windpower Facilities in such a way as to minimize adverse impacts to the Property and PLUM CREEK'S activities on the Property permitted pursuant to Section 8.2 below. No less than ninety days (90) days before the commencement of construction of any of the Windpower Facilities on the Property, GRANTEE shall give PLUM CREEK a site plan indicating the approximate proposed location of such Windpower Facilities (the "Site Plan"). The Site Plan shall be directed to Tim Dorrell, Senior Resource Manager, at 49 Mountain Fairfield, Maine 04937 (facsimile (207) 453-2963) or by e-mail Avenue, Tim.Dorrell@PlumCreek.com. Within thirty (30) days of PLUM CREEK'S receipt of the Site Plan from GRANTEE, PLUM CREEK shall submit in writing to GRANTEE a list of all of PLUM CREEK'S suggestions, concerns and requests regarding the Site Plan and within thirty (30) days of GRANTEE's receipt of such list, GRANTEE shall consult in good faith with PLUM CREEK and shall give commercially reasonable consideration to any requests made by PLUM CREEK; provided, however, that if the parties cannot agree within a fifteen (15) day period following such consultation as to the locations of the Windpower Facilities, then such locations shall be determined by GRANTEE in its sole but reasonable discretion. GRANTEE shall operate and maintain the Windpower Facilities in good order and repair throughout the term of this Agreement. All newly constructed access roads located on the Property shall be gated by GRANTEE at GRANTEE's expense, and PLUM CREEK shall be furnished with keys or other ability to open and close such gates. GRANTEE shall maintain such gates as part of the Windpower Facilities. GRANTEE agrees to pay all costs of improvements to any roads on the Property necessary for its usage, and to use the roads in a prudent manner so as not to interfere with PLUM CREEK'S use of such roads. Each of PLUM CREEK and GRANTEE shall have the right, but not the obligation, to maintain roads on the Property, provided that any damage caused by GRANTEE to any such roads shall be repaired by and at the expense of GRANTEE, and that any damage caused by PLUM CREEK to any new roads constructed by GRANTEE shall be repaired by and at the expense of PLUM CREEK, so that the condition after repair is at least as good as it was before the damage. All such repairs shall be conducted within a reasonable time, but in any event within sixty (60) days after notice of such damage. Subject to Section 8.2, PLUM CREEK excepts and reserves full and free rights of ingress and egress on, along, over and across the Property as may be necessary or convenient in the proper development of oil, gas, coal bed methane, water, timber, minerals and other substances thereon and for all other purposes.

Forestry Activities. Clearing of the Property for the Windpower Facilities 7.2 shall be conducted exclusively by GRANTEE and in accordance with Best Management Practices guidelines for the State of Maine's forestry industry, as applicable to the Subject to Section 8.2 below, GRANTEE's operation of Windpower Facilities. Windpower Facilities shall not unreasonably disturb PLUM CREEK'S current forestry use of the Property. All marketable timber shall remain the property of PLUM CREEK; and if requested by PLUM CREEK, GRANTEE shall deliver all marketable timber that it clears from the Property to PLUM CREEK, stacked alongside a roadway located on land of PLUM CREEK, within one (1) mile from the location cut if reasonably possible. GRANTEE shall dispose of the forest products not delivered to PLUM CREEK from such areas, in accordance with Best Management Practices guidelines for the State of Maine's forestry industry and in a manner to prevent hazards from fire and insect infestation to forest products on the Property and on adjacent lands. Upon completion of construction of the Windpower Facilities, all of the Property disturbed by GRANTEE and not required for continuing operations of the Windpower Facilities, shall be restored to as near as reasonably practicable to its condition of productivity as it existed on the Effective Date in accordance with Best Management Practices guidelines for the State of Maine's forestry industry. Notwithstanding anything to the contrary in this Agreement, in no event shall GRANTEE be obligated to plant trees on the Property.

7.3 Insurance. GRANTEE shall, at its expense, maintain insurance in accordance with **Exhibit "B"** that will cover any property damage, personal injuries or accidents that may occur as a result, in whole or in part, of any activities conducted by GRANTEE (including any activities of any of GRANTEE's employees, consultants, contractors, permitees, invitees, sublessees, licensees or other agents) on the Property.

7.4 Indemnity.

GRANTEE specifically agrees to protect, defend, indemnify, and hold (a) PLUM CREEK and PLUM CREEK'S Related Persons, harmless from and against any and all losses, costs, expenses, attorneys' fees, damages, liabilities, suits, actions, recoveries and judgments of every nature or description, resulting from property damage or personal injury including death (collectively "Claims"), suffered or incurred by PLUM CREEK and PLUM CREEK'S Related Persons arising directly or indirectly out of the violation by GRANTEE and GRANTEE'S Related Persons of any statute, ordinance or regulation during its use or occupancy of the Property, or out of the use and occupancy of the Property and any and all operations or other work or services undertaken thereon by GRANTEE and GRANTEE'S Related Persons, except to the extent caused by the active negligence or willful misconduct, or failure to act in accordance with any statute, ordinance or regulation of PLUM CREEK and PLUM CREEK'S Related Persons. The foregoing indemnity shall not extend to: (i) loss of timber located on the Property, losses of rent, timber, business opportunities, profits and the like that may result from PLUM CREEK'S loss of use of the portion of the Property occupied by Windpower Facilities pursuant to the Easement, which will be compensated solely through the provisions of Section 4; (ii) property damage or personal injuries attributable to electromagnetic fields; (iii) damages excluded by Section 10.3 below; or (iv) GRANTEE's lawful enforcement of its rights under this Agreement. In executing this Agreement, GRANTEE expressly agrees to the above indemnity provisions and states that GRANTEE intends to specifically bind itself to indemnify PLUM CREEK in every instance set forth above. As used herein the term "Related Person" shall mean any affiliates, contractors, lessees, and sublessees, and principals, officers, employees, servants, agents, each of their respective, representatives, subcontractors, licensees, invitees, guests, successors and/or assigns of a Party.

(b) As to any claim made by PLUM CREEK hereunder, GRANTEE expressly waives any limitation of liability or immunity from suit with respect to injuries to

employees of GRANTEE which may be extended to GRANTEE under any applicable Workers' Compensation statute, or similar law or judicial decision.

(c) GRANTEE agrees at GRANTEE's sole cost and expense to defend against any and all actions, suits or other proceedings that may be brought or instituted against PLUM CREEK on any Claim described in subparagraph (a) above and shall pay or satisfy any judgment or decree which may be rendered against PLUM CREEK in any such action, suit or legal proceeding or which may result therefrom. GRANTEE reserves at its option to have full control of any defense of such suits for which GRANTEE is obligated to indemnify PLUM CREEK pursuant to subparagraph(a) above and reserves at all times the right of choosing the attorney or attorneys, after consulting with PLUM CREEK, to perform the professional services involved in defending PLUM CREEK.

(d) If PLUM CREEK intends to seek indemnification pursuant to this Section 7.4 from GRANTEE with respect to any Claim, PLUM CREEK shall give GRANTEE notice of such Claim within forty five (45) days of the commencement of, or actual knowledge of, such Claim, describing the Claim in reasonable detail. To the extent GRANTEE shall be materially prejudiced as a result of the failure of PLUM CREEK to provide such timely notice, such notice shall be a condition precedent to any liability of GRANTEE under the provisions for indemnification contained herein. Neither party shall settle any Claim which is the subject of this Section 7.4 without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. To the extent that any of the obligations imposed by this Section 7.4 shall not be enforceable under applicable law it is the intent of the Parties that the provisions of this Section 7.4 shall be enforceable under applicable under applicable law. The indemnity provisions contained in this Section 7.4 shall survive the termination of this Agreement.

(e) For purposes of this Section 7.4, PLUM CREEK shall be defined to include PLUM CREEK and Plum Creek Timber Company, Inc., together with its

subsidiaries, affiliates and related companies and their respective officers, directors, agents and employees.

7.5 Requirements of Governmental Agencies. GRANTEE, at its expense, shall comply in all material respects with valid and applicable laws, ordinances, statutes, orders, and regulations of any governmental agency applicable to the Windpower Facilities and its use of the Property permitted hereunder. GRANTEE shall obtain from all governmental agencies having jurisdiction and keep in force all necessary permits for its operations and furnish and keep in force all bonds required to be given. GRANTEE shall comply in every respect with the laws of the State of Maine and its political subdivisions and the United States of America. GRANTEE shall have the right, in its sole discretion, to contest by appropriate legal proceedings, the validity or applicability to the Property or Windpower Facilities of any law, ordinance, statute, order, regulation, property assessment, or the like now or hereafter made or issued by any federal, state, county, local or other governmental agency or entity. Any such contest or proceeding shall be controlled and directed by GRANTEE.

7.6 Construction Liens. GRANTEE shall keep the Property free and clear of all liens and claims of liens for labor and services performed on, and materials, supplies, or equipment furnished to, the Property in connection with GRANTEE's use of the Property pursuant to the Easement; provided, however, that if GRANTEE wishes to contest any such lien, GRANTEE shall, within sixty (60) days after it receives notice of the filing of such lien, remove or bond over such lien from the Property pursuant to applicable law.

7.7 Hazardous Materials. GRANTEE shall not violate any federal, state, or local law, ordinance, or regulation relating to the generation, manufacture, production, use, storage, release, discharge, disposal, transportation or presence of any substance, material, or waste which is now or hereafter classified as hazardous or toxic, or which is regulated under current or future federal, state, or local laws or regulations, on or under the Property. GRANTEE shall defend, indemnify and hold PLUM CREEK harmless

from and against any and all claims, litigation, actions, proceedings, losses, damages, liabilities, obligations, costs and expenses, including attorneys', investigators' and consulting fees, court costs and litigation expenses suffered or incurred by PLUM CREEK, arising from such violation to the extent caused by the activities of GRANTEE or any of GRANTEE's employees, consultants, contractors, permitees, invitees, sublessees, licensees or other agents. GRANTEE shall promptly notify PLUM CREEK of any such violation.

7.8 GRANTEE's Authority. GRANTEE has the unrestricted right and authority to execute this Agreement. Each person signing this Agreement on behalf of GRANTEE is authorized to do so. When signed by GRANTEE, this Agreement constitutes a valid and binding agreement enforceable against GRANTEE in accordance with its terms.

7.9 Condition of Property. Except to the extent of PLUM CREEK provided representations, warranties and covenants pursuant to Section 8: (a) GRANTEE has had an opportunity to inspect the Property and enters into this Agreement solely in reliance on GRANTEE's own examination and not by reason of any representation, covenant or warranty by PLUM CREEK; (b) The Property is accepted in its present condition "AS IS WHERE IS"; (c) No reliance shall be placed on any opinion, material, or information provided by or through PLUM CREEK, and GRANTEE does so at its own risk, cost and expense; (d) GRANTEE understands and acknowledges that the Property has had an extensive commercial forestry history and that PLUM CREEK shall not be held liable by GRANTEE for damages that might result to GRANTEE's Windpower Facilities from such prior use; and (e) PLUM CREEK DOES NOT MAKE ANY WARRANTIES, EXPRESS OR IMPLIED, THAT THE PROPERTY SUBJECT TO THE EASEMENT CAN BE USED FOR ANY PURPOSE WHATSOEVER.

8. **PLUM CREEK'S Representations, Warranties, and Covenants**. PLUM CREEK hereby represents, warrants, and covenants as follow:

8.1 PLUM CREEK'S Authority. PLUM CREEK is the sole owner of the Property (without making any warranty of title, and subject to Section 8.3 below), and has the unrestricted right and authority to execute this Agreement and to grant to GRANTEE the rights granted hereunder. Each person signing this Agreement on behalf of PLUM CREEK is authorized to do so. When signed by PLUM CREEK, this Agreement constitutes a valid and binding agreement enforceable against PLUM CREEK in accordance with its terms.

Interference. PLUM CREEK'S activities on lands located within One-Half 8.2 (1/2) mile of any Wind Turbine or meteorological tower installed at the Property (the "Non-Interference Areas"), and/or any grant of rights PLUM CREEK makes to any person or entity to use the Non-Interference Areas, shall not materially interfere with: the construction, installation, maintenance, or operation of the Windpower Facilities located on the Property; access over the Property to such Windpower Facilities; any Development Activities; or the undertaking of any other activities permitted hereunder. Without limiting the generality of the foregoing, (i) PLUM CREEK shall not utilize the Property or the Non-Interference Areas in such a manner as to materially interfere with the wind speed or wind direction over the Property, whether by placing Wind Turbines, telecommunication towers or antennas or constructing buildings or other structures, or by engaging in any other activity on the Property or the Non-Interference Areas that could be reasonably expected to cause a decrease in the output or efficiency of the Windpower Facilities located on the Property, and (ii) PLUM CREEK shall not disturb the subsurface of the Property such that it could be reasonably expected to materially interfere with the structural integrity of the Windpower Facilities located on the Property, whether by mining, drilling or otherwise. For the purposes of this Agreement any building or structure that PLUM CREEK installs within the Non-Interference Areas shall be deemed not to materially interfere with the wind speed or wind direction over the Property or cause a decrease in the output of efficiency of the Windpower Facilities, if the height of such structure from the base of any Wind Turbine on the Property is Thirty Feet (30') or less. It is specifically understood and agreed that nothing in this Agreement shall in any manner limit PLUM CREEK in its customary forestry activities,

including planting, growing, harvesting and removing timber, except within a radius of two hundred feet (200') from any Wind Turbine.

8:3 Liens and Tenants. GRANTEE shall be solely responsible for obtaining a preliminary title report or other documentation required by GRANTEE to satisfy itself as to the existence of recorded liens, encumbrances, covenants, conditions, reservations, restrictions, easements, leases, subleases, occupancies, tenancies, mineral rights, water rights, options, rights of first refusal or other matters affecting, relating to or encumbering the Property or any portion thereof, the existence, use, foreclosure or exercise of which could reasonably be expected to delay, interfere with or impair the exercise of any of GRANTEE's rights under this Agreement or the Easement, or the financing of the Wind Energy Project. To the knowledge of PLUM CREEK there are no unrecorded liens, encumbrances, leases, mortgages, deeds of trust (except as disclosed to GRANTEE in writing), that are not reasonably discoverable through a reasonable inspection of the Property. On the Effective Date hereof, PLUM CREEK agrees to deliver to GRANTEE an affidavit regarding liens in the form attached hereto as **Exhibit "C"**

8.4 Requirements of Governmental Agencies. PLUM CREEK shall provide reasonable assistance and cooperation to GRANTEE, at no out-of-pocket expense to PLUM CREEK, in complying with or obtaining any land use permits and approvals, building permits, environmental impact reviews or any other approvals required for the construction, installation, monitoring, replacement, relocation, maintenance, operation or removal of Windpower Facilities, including execution of applications for such approvals, and including participating in any appeals or regulatory proceedings respecting the Windpower Facilities. Nothing in this Section shall be construed to require PLUM CREEK to join in a permit application as an operator or permit holder or have a permit issued in PLUM CREEK'S name, provided that, if requested by GRANTEE, PLUM CREEK will be a co-applicant with GRANTEE for any application to the Maine Land Use Regulation Commission for zoning approval and a development plan or permit for any portion of the Wind Energy Project located at the Property and will consent to the waiver

of any set-back requirements applicable to any portion of the Wind Energy Project located at the Property.

PLUM CREEK, at its expense, shall: (a) comply in all material respects with valid and applicable laws, ordinances, statutes, orders, and regulations of any governmental agency applicable to its use of the Property; (b) obtain from all governmental agencies having jurisdiction and keep in force all necessary permits for its operations and furnish and keep in force all bonds required to be given for PLUM CREEK's operations; and (c) comply in every respect with the laws of the State of Maine and its political subdivisions and the United States of America; provided that PLUM CREEK shall not be liable to GRANTEE for failure to satisfy any of the foregoing obligations except to the extent such failure creates losses, costs, expenses, damages or liabilities for GRANTEE. PLUM CREEK shall have the right, in its sole discretion, to contest by appropriate legal proceedings, the validity or applicability to the Property of any law, ordinance, statute, order, regulation, property assessment, or the like now or hereafter made or issued by any federal, state, county, local or other governmental agency or entity. Any such contest or proceeding shall be controlled and directed by PLUM CREEK.

8.5 Hazardous Materials. PLUM CREEK shall not violate any federal, state or local law, ordinance or regulation relating to the generation, manufacture, production, use, storage, release, discharge, disposal, transportation or presence of any substance, material or waste which is now or hereafter classified as hazardous or toxic, or which is regulated under current or future federal, state or local laws or regulations on or under the Property. PLUM CREEK shall promptly notify GRANTEE of any such violation during the term hereof. To the best of PLUM CREEK'S knowledge, (i) no underground tanks are now located or at any time in the past have been located on the Property or any portion thereof, (ii) no asbestos-containing materials, petroleum, explosives or other substances, materials or waste which are now or hereafter classified or regulated as hazardous or toxic under any law has been generated, manufactured, transported, produced, used, treated, stored, released, disposed of or otherwise deposited in or on or allowed to emanate from the Property or any portion thereof other than as permitted

by all health, safety and other laws (each, an "Environmental Law") that govern the same or are applicable thereto and (iii) there are no other substances, materials or conditions in, on or emanating from the Property or any portion thereof which may support a claim or cause of action under any Environmental Law. For the purposes of this Agreement the phrase "to the best of PLUM CREEK'S knowledge" shall mean to the actual knowledge of Erwin D. Barger, Jr., R. Paul Hossain, Paul Davis, Tim Dorrell and/or Frank Cuff, without inquiry or investigation of available sources of information. PLUM CREEK has not received any notice or other communication from any governmental authority alleging that the Property is in violation of any Environmental Law.

8.6 Litigation. No litigation is pending, and, to PLUM CREEK'S knowledge, no other legal or administrative proceedings are pending, with respect to, or which could affect, the Property. If PLUM CREEK learns that any such litigation, action, claim or proceeding is threatened or has been instituted, PLUM CREEK shall promptly deliver notice thereof to GRANTEE.

8.7 Future Liens. PLUM CREEK shall keep the Property free and clear of (a) all liens and claims of liens for labor and services performed on, and materials, supplies, or equipment furnished to, the Property in connection with PLUM CREEK's use of the Property, and (b) any tax lien or other lien superior to this Easement which could materially adversely affect the use and enjoyment of the Property in accordance with the terms of this Agreement that arises from the act or omission of PLUM CREEK; provided, however, that if PLUM CREEK wishes to contest any such lien, PLUM CREEK shall, within sixty (60) days after it receives notice of the filing of such lien, remove or bond over such lien from the Property pursuant to applicable law. Without limiting the generality or effectiveness of the foregoing provisions in any way, it is hereby specifically agreed and provided that if PLUM CREEK shall fail to discharge or bond off to the satisfaction of GRANTEE, within thirty (30) days after written demand by GRANTEE, any mechanic's or materialman's lien, tax lien, or other lien or attachment against the Property, or any portion thereof, which is superior to this Easement and that

arises from the act or omission of PLUM CREEK, GRANTEE shall have the right to bond the lien off or to pay such amounts to the holder(s) of any such lien or attachment as shall be necessary to cause the same to be released and discharged, and the amounts paid by GRANTEE may be deducted by GRANTEE from the next installment or next several installments of fees payable hereunder until such amounts have been fully recovered by GRANTEE. The good faith deduction of fees actually made by GRANTEE in accordance with the provisions hereof shall not constitute a default by GRANTEE in the payment of fees or in the performance of its obligations under this Agreement unless GRANTEE shall fail to pay the amount of such deduction together with any interest due thereon to PLUM CREEK within thirty (30) days after a final adjudication that such amount is due and owing to PLUM CREEK.

9. **Assignment**. GRANTEE, its successors and assigns, shall have the right to do any of the following: sell, convey, lease, assign or transfer (collectively, a "Transfer") to a person or entity (an "Assignee") any or all of GRANTEE's right or interest in the Easement or in this Agreement, or any part thereof or interest herein, and the same shall be divisible, assignable and transferable among any two or more such owners as to any right or rights created hereunder. Notwithstanding any such Transfer, GRANTEE shall remain liable for the performance of its obligations hereunder unless released from such obligations by PLUM CREEK in writing, which release shall not be unreasonably withheld, conditioned or delayed by PLUM CREEK so long as the Assignee has a net worth reasonably sufficient to ensure the performance of the obligations of GRANTEE under this Agreement. GRANTEE shall notify PLUM CREEK in writing at least thirty (30) days in advance of any such Transfer, and any such Assignee shall assume in writing the obligations of GRANTEE under this Agreement with respect to the interest transferred.

10. **Default and Termination.**

10.1 Default. If any default be made in any of the covenants or agreements herein contained to be performed by GRANTEE and such default shall continue for a

period of thirty (30) days after written notice from PLUM CREEK describing such default (a "Notice of Default"), or in case of a default that cannot be cured with due diligence within said thirty (30) day period, GRANTEE fails to proceed within said thirty (30) day period to commence to cure the same and thereafter to prosecute the curing of such default with due diligence and within a period of time that under all prevailing circumstances shall be reasonable (in either case, an "Event of Default"), then PLUM CREEK shall be entitled to recover its reasonable attorneys' fees incurred in connection with enforcing its rights hereunder or PLUM CREEK at its option may terminate and cancel the Easement by giving a second written notice to GRANTEE (a "Termination Notice"), in which event the Easement shall be terminated and cancelled on the date that is sixty (60) days after the giving of such Termination Notice, provided that if GRANTEE shall cure the specified Event of Default within said sixty (60) day period then such termination shall be nullified and the Easement shall remain in full force and effect.

10.1.1 As a precondition to exercising any rights or remedies as a result of any default by GRANTEE, PLUM CREEK shall give any Notice of Default given during the Term hereof to up to three (3) Easement Mortgagees for whom PLUM CREEK has received written notice of the Easement Mortgagee's name and address from GRANTEE concurrently with delivery of such Notice of Default to GRANTEE, specifying in detail the Event of Default.

10.1.2 A waiver by PLUM CREEK of any Event of Default under this Easement shall not prevent the right of PLUM CREEK to forfeit this Easement for any other cause, or for the same cause occurring at any other time. The receipt by PLUM CREEK from GRANTEE of payments after the occurrence of any Event of Default, or the continued recognition by PLUM CREEK of GRANTEE hereunder after the occurrence of any Event of Default shall not be deemed a waiver of PLUM CREEK'S right of forfeiture, so long as the cause of forfeiture continues to exist. Receipt and acceptance by PLUM CREEK of any amounts tendered by GRANTEE shall not constitute an agreement by PLUM CREEK that the amounts are the proper amounts

due or a waiver of PLUM CREEK'S claims for greater amounts. All payments by GRANTEE to PLUM CREEK shall apply on the items longest past due, and the receipt of any such payment shall not be a waiver either of the right of distress or the right of forfeiture or any other remedy available to PLUM CREEK with respect to items which remain undischarged after crediting the payments.

10.1.3 Remedies. Except as qualified by Section 11 regarding Mortgagee Protections, should an Event of Default remain uncured by GRANTEE then PLUM CREEK shall have and shall be entitled to exercise any and all remedies available to it at law or in equity, including the termination of this Agreement, all of which remedies shall be cumulative.

10.2 Termination.

10.2.1 GRANTEE's Right to Terminate. GRANTEE shall have the right to terminate the Easement as to all or any part of the Property at any time and without cause, by giving PLUM CREEK written notice and by executing and causing to be acknowledged and recorded in the Official Records of the county where the Property is located, a quitclaim deed describing with particularity the portion of such right, title or interest so quitclaimed and the part of the Property to which it applies; provided that if such right to terminate shall be exercised by GRANTEE after Wind Turbines have been installed on the Property, then the termination shall not take effect until at least twenty-four (24) months after the date such notice is given by GRANTEE. In the event any such notice is delivered to PLUM CREEK by GRANTEE after Wind Turbines have been installed on the Property, such notice shall be accompanied by a statement by GRANTEE setting forth how GRANTEE shall comply with the provisions of Section 10.2.3 within the twenty-four month notice period.

10.2.2 PLUM CREEK'S Right to Terminate. Subject to Section 11, PLUM CREEK shall have the right to terminate all or any portion of its rights in this Agreement and the easements granted hereunder if (a) GRANTEE has not completed installation of

at least one (1) Wind Turbine on the Property and such Wind Turbine is capable of delivering electricity on a commercial basis (i.e., in quantities and for periods greater than required for testing) to a third party power purchaser within five (5) years of the Effective Date, or (b) GRANTEE abandons the Property (which shall be defined for the purposes of this Agreement as the absence of any sales of power produced from the Wind Turbines located on the Property for a continuous period of twenty-four (24) consecutive calendar months, other than as a result of Force Majeure), following the occurrence of the Operations Date.

10.2.3 Effect of Termination; Performance Bond. Within twelve (12) months after the expiration or earlier termination of the Easement, whether as to the entire Property or only as to part, GRANTEE shall remove above-ground and belowground (to a depth of the lesser of four (4) feet below grade, or the depth of cover over bed rock prior to installation of the Windpower Facilities at the relevant location) Windpower Facilities, other than roads or trails, from the Property or the portion of the Property as to which the Easement was terminated. In the event that GRANTEE gives PLUM CREEK a notice of early termination pursuant to Section 10.2.1 this Easement shall not terminate as to the Easement Property specified in the notice until such time as the GRANTEE has removed its Windpower Facilities (not including roads or trails) from the Easement Property and restored the Easement Property pursuant to this Section 10.2.3. All Property disturbed by GRANTEE shall be restored to as near as reasonably practicable to its state and condition of productivity as it existed on the Effective Date. Reclamation shall include, as reasonably required, leveling, terracing, mulching and other reasonably necessary steps to prevent soil erosion. GRANTEE shall comply with any reclamation or land restoration requirements of applicable governmental authorities, submit any reclamation or restoration plan required by such authorities and post such security as required by the County with respect to the Wind Energy Project in connection with the County permitting process. If GRANTEE fails to remove such Windpower Facilities within twelve (12) months of expiration or termination of the Easement, or such longer period as PLUM CREEK may provide by extension, PLUM CREEK may do so, in which case GRANTEE shall reimburse PLUM CREEK for all costs of removal and restoration incurred by PLUM CREEK. If (a) a removal bond,

letter of credit, or similar form of security is not required by the county, the state or any municipality or (b) a removal bond, letter of credit, or similar form of security is required by the county, the state or any municipality but is not provided by the date specified by the county, state or other municipality (the "Required Date") then, in the case of (a) on or before the twentieth (20th) anniversary of the Operations Date (or in the event that GRANTEE shall replace the original Wind Turbines at the Property, on or before the thirty fifth (35th) anniversary of the Operations Date), or in the case of (b) within sixty (60) days of the Required Date, GRANTEE shall post a performance bond or, at GRANTEE's option, obtain a letter of credit, in the amount of Fifty Thousand Dollars (\$50,000) for each Wind Turbine, if any, then located on the Property, to ensure GRANTEE's performance for removal of aboveground and belowground (to a depth of the lesser of four (4) feet below grade, or the depth of cover over bed rock prior to installation of the Windpower Facilities at the relevant location) Windpower Facilities from the Property (the "Removal Bond"). GRANTEE shall provide written proof of the Removal Bond, if required hereunder, to PLUM CREEK within sixty (60) days of the twentieth (20th) anniversary of the Operations Date (or in the event that GRANTEE shall replace the original Wind Turbines at the Property, on or before the thirty fifth (35th) anniversary of the Operations Date). The Removal Bond shall be issued in favor of PLUM CREEK. GRANTEE will renew the Removal Bond each year that a removal bond, letter of credit, or similar form of security is not held by the county, the state or any municipality, and provide written proof of such renewal to PLUM CREEK within sixty (60) days of each such renewal. If required hereunder, the Removal Bond shall be renewed to be effective until the earlier of the date that (i) GRANTEE complies with the removal and restoration provisions in this Section 10.2.3, or (ii) is twenty four (24) months following the termination of this Agreement.

10.3 Damages. Neither Party shall be liable to the other Party for special, punitive or incidental damages, lost profits, production or revenues arising out of or in connection with this Agreement or the Easement.

11. Mortgagee Protection.

In the event that any mortgage, deed of trust or other security interest in this Easement or in any Windpower Facilities is entered into by GRANTEE or any Assignee (an "Easement Mortgage"), then up to three (3) additional parties who are mortgagees of an Easement Mortgage (an "Easement Mortgagee") at any one time shall, for so long as its Easement Mortgage is in existence and until the lien thereof has been extinguished, be entitled to the protections set forth in this Section 11, but only after PLUM CREEK has received written notice of the name and address of any such Easement Mortgage from GRANTEE.

11.1 Easement Mortgagee's Right to Possession, Right to Acquire and Right to Assign. An Easement Mortgagee shall have the absolute right: (i) to assign its security interest; (ii) to enforce its lien and acquire title to the easement estate by any lawful means; (iii) to take possession of and operate the Windpower Facilities or any portion thereof and to perform all obligations to be performed by GRANTEE hereunder, or to cause a receiver to be appointed to do so; and (iv) to acquire the easement estate by foreclosure or by an assignment in lieu of foreclosure and thereafter to assign or transfer the easement estate to a third party. PLUM CREEK'S consent shall not be required for the acquisition of the encumbered easement or subeasement estate by a third party who acquires the same by foreclosure or assignment in lieu of foreclosure.

11.2 Notice of Default: Opportunity to Cure. As a precondition to exercising any rights or remedies as a result of any alleged default by GRANTEE, PLUM CREEK shall give any Notice of Default given during the Term hereof to each Easement Mortgagee concurrently with delivery of such notice to GRANTEE, specifying in detail the alleged event of default and the required remedy. In the event PLUM CREEK gives such a Notice of Default, the following provisions shall apply:

(a) The Easement Mortgagee shall have the same period after receipt of Notice of Default to remedy the default, or cause the same to be remedied, as is given

to GRANTEE after GRANTEE's receipt of Notice of Default, plus an additional thirty (30) days, for a total of ninety (90) days after receipt of the Notice of Default, provided that such 90-day period shall be extended for the time reasonably required to complete such cure. The Easement Mortgagee shall have the absolute right to substitute itself for the GRANTEE and perform the duties of GRANTEE hereunder for purposes of curing such defaults. PLUM CREEK expressly consents to such substitution, agrees to accept such performance, and authorizes the Easement Mortgagee (or its employees, agents, representatives or contractors) to enter upon the Property to complete such performance with all the rights, privileges and obligations of the original GRANTEE hereunder. PLUM CREEK shall not terminate the Easement prior to expiration of the cure periods available to an Easement Mortgagee as set forth above.

(b) During any period of possession of the Property by an Easement Mortgagee (or a receiver requested by such Easement Mortgagee) and/or during the pendency of any foreclosure proceedings instituted by an Easement Mortgagee, the Easement Mortgagee shall pay or cause to be paid the Operating Fees and all other monetary charges payable by GRANTEE hereunder which have accrued and are unpaid at the commencement of said period and those which accrue thereafter during said period. Following acquisition of GRANTEE's easement estate by the Easement Mortgagee or its assignee or designee as a result of either foreclosure or acceptance of an assignment in lieu of foreclosure, or by a purchaser at a foreclosure sale, the Easement shall continue in full force and effect and the Easement Mortgagee or party acquiring title to GRANTEE's easement estate shall, as promptly as reasonably possible, commence the cure of all defaults hereunder and thereafter diligently process such cure to completion, whereupon PLUM CREEK'S right to terminate this Easement based upon such defaults shall be deemed waived.

(c) Any Easement Mortgagee or other party who acquires GRANTEE's easement interest pursuant to foreclosure or assignment in lieu of foreclosure shall be liable to perform the obligations imposed on GRANTEE by this Easement so long as

such Easement Mortgagee or other party has ownership of the easement estate or possession of the Property.

(d) Neither the bankruptcy nor the insolvency of GRANTEE shall be grounds for terminating this Easement as long as all obligations of GRANTEE under the terms of this Easement are performed by the Easement Mortgagee in accordance with the terms of this Easement.

(e) Nothing herein shall be construed to extend the Easement beyond the Easement term or to require an Easement Mortgagee to continue foreclosure proceedings after the default has been cured. If the default is cured and the Easement Mortgagee discontinues foreclosure proceedings, the Easement shall continue in full force and effect.

11.3 New Easement to Mortgagee. If this Agreement terminates because the Easement is foreclosed, or if the Easement is rejected or disaffirmed pursuant to bankruptcy law or other law affecting creditors' rights, PLUM CREEK, upon written request from any Easement Mortgagee within 45 days after such event, shall as reasonably necessary to confirm such Easement Mortgagee's rights, either ratify this Agreement or enter into a new easement for the Property, on the following terms and conditions:

(a) The terms of the new easement shall commence on the date of foreclosure, rejection or disaffirmance and shall continue for the remainder of the terms of the Easement, at the same rent and subject to the same terms and conditions set forth in this Agreement.

(b) PLUM CREEK shall ratify this Agreement or execute the new easement, as applicable, within 45 days after receipt by PLUM CREEK of written notice of the Easement Mortgagee's election to either ratify this Agreement or enter a new easement, provided said Easement Mortgagee: (i) pays to PLUM CREEK all rent and other

monetary charges then payable by GRANTEE under the terms of the Easement, as if the Easement had not been foreclosed, rejected or disaffirmed; (ii) performs all other obligations of GRANTEE under the terms of the Easement, to the extent performance is then due and susceptible of being cured and performed by the Easement Mortgagee; and (iii) agrees in writing to perform, or cause to be performed, all non-monetary obligations which have not been performed by GRANTEE and would have accrued under this Agreement up to the date of the ratification or commencement of the new easement, except those obligations which constitute non-curable defaults. Any ratification or new easement granted to the Easement Mortgagee shall enjoy the same priority as this Agreement over any lien, encumbrances or other interest created by PLUM CREEK.

(c) The provisions of this Section 11 shall survive the, rejection or disaffirmance of the Easement and shall continue in full force and effect thereafter to the same extent as if this Section were a separate and independent contract made by PLUM CREEK, GRANTEE and such Easement Mortgagee, and, from the effective date of such rejection or disaffirmation of the Easement to the date of execution and delivery of such ratification or new easement, as applicable, such Easement Mortgagee may use and enjoy said Property without hindrance by PLUM CREEK or any person claiming by, through or under PLUM CREEK, provided that all of the conditions for a ratification or a new easement as set forth herein are complied with.

11.4 Easement Mortgagee's Consent to Amendment, Termination or Surrender. Notwithstanding any provision of this Agreement to the contrary, the Parties agree that so long as there exists an unpaid Easement Mortgage, this Easement shall not be modified or amended and PLUM CREEK shall not accept a surrender of the Property or any part thereof or a cancellation, termination or release of this Easement from GRANTEE prior to expiration of the term without the prior written consent of the Easement Mortgagee. This provision is for the express benefit of and shall be enforceable by such Easement Mortgagee.

11.5 No Waiver. No payment made to PLUM CREEK by an Easement Mortgagee shall constitute an agreement that such payment was, in fact, due under the terms of the Easement; and an Easement Mortgagee, having made any payment to PLUM CREEK pursuant to PLUM CREEK'S wrongful, improper or mistaken notice or demand, shall be entitled to the return of any such payment.

11.6 No Merger. There shall be no merger of the Easement, or of the easement estate created by the Easement, with the fee estate in the Property by reason of the fact that the Easement or the easement estate or any interest therein may be held, directly or indirectly, by or for the account of any person or persons who shall own the fee estate or any interest therein, and no such merger shall occur unless and until all persons at the time having an interest in the fee estate in the Property and all persons (including an Easement Mortgagee) having an interest in the Easement or in the estate of PLUM CREEK and GRANTEE shall join in a written instrument effecting such merger and shall duly record the same.

12. Miscellaneous.

12.1 Force Majeure. If performance of the Easement or of any obligation hereunder is prevented or substantially restricted or interfered with by reason of an event of "Force Majeure" (defined below), the affected Party, upon giving notice to the other Party, shall be excused from such performance to the extent of and for the duration of such prevention, restriction or interference. The affected Party shall use commercially reasonable efforts to avoid or remove such causes of nonperformance and shall continue performance hereunder whenever such causes are removed. "Force Majeure" means fire, earthquake, flood, or other casualty or accident; strikes or labor disputes; war, civil strife or other violence; any law, order, proclamation, regulation, ordinance, action, demand or requirement of any government agency; or any other act or condition beyond the reasonable control of a Party hereto.

12.2 Confidentiality. PLUM CREEK shall use commercially reasonable efforts to maintain the confidence of all information pertaining to the financial terms of or payments under this Agreement, and the power production or availability of the Windpower Facilities. Notwithstanding the foregoing, PLUM CREEK may disclose such information to PLUM CREEK'S lenders, attorneys, accountants and other personal financial advisors solely for use in connection with their representation of PLUM CREEK regarding this Agreement; any prospective purchaser of the Property; or pursuant to lawful process, subpoena or court order requiring such disclosure, provided PLUM CREEK in making such disclosure advises the party receiving the information of the confidentiality of the information. It is specifically understood and agreed by GRANTEE that nothing in this Section 12.2 or in this Agreement shall in any manner restrict or limit PLUM CREEK'S ability to purchase, construct, operate, lease or sell or lease property for the operation of wind power facilities on other properties.

12.3 Successors and Assigns. The Easement shall inure to the benefit of and be binding upon PLUM CREEK and GRANTEE and, to the extent provided in any Transfer under Section 9 hereof, any Assignee, and their respective heirs, transferees, successors and assigns, and all persons claiming under them. References to GRANTEE in this Agreement shall be deemed to include Assignees that hold a direct ownership interest in the Easement or this Agreement and actually are exercising rights under the Easement or this Agreement to the extent consistent with such interest.

12.4 Short Form of Easement. PLUM CREEK and GRANTEE have executed a complete version of this Agreement of even date herewith, and have executed this Short Form for the purpose of providing constructive notice of the complete Agreement. In the event of any conflict between the provisions of this Short Form and the provisions of the complete Agreement, the provisions of the complete Agreement shall control. PLUM CREEK hereby consents to the recordation of the interest of an Assignee in the Property.

12.5 Notices. All notices or other communications required or permitted by this Agreement, including payments to PLUM CREEK, shall be in writing and shall be deemed given when personally delivered to PLUM CREEK or GRANTEE, or in lieu of such personal delivery services, five (5) days after deposit in the United States mail, first class, postage prepaid, certified, addressed as follows:

If to PLUM CREEK:

Plum Creek Timberlands, L.P. Energy & Natural Resources Department One Concourse Parkway, Suite 755 Atlanta, GA 30328 Facsimile: 770-730-7273

With Copy to:

Plum Creek Timberlands, L.P. Law Department One Concourse Parkway, Suite 755 Atlanta, GA 30328 Facsimile: 770-671-0211

To TransCanada:

TransCanada Maine Wind Development Inc. 110 Turnpike Road, Ste 203 Westborough, MA 01581 Attention: Director of Marketing Facsimile (508) 898-0433

With a copy to:

TransCanada Maine Wind Development Inc. 110 Turnpike Road, Ste 203 Westborough, MA 01581 Attention: Legal Department Facsimile: (508) 898-0433

Any Party may change its address for purposes of this paragraph by giving written notice of such change to the other parties in the manner provided in this paragraph.

12.6 Entire Agreement; Amendments. Except for a separate easement agreement between PLUM CREEK and GRANTEE or near or even date herewith (a Short Form of which to be recorded at the Franklin County Registry of Deeds), the complete version of this Agreement constitutes the entire agreement between PLUM CREEK and GRANTEE respecting its subject matter, and supersedes any and all oral or written agreements. Any agreement, understanding or representation respecting the Property, the Easement, or any other matter referenced herein not expressly set forth in the complete version of this Agreement or a subsequent writing signed by both Parties is null and void. This Agreement shall not be modified or amended except in a writing signed by both Parties. No purported modifications or amendments, including without limitation any oral agreement (even if supported by new consideration), course of conduct or absence of a response to a unilateral communication, shall be binding on either Party.

12.7 Legal Matters. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Maine, without application of its conflicts of laws provisions. If the Parties are unable to resolve amicably any dispute arising out of or in connection with this Agreement, they agree that such dispute shall be resolved in the state courts located in the county in which the Property is situated.

12.8 Partial Invalidity. Should any provision of this Agreement be held, in a final and unappealable decision by a court of competent jurisdiction, to be either invalid, void or unenforceable, the remaining provisions hereof shall remain in full force and effect, unimpaired by the holding. Notwithstanding any other provision of this Agreement, the Parties agree that in no event shall the term of this Agreement or the Easement be longer than, respectively, the longest period permitted by applicable law.

12.9 No Partnership. Nothing contained in this Agreement shall be construed to create an association, joint venture, trust or partnership covenant, obligation or liability on or with regard to any one or more of the parties to this Agreement.

This Agreement may be executed with counterpart 12.10 Counterparts. signature pages and in duplicate originals, each of which shall be deemed an original, and all of which together shall constitute a single instrument.

IN WITNESS WHEREOF, PLUM CREEK and GRANTEE, acting through their duly authorized representatives, have executed this Agreement with the intent that it be effective as of the Effective Date, and certify that they have read, understand and agree to the terms and conditions of this Agreement.

PLUM CREEK MAINE TIMBERLANDS, L.L.C.

By: Print: KUSSELI HAGEN Vice Presider

Its:

SO.

Attest:

Sheri Assistant Secretary

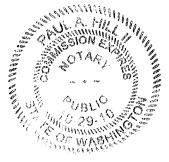
ACKNOWLEDGMENT

STATE OF Washington

COUNTY OF King

1st day of <u>December</u>, 2009, before me personally appeared 211 Hagen_ and <u>Sheri L. Ward</u>, to me known On this KUSSPI President and Assistant be the Ville Secretary to respectively, of **Plum Creek Maine Timberlands, LLC**, the limited liability company that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited liability company for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of the limited liability company and that the seal affixed is the seal of said limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.



and A. HIOZ

Notary Public in and for the State of Washing Residing at Sectle My Commission Expires 10/29/2010 Printed Name Tay A. Hill T

TRANSCANADA MAINE WIND DEVELOPMENTINC.
Ву:
Print: William Taylor
Its: Vice President

TRANSCANADA MAINE WIND DEVELOPMENT INC.
By:hht
Print: Mike Hachey
Its: Vice President

ACKNOWLEDGEMENT

STATE OF Manachusetts

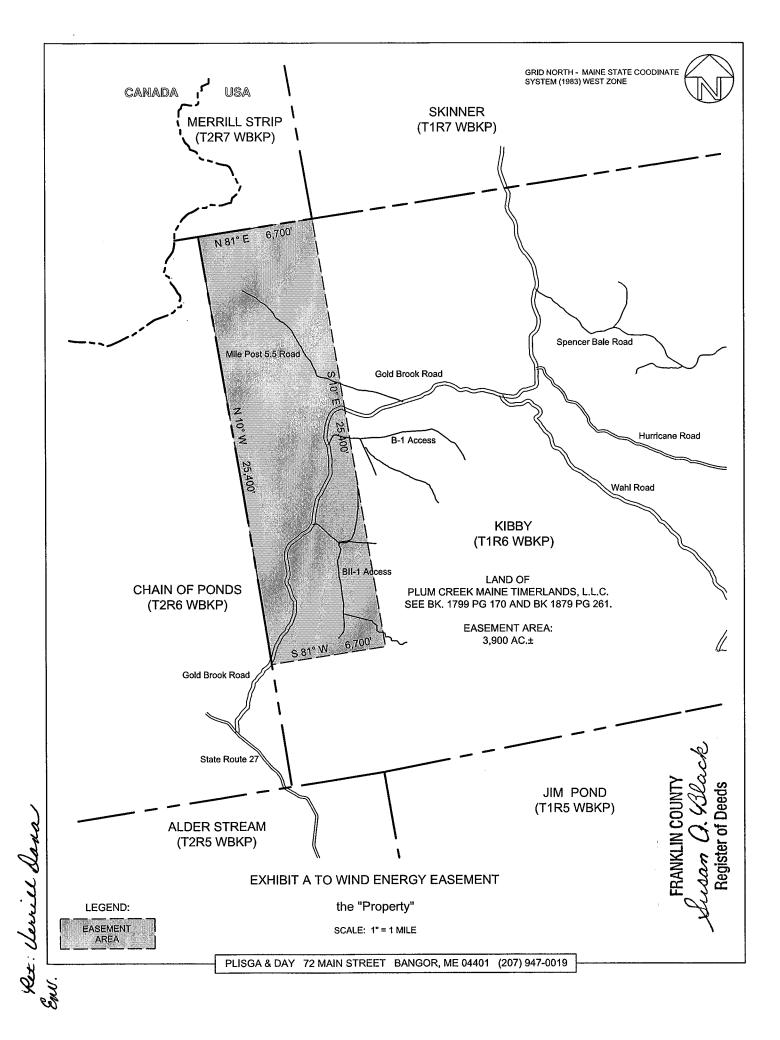
COUNTY OF WOrcester

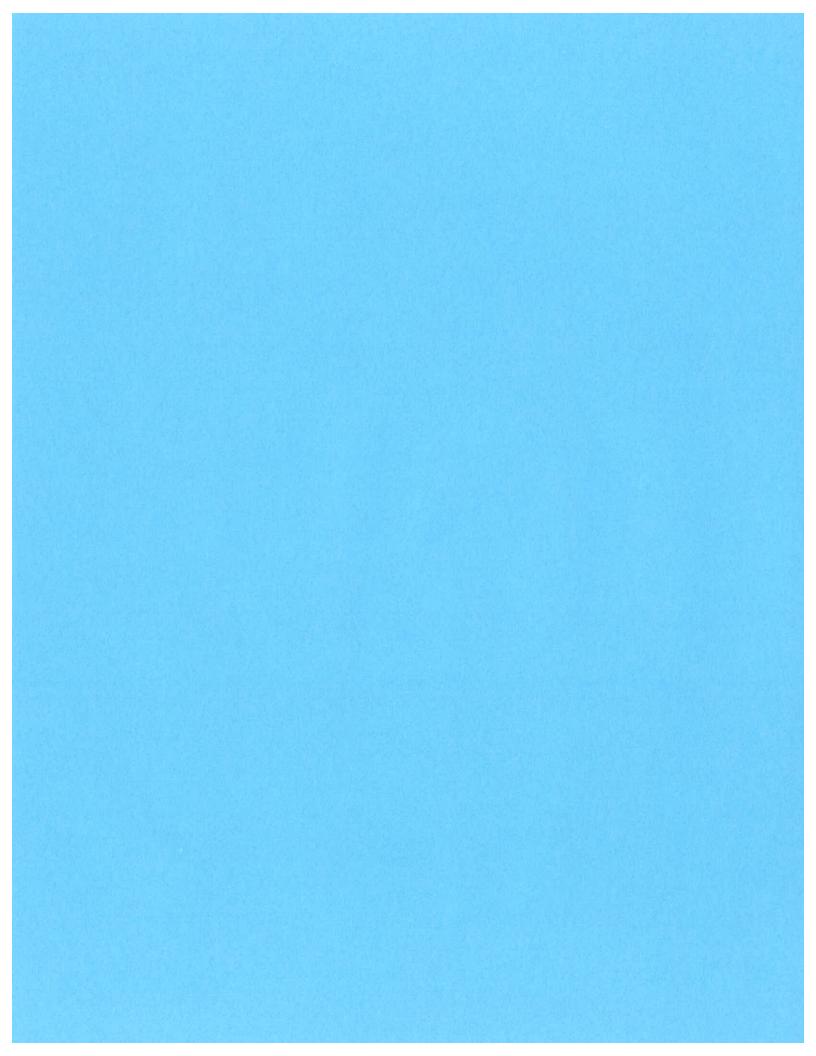
On this <u>Bot</u> day of <u>November</u>, 2009, before me personally appeared <u>william Tay IOr</u> and <u>Michael 'Mikil tackey</u>, to me known to be the <u>Wice Dresident</u> and <u>Wice President</u>, respectively, of **TransCanada Maine Wind Development Inc.**, the corporation that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of the limited liability company and that the seal affixed is the seal of said limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

TONYA K. MURPHY Notary Public COMMONWEALTH OF MASSACHUSETTS My Commission Expires March 25, 2016

Shreesbure Notary Public in and for the State of Massachusetts Residing at Worcester (My Commission Expires 3-25-





STATE OF MAINE

COUNTY OF FRANKLIN

SHORT FORM EASEMENT

KNOW ALL MEN BY THESE PRESENTS:

That **PLUM CREEK MAINE TIMBERLANDS**, L.LC., a Delaware limited liability company having an office at One Concourse Parkway, Suite 755, Atlanta, Georgia 30328, hereinafter referred to as GRANTOR, for and in consideration of the payments set forth in Section 2 below, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, does hereby grant and convey, without warranty of title, subject to the terms and conditions herein contained, unto TRANSCANADA MAINE WIND DEVELOPMENT INC., a Maine corporation with a mailing address of 110 Turnpike Rd, Ste 203, Westborough, MA 01581, hereby authorized to act herein, its successors and assigns, hereinafter called GRANTEE, the following rights, privileges and easements (collectively, the "Facilities Easement") upon, under, over and across the Facilities Easement Property (as hereinafter defined): To enter upon the Facilities Easement Property at any time with men and all vehicles and machinery necessary or desirable for the purposes described herein; to build, construct, maintain, repair, reconstruct, operate and/or remove electric lines consisting of one or more circuits for the collection or transmission of electric energy (and communications wires and cables necessary to the operation), switching, and collection or transmission of said electrical energy, including the necessary poles, towers, crossarms, wires, guys, supports and other fixtures required for electric collection or transmission lines (collectively, "Power Lines"); to build, construct, maintain, repair, reconstruct, operate and/or remove one (1) electrical substation, consisting of suitable and sufficient transformers, switching, protection and control equipment, together with any buildings, fences, and other equipment and appurtenances (the "Substation"); to clear and keep clear the Facilities Easement Property and to remove obstructions that may interfere with the use of said Power Lines or Substation or that may or might be a hazard to the use of same; and to excavate, remove, grade, level, export and import material, and fill the land, install foundations, roadways and walkways and install utilities, lay, bury, install, construct, reconstruct, relocate, replace, maintain, operate, repair, upgrade, remove and use overhead, underground and submarine wires, cables, conduits, ducts, switching

equipment, protective and safety devices, manholes, and other apparatus used or useful for the transmission of electricity and/or for communication purposes and/or for ingress and egress, all as the GRANTEE, its successors and assigns, may from time to time desire upon, along, across, and beneath the Facilities Easement Property.

The "Facilities Easement Property" initially shall consist of the lands of GRANTOR situated in Kibby Township (No. 1, R. 6), Franklin County, Maine, as more fully shown on Exhibit "A". Within six (6) months following the date on which GRANTEE has completed installation of wind turbines for the Wind Power Project (as hereinafter defined) capable of delivering electricity on a commercial basis (i.e., in quantities and for periods greater than required for testing) to a third party power purchaser (the "Operations Date"), GRANTEE shall deliver an as-built survey to GRANTOR (the "As-Built Survey") to re-define the Facilities Easement Property subject to the Facilities Easement to include only those portions of the Facilities Easement Property that are shown on the As-Built Survey and are: (i) located up to seventy-five (75) feet from the centerline of Power Lines installed by GRANTEE (up to thirty (30) feet from the centerline of collection lines, and up to seventy-five (75) feet from the centerline of transmission lines); (ii) up to four (4) acres around the Substation installed by GRANTEE; and/or (iii) encompassing up to twenty-five (25) acres for any buffer zones required by any regulatory permits or approvals for the Power Lines, the Substation, or the Wind Power Project. Promptly after delivery of the As-Built Survey to GRANTOR, the parties shall execute and record an amendment to the Facilities Easement to redefine the Facilities Easement Property consistent with the As-Built Survey, and any portions of the Facilities Easement Property thereby released shall be delivered by GRANTEE free of any liens or encumbrances placed on the released property by GRANTEE or GRANTEE's sublessees, tenants, contractors, agents or assignees.

GRANTEE shall have the right of ingress to and egress from the Facilities Easement Property (as the Facilities Easement Property may be re-defined) or for other purposes related to the Wind Power Project (the "Access Easement") across the Access Easement Property (as hereinafter defined) by means of roads and lanes thereon, if such there be; otherwise by such roads or lanes GRANTEE constructs, the location and construction of such new roads and lanes shall be done in a manner that shall reasonably occasion the least practicable damage to GRANTOR and GRANTOR'S property. The Access Easement shall include the right to clear and keep clear such roads and to remove obstructions that may interfere with the use of said roads or that may or might be a hazard to the use of same. For any new roads constructed by GRANTEE within the Access Easement Property that exceed 16,000 linear feet in the aggregate, GRANTEE shall pay GRANTOR \$2,500 per acre cleared (not including areas cleared by GRANTEE in order to improve existing roads); provided,

however, that in no event shall more than ten (10) acres be cleared by GRANTEE for any such new roads exceeding 16,000 linear feet without the prior written approval of GRANTOR, which approval shall not be unreasonably withheld. GRANTEE agrees to pay all costs of improvements to any roads on the Access Easement Property necessary for its usage, and to use the roads in a prudent manner so as not to interfere with GRANTOR'S use of such roads. Each of GRANTOR and GRANTEE shall have the right, but not the obligation, to maintain roads on the Access Easement Property, provided that any damage caused by GRANTEE to any such roads shall be repaired by and at the expense of GRANTEE, and that any damage caused by GRANTOR to any new roads constructed by GRANTEE shall be repaired by and at the expense of GRANTOR, so that the condition after repair is at least as good as it was before the damage. All such repairs shall be conducted within a reasonable time, but in any event within sixty (60) days after notice of such damage. The "Access Easement Property" initially shall consist of the lands of GRANTOR situated in Kibby Township, Franklin County, Maine, as more fully shown on Exhibit "A". Within six (6) months following the Operations Date, GRANTEE shall deliver a road plan to GRANTOR to re-define the Access Easement Property subject to the Access Easement to include only those portions of the Access Easement Property that are physically occupied by roads and shown on said road plan. Promptly after delivery of said road plan to GRANTOR, the parties shall execute and record an amendment to the Access Easement to re-define the Access Easement Property consistent with the road plan, and any portions of the Access Easement Property thereby released shall be delivered by GRANTEE free of any liens or encumbrances placed on the released property by GRANTEE or GRANTEE's sublessees, tenants, contractors, agents or assignees.

GRANTOR acknowledges that GRANTEE plans to construct and operate a wind power project, including wind turbine generators and towers and related equipment, facilities, infrastructure and substructures (hereinafter referred to as the "Wind Power Project"), at and near Sisk Mountain on lands of GRANTOR in Kibby Township and/or lands of others in Chain of Ponds Township (No. 2, R. 6), Franklin County, Maine, and that the Wind Power Project will emit sound at levels that may exceed applicable state or local maximum sound level limits for certain lands of GRANTOR, and may cast shadows onto or produce a shadow flicker effect at certain land of GRANTOR; therefore GRANTOR does hereby further grant and convey to GRANTEE, without warranty of title, subject to the terms and conditions herein contained, a non-exclusive easement (the "Sound Easement") for: (a) the right to have sound generated from the Wind Power Project impact the Sound Easement Property (as hereinafter defined) and exceed otherwise applicable state or local maximum sound level limits applicable to locations on the Sound Easement Property; and (b) the right to cast shadows or shadow flicker from the Wind Power Project onto the Sound Easement Property. The burden of the Sound Easement hereby granted shall run with the Sound Easement Property. The

benefit of the Sound Easement hereby granted is not appurtenant to any particular property, but shall be transferable in whole or in part, and may be sold, leased, assigned, pledged, and mortgaged by GRANTEE, it being the intent of the parties that such benefit may be transferred to any successors or assignees of GRANTEE that own or operate the Wind Power Project, as it may be modified, divided or expanded. The "Sound Easement Property" initially shall consist of the lands of GRANTOR situated in Kibby Township, Franklin County, Maine, as more fully shown on Exhibit "B". The As-Built Survey delivered by GRANTEE to GRANTOR shall re-define the Sound Easement Property subject to the Sound Easement to include only those portions of the Sound Easement Property that are shown on the As-Built Survey and (i) fall within one of two areas each containing no more than fifty (50) acres located adjacent to the Kibby Township/Chain of Ponds Township line (for purposes of any wind turbine installed on lands in Chain of Ponds Township as part of the Wind Power Project), and/or (ii) fall within an area measured no more than 2,000 feet from any wind turbine installed on lands of GRANTOR in Kibby Township as part of the Wind Power Project. Promptly after delivery of the As-Built Survey to GRANTOR, the parties shall execute and record an amendment to the Sound Easement to re-define the Sound Easement Property consistent with the As-Built Survey, and any portions of the Sound Easement Property thereby released shall be delivered by GRANTEE free of any liens or encumbrances placed on the released property by GRANTEE or GRANTEE's sublessees, tenants, contractors, agents or assignees.

GRANTOR further acknowledges that GRANTEE's plans for the Wind Power Project call for wind turbine generators, towers and related equipment to be located on lands in Chain of Ponds Township, Franklin County, Maine that are adjacent to the GRANTOR's lands, a distance from the boundary of the GRANTOR's lands that is less than (a) the Maine Department of Environmental Protection recommended setback of 1.5 times the turbine height, and/or (b) the Maine Land Use Regulation Commission dimensional requirements set forth in Chapter 10 of the Commission's Rules and Standards. GRANTOR has no objection to any such wind turbine and/or other structure being located less than either such recommended or required setback (including immediately adjacent to the boundary), and hereby consents to having wind turbines and other structures associated with the Wind Power Project located closer to the boundary of the GRANTOR's lands than either such recommended or required setback, or any other setback recommended or required by an agency or instrumentality of the State of Maine.

GRANTOR does hereby further grant and convey to GRANTEE, without warranty of title, subject to the terms and conditions herein contained, a temporary, non-exclusive easement (the **"Temporary Staging Easement**") to access and utilize two existing cleared areas consisting of five acres each, and one additional uncleared area

consisting of four acres, situated in Kibby Township, Franklin County, Maine, more fully shown on Exhibit "C" (the "**Staging Easement Areas**"), for staging areas and for other purposes related to construction of the Wind Power Project. The Temporary Staging Easement is made upon and subject to the following terms and conditions:

a. The term of the Temporary Staging Easement shall expire on the Operations Date or the earlier expiration of the Term hereof, whichever is earlier.

b. GRANTEE shall not construct any permanent improvements within the Staging Easement Areas. Any temporary structures or improvements shall be promptly removed by GRANTEE upon expiration of the Temporary Staging Easement.

c. GRANTEE shall at all times keep the Staging Easement Areas in safe and clean condition; and GRANTEE shall not deposit or scatter or allow the depositing or scattering of any type of waste, broken equipment, used cans or containers, or other debris, but shall keep the Staging Easement Areas free and clear of all such refuse. Prior to the Operations Date, Grantee shall clean up the Staging Easement Areas and render the surface of the land to as near as reasonably practicable to the state existing on the Effective Date.

d. The three Staging Easement Areas shall not exceed a total area of fourteen acres. All marketable timber cleared by GRANTEE from the 4-acre Staging Easement Area shall be handled in accordance with the terms of Section 5 below.

TO HAVE AND TO HOLD the aforementioned rights, privileges and easements (sometimes hereinafter collectively referred to as the "**Easement**") unto the said GRANTEE, its successors and assigns, subject to the conditions herein contained. It is specifically understood and agreed by GRANTOR that the Easement may be used by GRANTEE, its successors and assigns, to access and serve portions of the Wind Power Project located on lands not owned by GRANTOR, and that the Wind Power Project may be located entirely on lands not owned by GRANTOR.

It is expressly agreed that the Easement is granted and accepted subject to the following stipulations by which GRANTEE hereby agrees to be bound:

1. GRANTOR shall have free access to use the Facilities Easement Property, the Access Easement Property, the Sound Easement Property and the Staging Easement Areas (sometimes hereinafter collectively referred to as the "Easement Property") in a manner not inconsistent with and not curtailing the rights of the GRANTEE expressed herein, including the right to cross the same at will, provided such use shall not injure or interfere with the proper construction, operation, maintenance,

repair of, extensions or additions to GRANTEE'S facilities on the Facilities Easement Property, but specifically excluding the use of GRANTEE'S facilities, buildings and other structures, equipment and personal property. Notwithstanding anything to the contrary contained herein: (a) any portion of the Facilities Easement Property used by GRANTEE as a buffer zone required by any regulatory permits or approvals may be used only in accordance with such permits or approvals; (b) that portion of the Facilities Easement Property used for the Substation shall be subject to the exclusive use by GRANTEE; and (c) except for new utility installations for crossings as hereinafter permitted, GRANTOR may not grant similar rights to construct, maintain, repair, replace, or operate utility lines within portions of the Facilities Easement Property used for Power Lines to any other party. GRANTOR reserves the right to construct, use and maintain new utility installations crossing portions of the Facilities Easement Property used for Power Lines, and to grant to others easements or licenses for such crossings; provided, however, that (i) any such utility installation shall be made at a location and at an angle approved by GRANTEE, which approval shall not be unreasonably withheld, delayed or conditioned, (ii) any such crossing or installation shall be used and maintained in such manner as will not unreasonably interfere with or impair the operations of GRANTEE'S Power Lines, or the exercise by GRANTEE of any of its rights under this Easement, (iii) the use and maintenance of any such crossing or installation shall be consistent with the requirements of applicable federal, state, or local codes, rules or ordinances and commonly accepted utility practice, and (iv) any work related to such crossing or installation (including any alterations or improvements to GRANTEE'S structures or apparatus necessitated by such crossing or installation, as reasonably determined by GRANTEE) shall be performed at the sole cost and expense of the party proposing the crossing or installation.

2. As consideration for the rights granted herein, GRANTEE agrees to pay GRANTOR the following amounts during the Term (as defined in Section 15 herein):

2.1 [Redacted from this recordable Short Form – see complete Easement Agreement]

2.2 [Redacted from this recordable Short Form – see complete Easement Agreement]

2.3 If any person to whom GRANTEE is not then paying fees or other charges pursuant to this Section 2 shall demand payment from GRANTEE alleging a right to receive such fees or charges as a result of an assignment or transfer of GRANTOR's interest hereunder or otherwise, GRANTEE shall not be obligated to honor such demand unless GRANTEE shall receive written instructions to do so from the person to

whom GRANTEE is then paying fees or charges, or shall otherwise receive evidence reasonably satisfactory to GRANTEE of the right of the person making the demand. The withholding of fees or charges by GRANTEE from a party claiming to be the assignee or transferee, pending the determination of the right of the party making the demand, shall not be deemed to be a default on the part of GRANTEE.

2.4 Concurrently with execution hereof, and as a condition to the execution hereof, GRANTOR and GRANTEE have executed that certain Wind Energy Easement regarding the real property described therein, for which a Short Form shall be recorded together herewith in the Franklin County Registry of Deeds. Pursuant to the terms of said Wind Energy Easement, GRANTEE may install wind turbine generators on the lands of GRANTOR defined therein.

3. GRANTEE shall comply with all laws and ordinances and with the rules and regulations of any codes of Federal, State or local authority applicable to the use of the Easement Property, including, but not limited to, the Endangered Species Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Clean Water Act, and the Clean Air Act. GRANTEE agrees to construct its lines in accordance with the clearance requirements provided by the National Electric Safety Code and install its equipment in accordance with the requirements of any local, state, or federal laws of regulations applicable thereto. GRANTEE agrees that GRANTEE'S Power Lines shall be constructed in such a manner so that the Power Lines at their lowest sag point will provide at all times a minimum clearance from the ground to the line of eighteen feet (18').

4. It is understood and agreed by and between the parties hereto that as further consideration for the Easement granted hereunder, GRANTEE does hereby release and discharge during the time this grant is in force the GRANTOR from any and all liability, claim or demand which GRANTEE may have or claim to have now or hereafter against GRANTOR by reason of any damages to GRANTEE'S facilities on the Easement Property, resulting from, arising out of or in any manner associated with any forestry operation, provided that such forestry operation is conducted by GRANTOR within the applicable forestry industry standards, excluding those situations in which such liability, claim, damage or loss is caused by the GRANTOR'S or it's employees, agents or contractors active negligence or failure to act in accordance with applicable laws, regulations, or forestry industry standards. GRANTEE further agrees to indemnify, defend, and hold GRANTOR, its agents and employees harmless from any and all liability, claims, damages and losses, including attorneys' fees and court costs. which may result from GRANTEE'S failure to abide by any laws or regulations and from injury to any person or property caused by GRANTEE's use of and/or activities and operations in connection with the Easement, or any and all liability whatsoever which

GRANTOR may suffer by reason of GRANTEE's installations, maintenance, construction or use of the Easement Property, excluding those situations in which such liability, claim, damage or loss is caused by the GRANTOR'S, or it's employees, agents or contractors, active negligence or failure to act in accordance with said laws or regulations.

5. All marketable timber located on the Easement Property shall remain the property of GRANTOR, and GRANTOR may salvage for its account all or so much of the forest products from the Easement Property as it desires, except that after issuance to GRANTEE of regulatory permits or approvals for the Power Lines, the Substation, the construction of roads or other Easement activities during the Term hereof, clearing of the Facilities Easement Property to be used by GRANTEE for the Power Lines, the Substation, or as a buffer zone required by any such regulatory permits or approvals, and clearing of the Access Easement Property to be used by GRANTEE for roads, shall be conducted exclusively by GRANTEE. All marketable timber shall remain the property of GRANTOR and if requested by GRANTOR, GRANTEE shall deliver all marketable timber that it clears from the Facilities Easement Property or from the Access Easement Property to GRANTOR, stacked alongside a roadway located on property of GRANTOR, within one (1) mile from the location cut if reasonably possible. GRANTEE shall dispose of the forest products not delivered to GRANTOR from such areas in such manner that there will be no increased fire or bug hazard to the timber of GRANTOR on or near the Easement Property or defacement of the timber or other property of GRANTOR.

6. GRANTEE agrees and covenants to pay GRANTOR, at the then market value, for any of GRANTOR'S timber located outside of the Facilities Easement Property or the Access Easement Property that is destroyed or damaged from acts or omissions of GRANTEE, its employees, agents, or contractors, at any time during the period this grant of Easement is in force. All stumps, brush, limbs or other debris of any kind, having no value as timber, pulpwood or biomass, which GRANTEE desires to clear from the Easement Property, shall be disposed of in such manner that there will be no increased fire or bug hazard to the timber of GRANTOR on or near the Easement Property or defacement of the timber or other property of GRANTOR. Except as required pursuant to Section 5 above, no stumps, brush, trees, limbs or other debris of any kind shall be placed, piled or burned on other property of GRANTOR.

7. GRANTOR and GRANTEE understand and agree that GRANTEE'S Power Lines to be constructed within the Facilities Easement Property are for the purpose of collecting or transmitting electric energy. It is understood and agreed between the parties hereto that if after the Power Lines are completed, GRANTEE'S Power Lines are no longer utilized for such purpose for a period of two (2) consecutive years, GRANTEE

then agrees to remove at GRANTEE'S sole expense all of GRANTEE'S facilities (not including roadways) from the Facilities Easement Property within twelve (12) months from the expiration of said two (2) year period. Further, GRANTEE agrees to quitclaim the Easement obtained hereunder to GRANTOR immediately after GRANTEE'S facilities have been removed from the Facilities Easement Property.

8. Except as hereinbefore set forth in Section 1, the rights granted herein are nonexclusive and GRANTOR reserves the right to grant rights of way, easements and servitudes to others upon, over and across the Easement Property; provided that any such rights granted to others do not interfere with or curtail GRANTEE's utilization of the rights granted to it herein. GRANTOR does not have the right to grant to others any use of GRANTEE'S facilities, and any right of way, easement or servitude granted by GRANTOR which grants to others the right to place or construct anything upon, over and across the Facilities Easement Property shall be subject to the prior written consent of GRANTEE, which consent shall not be unreasonably withheld or delayed.

9. GRANTEE shall obtain and, during periods of use of this Easement, maintain a policy of liability insurance in a form and by an insurance company with a minimum A.M. Best rating of B+ VI, and is otherwise acceptable to GRANTOR. Coverage requirements shall be as follows:

[Redacted from this recordable Short Form – see complete Easement __ Agreement]

10. GRANTEE shall have the right to terminate the Easement as to all of the Easement Property at any time and without cause, *provided that*, if such termination by GRANTEE occurs after the Operations Date then GRANTEE shall give GRANTOR one (1) year prior written notice of such termination. Upon any termination of this Easement, GRANTEE shall execute and cause to be acknowledged and recorded in the Official Records of the county where the Easement Property is located, a quitclaim deed describing with particularity the Easement Property to which it applies. Notwithstanding the above, the Easement shall not terminate as to any portion of the Easement Property until such time as the GRANTEE has removed GRANTEE'S facilities (not including roadways) from the Facilities Easement Property and restored the Facilities Easement Property to as near as reasonably practicable to its state and condition of productivity as it existed on the Effective Date.

11. If GRANTEE fails to perform its obligations hereunder (an **"Event of Default"**), then GRANTEE shall be in default hereunder unless GRANTEE cures such Event of Default within thirty (30) business days for any monetary Event of Default or within forty five (45) days for any non-monetary Event of Default after receiving written notice from the GRANTOR stating with particularity the nature of such Event of Default

(a "Notice of Default"); provided, however, that for non-monetary Events of Default only, if the nature or extent of the obligation or obligations is such that more than forty five (45) days are required for performance of such obligation(s), then the GRANTEE shall not be in default if it commences such performance within such forty five (45) day period and thereafter pursues the cure to completion.

11.1 A waiver by GRANTOR of any Event of Default under this Easement shall not prevent the right of GRANTOR to enforce its rights under this Easement for any other cause, or for the same cause occurring at any other time. The receipt by GRANTOR from GRANTEE of payments after the occurrence of any Event of Default shall not be deemed a waiver of GRANTOR'S right of enforcement, so long as the Event of Default continues to exist. Receipt and acceptance by GRANTOR of any amounts tendered by GRANTEE shall not constitute an agreement by GRANTOR that the amounts are the proper amounts due or a waiver of GRANTOR'S claims for greater amounts. All payments by GRANTEE to GRANTOR shall apply on the items longest past due, and the receipt of any such payment shall not be a waiver of any remedy available to GRANTOR with respect to items which remain uncured after crediting the payments.

11.2 As a precondition to exercising any rights or remedies as a result of any Event of Default by GRANTEE, GRANTOR shall give the Notice of Default to up to three (3) Easement Mortgagees for whom GRANTOR has received written notice of the Easement Mortgagee's name and address from GRANTEE concurrently with delivery of such Notice of Default to GRANTEE.

11.3 Should an Event of Default remain uncured by GRANTEE beyond the applicable cure period set forth above then GRANTOR shall have and shall be entitled to exercise any and all remedies available to it at law or in equity, including the termination of this Easement, all of which remedies shall be cumulative; provided however that the remedy of termination may only be exercised by GRANTOR by giving a second written notice to GRANTEE, in which event this Easement shall be terminated and canceled on the date that is forty five (45) days after the giving of such termination notice, provided that if GRANTEE shall cure the specified default within said forty five (45) day period then such termination notice shall be nullified and this Easement shall remain in full force and effect (subject to all other remedies available to GRANTOR hereunder).

12. Use herein of the terms GRANTOR and GRANTEE is understood to refer to the principals named herein and shall be construed to include the successors or assigns of either or both.

13. This grant of Easement is made without warranty of title and subject to any and all easements, rights of way, oil and gas leases and/or servitudes, of whatever kind or nature, which may be presently of record or visible by a physical inspection of the Easement Property. To the knowledge of GRANTOR there are no unrecorded liens, encumbrances, leases, mortgages, deeds of trust (except as disclosed to GRANTEE in writing), that are not reasonably discoverable or visible by a physical inspection of the Easement Property. On the Effective Date hereof, PLUM CREEK agrees to deliver to GRANTEE an affidavit regarding liens in the form attached hereto as Exhibit "D." GRANTOR DOES NOT MAKE ANY WARRANTIES, EXPRESS OR IMPLIED, THAT THE EASEMENT PROPERTY SUBJECT TO THIS GRANT OF EASEMENT CAN BE USED FOR ANY PURPOSE WHATSOEVER.

14. GRANTEE, its successors and assigns, shall have the right to do any of the following: sell, convey, lease, assign or transfer (collectively, a "Transfer") to a person or entity (an "Assignee") any or all of GRANTEE's right or interest in the Easement or any part thereof or interest herein, and the same shall be divisible, assignable and transferable among any two or more such owners as to any right or rights created hereunder. Notwithstanding any such Transfer, GRANTEE shall remain liable for the performance of its obligations hereunder unless released from such obligations by GRANTOR in writing, which release shall not be unreasonably withheld, conditioned or delayed by GRANTOR so long as the Assignee has a net worth reasonably sufficient to ensure the performance of the obligations of GRANTEE hereunder. GRANTEE shall notify GRANTOR in writing at least thirty (30) days in advance of any such Transfer, and any such Assignee shall assume in writing the obligations of GRANTEE hereunder with respect to the interest transferred.

15. The term of this grant of Easement shall begin on the Effective Date and shall continue for a period of forty (40) years after the Operations Date (the "**Term**") provided that this Easement shall automatically terminate in the event that the Operations Date has not occurred prior to the fifth (5th) anniversary of the Effective Date. If requested by GRANTEE, GRANTOR shall execute and deliver a memorandum of the Operations Date that may be recorded.

16. GRANTEE shall pay (i) any real or personal property taxes, assessments and other governmental charges levied or assessed by any governmental authority (collectively, "**Charges**") upon the Power Lines and the Substation installed on the Facilities Easement Property by GRANTEE, and (ii) any increase in the Charges against the Facilities Easement Property attributable to any reclassification of the Facilities Easement Property as a result of the Power Lines or the Substation, or this Easement. Except as provided in the foregoing sentence, GRANTEE shall not be responsible for paying any Charges attributable to (a) improvements or facilities

installed by GRANTOR on the Easement Property or (b) the underlying value of the Easement Property. If GRANTOR pays any Charges that are the responsibility of GRANTEE hereunder, GRANTEE shall repay to GRANTOR the amount thereof within thirty (30) days of receipt of written demand, which written demand shall include sufficient proof of the amount due and the responsible party.

17. GRANTEE shall keep the Easement Property free and clear of all liens and claims of liens for labor and services performed on, and materials, supplies, or equipment furnished to, the Easement Property in connection with GRANTEE's use of the Easement Property pursuant to the Easement; provided, however, that if GRANTEE wishes to contest any such lien, GRANTEE shall, within sixty (60) days after it receives notice of the filing of such lien, remove or bond over such lien from the Property pursuant to applicable law.

GRANTOR shall keep the Easement Property free and clear of (a) all liens and claims of liens for labor and services performed on, and materials, supplies, or equipment furnished to, the Easement Property in connection with GRANTOR's use of the Easement Property, and (b) any tax lien or other lien superior to this Easement which could materially adversely affect the use and enjoyment of the Easement Property in accordance with the terms of this Easement that arises from the act or omission of GRANTOR; provided, however, that if GRANTOR wishes to contest any such lien, GRANTOR shall, within sixty (60) days after it receives notice of the filing of such lien, remove or bond over such lien from the Easement Property pursuant to applicable law. Without limiting the generality or effectiveness of the foregoing provisions in any way, it is hereby specifically agreed and provided that if GRANTOR shall fail to discharge or bond off to the satisfaction of GRANTEE, within thirty (30) days after written demand by GRANTEE, any mechanic's or materialman's lien, tax lien, or other lien or attachment against the Easement Property, or any portion thereof, which is superior to this Easement and that arises from the act or omission of GRANTOR, GRANTEE shall have the right to bond the lien off or to pay such amounts to the holder(s) of any such lien or attachment as shall be necessary to cause the same to be released and discharged, and the amounts paid by GRANTEE may be deducted by GRANTEE from the next installment or next several installments of Annual Payments payable hereunder until such amounts have been fully recovered by GRANTEE. The good faith deduction of payments actually made by GRANTEE in accordance with the provisions hereof shall not constitute a default by GRANTEE in the payment of Annual Payments or in the performance of its obligations hereunder unless GRANTEE shall fail to pay the amount of such deduction together with any interest due thereon to GRANTOR within thirty (30) days after a final adjudication that such amount is due and owing to GRANTOR.

18. GRANTOR shall provide reasonable assistance and cooperation to GRANTEE, at no out-of-pocket expense to GRANTOR, in complying with or obtaining any land use permits and approvals, building permits, environmental impact reviews or any other approvals required for the construction, installation, monitoring, replacement, relocation, maintenance, operation or removal of the Power Lines or the Substation, including execution of applications for such approvals, and including participating in any appeals or regulatory proceedings respecting the Power Lines or the Substation. Nothing in this Section shall be construed to require GRANTOR to join in a permit application as an operator or permit holder or have a permit issued in GRANTOR'S name, provided that, if requested by GRANTEE, GRANTOR will be a co-applicant with GRANTEE for any application to the Maine Land Use Regulation Commission for zoning approval and a development plan or permit for the Wind Power Project and will consent to the waiver of any set-back requirements applicable to the Wind Power Project.

GRANTOR, at its expense, shall: (a) comply in all material respects with valid and applicable laws, ordinances, statutes, orders, and regulations of any governmental agency applicable to its use of the Easement Property, (b) obtain from all governmental agencies having jurisdiction and keep in force all necessary permits for its operations and furnish and keep in force all bonds required to be given for GRANTOR's operations. and (c) comply in every respect with the laws of the State of Maine and its political subdivisions and the United States of America; provided that GRANTOR shall not be liable to GRANTEE for failure to satisfy any of the foregoing obligations except to the extent such failure creates losses, costs, expenses, damages or liabilities for GRANTEE. GRANTOR shall have the right, in its sole discretion, to contest by appropriate legal proceedings, the validity or applicability to the Easement Property of any law, ordinance, statute, order, regulation, property assessment, or the like now or hereafter made or issued by any federal, state, county, local or other governmental agency or entity. Any such contest or proceeding shall be controlled and directed by GRANTOR.

19. Any notice required or permitted to be given hereunder shall be in writing and shall be deemed properly given on a date personally delivered by messenger service, overnight courier service or telecopy (facsimile) transmission, or three (3) days after same is deposited with the United States Postal Service by registered or certified mail, postage prepaid, return receipt requested, to the parties at the following address or telecopy/facsimile numbers: If to GRANTOR:

Plum Creek Maine Timberlands, L.LC. Energy & Natural Resources Department One Concourse Parkway, Suite 755 Atlanta, GA 30328 Facsimile: (770) 730-7273

With Copy to: Plum Creek Maine Timberlands, L.LC. Plum Creek Timberlands, L.P. Law Department One Concourse Parkway, Suite 755 Atlanta, GA 30328 Facsimile: 770-671-0211

To GRANTEE: TransCanada Maine Wind Development Inc. 110 Turnpike Road, Ste 203 Westborough, MA 01581 Attention: Director of Marketing Facsimile: (508) 898-0433

With a copy to: TransCanada Maine Wind Development Inc. 110 Turnpike Road, Ste 203 Westborough, MA 01581 Attention: Legal Department Facsimile: (508) 898-0433

Any Party may change its address for purposes of this paragraph by giving written notice of such change to the other parties in the manner provided in this paragraph.

20. If either party hereto is required to retain an attorney to enforce any provision of this Easement, whether or not a legal proceeding is commenced, the substantially prevailing party shall be entitled to reasonable attorneys' fees regardless of whether at trial, on appeal, in any bankruptcy proceeding, in arbitration or without resort to suit.

21. In the event any portion of this grant of Easement should be held to be invalid by any court of competent jurisdiction, such holding shall not affect the remaining provisions hereof unless the court's ruling includes a determination that the principal purpose and intent of this easement are thereby defeated.

22. EXCEPT AS PROHIBITED BY LAW, EACH PARTY HERETO WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION (ACTION, PROCEEDING OR COUNTERCLAIM) DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS GRANT OF EASEMENT, ANY DOCUMENT OR AGREEMENT ENTERED INTO IN CONNECTION HEREWITH AND ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

23. The parties to this Easement execute the same solely as a GRANTOR and GRANTEE. No partnership, joint venture or joint undertaking shall be construed from these presents, and except as herein specifically provided, neither party shall have the right to make any representation for, act on behalf of, or be liable for the debts of the other. All terms, covenants and conditions to be observed and performed by either of the parties hereto shall be joint and several if entered into by more than one person on behalf of such party, and a default by any one or more of such persons shall be deemed a default on the part of the party with whom said person or persons are identified. No third party is intended to be benefited by this grant of Easement.

24. Both parties have reviewed this grant of Easement and each party has had the opportunity to consult with independent counsel with respect to the terms hereof and has done so to the extent that such party desired. No stricter construction or interpretation of the terms hereof shall be applied against either party as the drafter hereof.

25. Except for the aforementioned Wind Energy Easement between GRANTOR and GRANTEE (to be recorded at the Franklin County Registry of Deeds), the complete version of this instrument contains the entire agreement of the parties and there are no representations, inducements or other provisions other than those expressed in writing. All changes, additions, or deletions hereto must be in writing and signed by all parties.

26. This grant of Easement shall be interpreted and construed under the laws of the State of Maine.

27. GRANTOR and GRANTEE have executed a complete version of this Easement Agreement of even date herewith, and have executed this Short Form for the

purpose of providing constructive notice of the complete Easement Agreement. In the event of any conflict between the provisions of this Short Form and the provisions of the complete Easement Agreement, the provisions of the complete Easement Agreement shall control. GRANTOR hereby consents to the recordation of the interest of an Assignee in the Easement Property.

IN WITNESS WHEREOF, the parties have caused their corporate names and seals to be affixed hereto by their duly authorized officers on this 1st day of December 2009 (the "**Effective Date**").

GRANTOR: M.CREEK MAINE TIMBERLANDS, LLC. PLI By: Russel S Hagen Name Vice President, Energy, Renewables Title: and Natural Resources

ATTEST: <u>MUD 170</u> Name: Sheri L. Ward Title: Assistant Secretary

SEAL

(CORPORATE SEAL)

Ward , ¹.

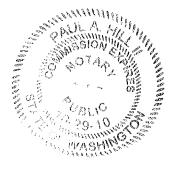
ACKNOWLEDGMENT

STATE OF WASHINGTON

COUNTY OF KING

On this 1st day of December 2009, before me personally appeared Russell S. Hagen and Sheri L. Ward, to me known to be the Vice-President, Energy, Renewables and Natural Resources and Assistant Secretary respectively, of Plum Creek Maine Timberlands, L.L.C., limited liability company that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited liability company for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of the limited liability company and that the seal affixed is the seal of said limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.



Notary Public in and for the State of <u>Washington</u> Residing at <u>Seattle</u> My Commission Expires <u>10/29/2010</u> Printed Name <u>Paul A. Hill II</u> GRANTEE:

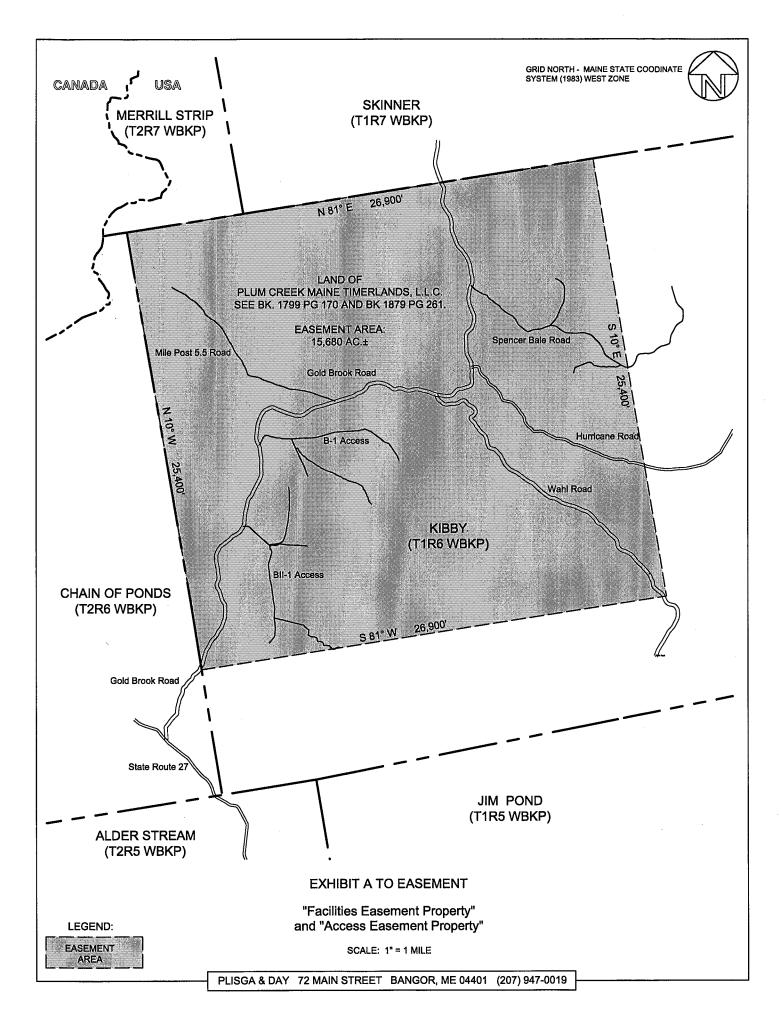
TRANSCANADA MAINE WIND DEVELOPMENT INC By: Wittian Taylor Name: Vice President Title: By: Name: Mike Hacheu Vice President Title:

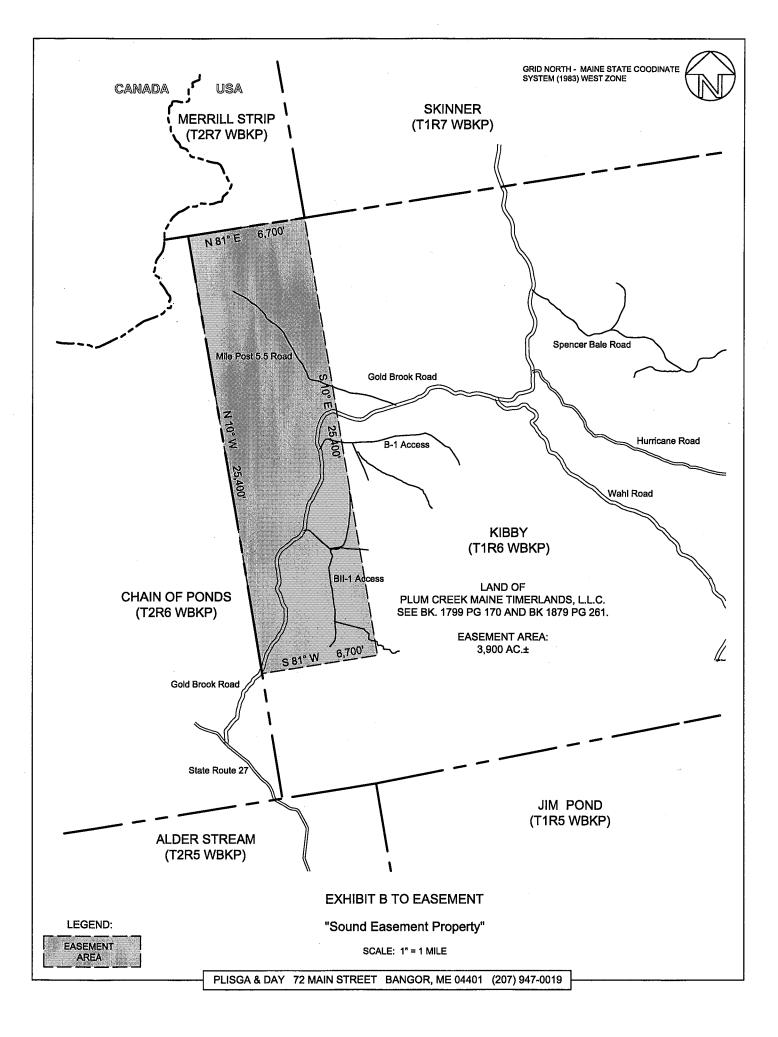
ACKNOWLEDGEMENT

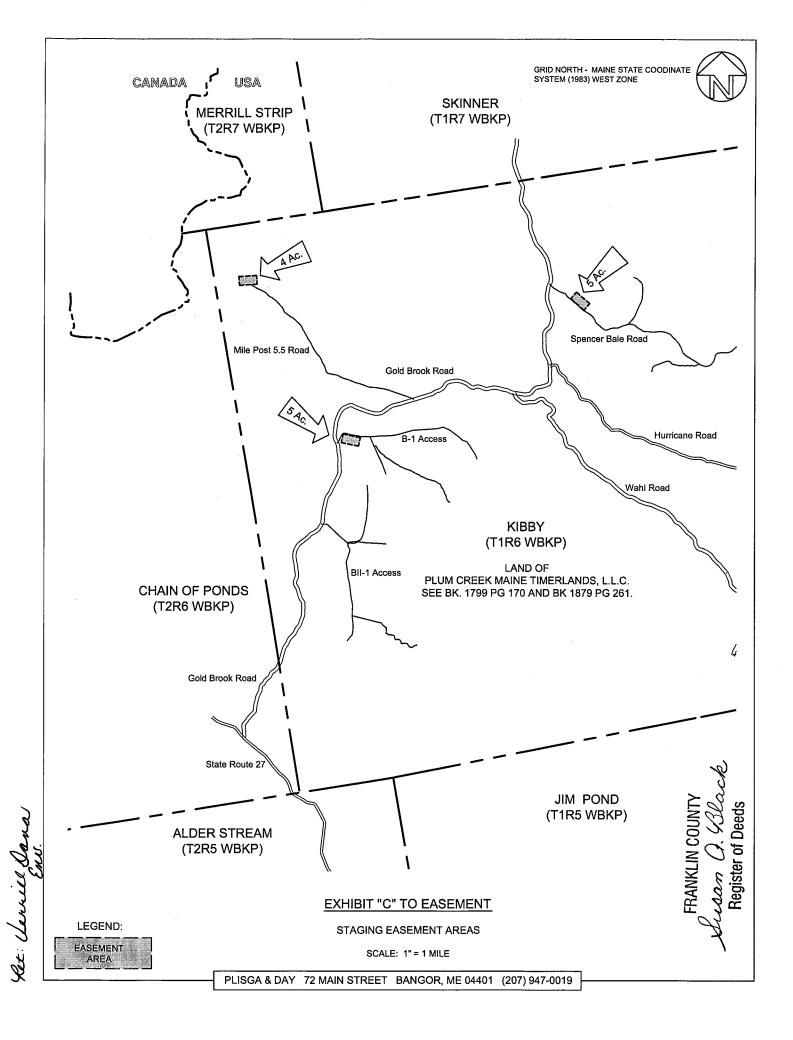
STATE OF MOSSICHUSEHS COUNTY OF WORLESTER

BEFORE ME, the undersigned Notary Public in and for said County and State, on this the 30^{14} day of November, 2009, personally came and appeared 10^{14} and 10^{16} , to me personally well known, who declared and acknowledged that he/she is the identical person who executed the foregoing instrument in writing, being authorized to do so; that his signature thereto is his own true and genuine signature, and that he executed said instrument in his/her capacity as 1^{16} and 1^{16} and

Jura K. Murdu Notary Public in and for the State of Massachusetts Residing at Worcester County, Shreusbury My Commission Expires 3. 2520







ATTACHMENT B.5-2

KWF and Plum Creek Underlying Deeds

QUITCLAIM DEED WITH COVENANT

SP FORESTS L.L.C., a Delaware limited liability company, and **INTERNATONAL PAPER COMPANY**, both having a principal place of business at 400 Atlantic Street, Stamford, CT 06921("Grantor"), for consideration paid, grants to **KENNEBEC WEST FOREST LLC**, a Delaware limited liability company having a place of business at 40 Rowes Wharf, Boston, MA 02110 ("Grantee"), with quitclaim covenant, those certain lots, parcels and tracts of land, together with any easements, covenants and other rights appurtenant thereto, in **Franklin County, Maine**, more particularly described in **Exhibit_A** attached hereto and made a part hereof. International Paper Company joins herein for the sole purpose of granting certain rights of way described in Exhibit A.

PROVIDED that there is hereby reserved to Grantor, its successors and assigns, and excepted from this conveyance, certain road easements more particularly described on Exhibit A attached hereto and made a part hereof.

IN WITNESS WHEREOF, the said SP Forests L.L.C. has caused this deed to be signed and sealed by its duly authorized representative as of this $\underline{-36^{m}}$ day of $\underline{-December}$, 2004.

Witness:

SP FORESTS L.L.C. a Delaware limited liability company

Karaleen m Willemin

By: 7. here flum

Printed Name: E. Wayne Plummer Vice President Title:

State of Maine

Date (Acerula 302004 7. ulayae Jummer

Cumberland County

Personally appeared the above-named

me the foregoing instrument to be his free act and deed in his said capacity and the free act and deed of said limited liability company.

EDWARD D. LEONARD III

Print or type name as written Commission Expires: _____

Maine Real Estate Transfer Tax Paid

Witness:

Kathleen m Willerin

a New York Corporation By:_

INTERNATIONAL PAPER COMPANY

Frinted Name: <u>Altorney-In-Fact</u> STitle: E. Wayne Plummer

State of Maine

Cumberland County

Date: Monchen 30 2004

Public/Attorney-at-Law Notarv

Print or type name as written Commission Expires:

Exhibit A

to Quitclaim Deed with Covenant Grantor: SP Forests L.L.C. & Sustainable Forests L.L.C. Grantee: Kennebec West Forest LLC

Franklin County, Maine

Certain lots, parcels and tracts of land, together with any easements, covenants and other rights appurtenant thereto, in **Franklin County, Maine,** more particularly described as follows:

Tract 1: Chain of Ponds Township, Township 2, Range 6 WBKP, Franklin County, Maine

That portion of the premises conveyed in a deed from ITT Rayonier Incorporated to International Paper Company dated December 8, 1980, recorded in Franklin County Registry of Deeds, Book 640, Page 134, as lies in Township 2 Range 6 WBKP.

Excepting and reserving from the above described parcel of land the following:

1. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation dated July 12, 1985, and recorded in the Franklin County Registry of Deeds in Book 841, Page 276.

2. The premises described in Notices of Layout and Taking by the State of Maine dated June 26, 2002, March 26, 2003, and March 26, 2003, and recorded in the Franklin County Registry of Deeds in Book 2156, Page 293, Book 2272, Page 52, and Book 2272, Page 65, respectively.

3. The premises described in an unrecorded Notice of Layout and Taking by the State of Maine dated April 8, 2003.

4. The premises conveyed in a deed from SP Forests, LLC to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in Book 2539, Page 43.

The above described parcel of land is conveyed subject to the following:

1. Rights described in an unrecorded Notice of Layout and Taking by the State of Maine dated April 8, 2003.

2. Terms and conditions to a Conservation Easement as set forth in an instrument dated December 1, 2004, and recorded in Book 2539, Page 1.

3. Rights and easements granted to The Megantic Fish and Game Corporation in an instrument dated December 1, 2004, and recorded in said Registry in Book 2539, Page 63.

4. Rights and easements granted to The Megantic Fish and Game Corporation in an instrument dated December 1, 2004, and recorded in said Registry in Book 2539, Page 71.

Tract 2: Chesterville, Franklin County, Maine

Parcel 1: The premises conveyed in the deed from Clyde F. Wheeler to International Paper Company dated September 13, 1965, recorded in Franklin County Registry of Deeds in Book 395, Page 139.

<u>Parcel 2:</u> The premises conveyed in the deed from Maurice C. Toothaker to International Paper Company dated November 18, 1965, recorded in Franklin County Registry of Deeds in Book 397, Page 1.

Parcel 3: The premises conveyed in the deed from Zibean F. Butterfield to International Paper Company dated March 1, 1966, recorded in Franklin County Registry of Deeds in Book 397, Page 88.

<u>Parcel 4</u>: The same premises conveyed in a deed from Grace S. Weeks to International Paper Company dated March 1, 1966, recorded in Franklin County Registry of Deeds in Book 397, Page 89.

<u>Parcel 5:</u> The premises conveyed in the deed from Lawrence V. Webber to International Paper Company dated March 1, 1966, recorded in Franklin County Registry of Deeds in Book 397, Page 91.

<u>Parcel 6</u>: The premises conveyed in the deed from Clyde F. Wheeler, et als, to International Paper Company dated June 23, 1966, recorded in Franklin County Registry of Deeds in Book 399, Page 286.

Parcel 7: The premises conveyed in the deed from Abraham Isaacson, et als, to International Paper Company dated November 1, 1967, recorded in Franklin County Registry of Deeds in Book 410, Page 88.

Excepting and reserving from the above described premises so much thereof in Chesterville, Maine, as was conveyed by:

1. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 63.

- 2. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 56.
- 3. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 42.
- 4. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 59.
- 5. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 66.
- 6. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 45.

The above described parcels of land are conveyed subject to the following:

Easement from SP Forests L.L.C., to Michael J. Coburn dated November 18, 2002, recorded in Franklin County Registry of Deeds in Book 2213, Page 282.

Tract 3: Coplin Plantation, Franklin County, Maine

Parcel 1: The premises located in Coplin Plantation conveyed by the deed from Hudson Pulp and Paper Corporation to International Paper Company dated October 30, 1973, recorded in the Franklin County Registry of Deeds in Book 465, Page 273.

<u>Parcel 2</u>: The premises conveyed by the deed from Roderick Dyer to IP Timberlands Operating Company, Ltd. dated June 16, 1992, recorded in said Registry in Book 1303, Page 231.

Parcel 3: The premises conveyed by the deed from Georgia-Pacific Corporation to IP Timberlands Operating Company, Ltd. dated June 24, 1992, recorded in said Registry in Book 1303, Page 229.

Excepting and reserving from the above-described premises the following:

1. Out conveyance to Hudson Pulp & Paper Corporation in an instrument dated April 1, 1965, and recorded in said Registry in Book 390, Page 316.

2. The premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated December 14, 1987, and recorded in said Registry in Book 1016, Page 306.

3. The premises conveyed in the deed from IP Timberlands Operating Company, Ltd. to Roderic Dyer dated June 15, 1992, and recorded in said Registry in Book 1293, Page 117.

4. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to Roderic Dyer dated June 15, 1992, and recorded in said Registry in Book 1376, Page 1.

The above-described property is conveyed subject to:

1. Terms and conditions of a Lease to Hudson Pulp and Paper Corporation dated February 7, 1974, and recorded in said Registry in Book 473, Page 425.

2. IP Timberlands Operating Company, Ltd. to Boise Cascade, et al., dated June 1, 1985, recorded in said Registry in Book 865, Page 228.

3. IP Timberlands Operating Company, Ltd. to Stratton Energy Associates, dated April 24, 1987 recorded at said registry in Book 1028, Page 170.

4. IP Timberlands Operating Company, Ltd. to Stratton Energy Associates, dated April 28, 1988 recorded in said Registry in Book 1028, Page 179, as amended by Amendment of Easement and Right of Way, dated June 12, 1990, and recorded in said Registry in Book 1222, Page 294.

5. IP Timberlands Operating Company, Ltd. to Georgia-Pacific Corporation, dated February 19, 1992 recorded in said Registry in Book 473, Page 425.

6. Terms and conditions of a Lease to Georgia Pacific Resins, Inc., dated February 20, 1992, and recorded in said Registry in Book 1341, Page 194.

7. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 4: Eustis, Franklin County, Maine

<u>Parcel 1</u>: The premises located in the Town of Eustis conveyed by a deed from Hudson Pulp & Paper Corp. to International Paper Company, dated October 30, 1973, recorded in Franklin County Registry of Deeds in Book 465, Page 270.

Parcel 2: The premises located in the Town of Eustis conveyed by a deed from Hudson Pulp & Paper Corp. to International Paper Company dated November 1, 1973, recorded in Franklin County Registry of Deeds in Book 835, Page 994.

Excepting and reserving from the above-described premises the following:

- 1. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated September 1, 1982, recorded in said Registry in Book 708, Page 137.
- 2. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated September 1, 1982, recorded in said Registry in Book 708, Page 140.
- 3. Out conveyance to Guy C. Grant in an instrument dated April 26, 1983, and recorded in said Registry in Book 740, Page 273.
- 4. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated May 5, 1994, recorded in said Registry in Book 1451, Page 049.
- 5. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated May 5, 1994 recorded in said Registry in Book 1451, Page 053.
- 6. The premises conveyed by the deed from International Paper Company to James L. Brochu dated June 20, 2001, recorded in said Registry in Book 2022, Page 281.

The above-described property is conveyed together with the benefit of the rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Grantor also hereby grants to Grantee, Grantee's employees, agents, contractors, lessees, licensees, successors and assigns, a certain non-exclusive sixty-six (66) foot wide rights of ways (ROW), as measured thirty-three (33) feet equidistant from the centerline of existing gravel roads located on International Paper Company's lands in Eustis, Franklin County, for all purposes of a way, including but not limited to ingress and egress to conduct natural resource management, forest management, timber harvesting and hauling operations, camp and residential development access, and energy and telecommunication utilities, for the benefit of Grantees' lands acquired from SP Forests L.L.C. by deed of even date herewith located in Franklin County, now presently acquired and owned or hereinafter acquired, over and across the IP Road from **Point A to B to C** and across an unnamed artery extending northerly from the IP

Road from **Point B to Point D**, both as shown in bold line on the Conveyed ROW map attached hereto as **Exhibit C**.

The above-described property is conveyed subject to:

- 1. An unrecorded easement conveyed by International Paper Company to Central Maine Power dated November 5, 1982.
- 2. A miscellaneous unrecorded agreement between IP Timberlands Operating Company, Ltd., and US. WINDPOWER INC., dated December 21, 1992.
- 3. An unrecorded easement conveyed by IP Timberlands Operating Company, LTD., to Stratton Energy Associates dated April 24, 1987.
- 4. Rights and easements granted to Rocco E. Risbara, Jr., and Marcia Risbara in an instrument dated August 22, 1986, and recorded in Book 921, Page 105.
- 5. Rights and easements granted to Rocco E. Risbara, Jr., and Marcia Risbara in an instrument dated August 22, 1986, and recorded in Book, 921, Page 105.
- 6. Boundary line agreement as set forth in instruments dated December 19, 1985, and January 22, 1986, and recorded in Book 881, Page 100, and Book 881, Page 101.
- 7. Terms and conditions of deed from Inhabitants of Eustis to IP Timberlands Operating Company, Ltd. dated October 16, 1989, and recorded in Book 1133, Page 116, and deed from IP Timberlands Operating Company, Ltd. to Inhabitants of Eustis dated October 25, 1989, and recorded in Book 1133, Page 13.
- 8. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 5: Farmington, Franklin County, Maine

Parcel 1: The premises conveyed by a deed from Lawrence V. Webber to International Paper Company dated June 22, 1965, recorded in Franklin County Registry of Deeds in Book 391, Page 413.

<u>Parcel 2</u>: The premises conveyed by a deed from Hammermill Paper Co. to IP Timberlands Operating Company, Ltd. dated April 30, 1987, and recorded in said Registry in Book 262, Page 49.

<u>Parcel 3</u>: The premises conveyed by a deed from Robert W. Mayo to International Paper Company dated December 17, 1999, recorded in said Registry in Book 1900, Page 139.

Parcel 4: The premises conveyed by a deed from William N. Osborne et al to SP Forests, L.L.C. dated December 29, 2000, recorded in said Registry in Book 1978, Page 305, subject to rights and easements reserved by said deed. The above-described property is conveyed subject to:

- 1. Rights and easements reserved by William N. Osborne, et. al., in the deed from William Osborne, et. al to SP Forests L.L.C. dated December 29, 2000, and recorded in said Registry in Book 1978, Page 305.
- 2. Certificate of Cross Claims in an action by Perry A. Lamb in Farmington, SP Forests, L.L.C., et. al., Franklin County Superior Court Docket # CV-99-029, recorded in said Registry in Book 1953, Page 296, as affected by an Order dated November 15, 2001, and recorded in said Registry in Book 2100, Page 273, with respect to certain roads in Farmington, Maine.
- 3. Rights and easements reserved in an instrument by and between Lawrence V. Webber and International Paper Company, dated June 22, 1965, and recorded in said Registry in Book 391, Page 413.
- 4. Rights of Cousineau Lumber, Inc. reserved in the deed from Robert W. Mayo to International Paper Company dated December 17, 1999, and recorded in Book 1900, Page 139.

Tract 6: Industry, Franklin County, Maine

Parcel 1: The premises conveyed by a deed from Marquis R. Neil and Nellie J. Neil to International Paper Company dated October 19, 1965, and recorded in Franklin County Registry of Deeds in Book 395, Page 215.

<u>Parcel 2</u>: The premises conveyed by a deed from the Municipality of Industry to I.P. Timberlands dated July 12, 2000, and recorded in Franklin County Registry of Deeds in Book 1859, Page 198.

Tract 7: Township 1, Range 5 WBKP (Jim Pond Township)

The premises conveyed are described in the deed from Evergreen Timberlands Corporation to International Paper Company dated December 19, 1980, and recorded in the Franklin County Registry of Deeds in Book 642, Page 132 and the deed from the State of Maine to International Paper Company dated September 16, 1985, and recorded in said Registry in Book 862, Page 4.

Excepting and reserving, from the above described premises the following:

- 1. A lot of land conveyed by International Paper Company to Merrill and Fountain Club (formerly Merrill Rod and Reel Club) by deed dated November 23, 1981, and recorded in said Registry in Book 676, Page 222.
- 2. All dams, booms, piers, etc. conveyed by the Kennebec Reservoir Company to Central Maine Power Co. by instrument dated December 16, 1949, and recorded in Book 851, Page 591 of said Registry of Deeds.

The premises hereby conveyed are conveyed subject to the following:

- 1. Flowage rights conveyed by the Kennebec Reservoir Company to Central Maine Power Co. by instrument dated December 16, 1949, and recorded in said Registry in Book 851, Page 591.
- 2. A right of way conveyed to Merrill and Fountain Club, in said deed recorded in Book 676, Page 222.
- 3. An unrecorded option agreement between IP Timberlands Operating Company, Ltd. and U.S. Windpower Inc. dated December 21, 1992, having a term of three years.
- 4. A Lease between International Paper Company and MRRC Inc. dated August 21, 1981, and recorded in said Registry in Book 668, Page 106 and assigned to King & Bartlett, Inc. by assignment dated October 9, 1991, as amended by amendment to lease dated October 17, 1991, between IP Timberlands Operating Company, Ltd. and King & Bartlett Inc. to expire September 30, 2006.
- 5. An unrecorded right of way easement granted by IP Timberlands Operating Company, LTD. to the State of Maine Dept. of Transportation dated November 8, 1996.
- 6. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 8: Kingfield, Franklin County, Maine

The premises conveyed are described in the deed from Ruth G. Wing to International Paper Company dated June 4, 1966, and recorded in the Franklin County Registry of Deeds in Book 397, Page 283.

Excepting and reserving, from the above-described premises the following:

Out conveyance from Earl L. Wing, Executor to Ruth G. Wing in an instrument dated November 11, 1960, and recorded in said Registry in Book 363, Page 153.

The above described premises are conveyed together with the rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 9: Massachusetts Gore, Franklin County, Maine

That portion of the premises conveyed in the deed from ITT Rayonier Incorporated to International Paper Company dated December 8, 1980, and recorded in Franklin County Registry of Deeds in Book 640, Page 134, as lies in Massachusetts Gore.

The above described property is conveyed together with:

- 1. The rights and easements reserved by SP Forests L.L.C. in its deed to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43.
- 2. The rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

The above described property is conveyed subject to:

- 1. The Boundary Headwaters Conservation Easement granted by SP Forests L.L.C. and International Paper Company to the Forest Society of Maine dated December 1, 2004, and recorded in said Registry in Book 2539, Page 1.
- 2. The rights and easements contained in the deed from SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43.
- 3. The Right of Way Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in the Franklin County Registry of Deeds in Book 2539, Page 63.
- 4. The Recreation Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 71.
- 5. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 10: New Sharon, Franklin County, Maine

Parcel 1: The premises in New Sharon, Maine conveyed in the deed of Mary K. Snow to International Paper Company dated April 26, 1965, and recorded in Franklin County Registry of Deeds in Book 390, Page 306, subject to rights and easements reserved by said Mary K. Snow in said deed.

<u>Parcel 2</u>: The premises in New Sharon, Maine conveyed in the deed of Maurice A. Taylor to International Paper Company dated May 25, 1965, and recorded in said Registry in Book 391, Page 369.

Parcel 3: The premises in New Sharon, Maine conveyed in the deed of Owen W. Smith to International Paper Company dated April 25, 1966, and recorded in said Registry in Book 397, Page 167.

Excepting and Reserving from said Parcel 3:

- 1. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation dated May 5, 1994, and recorded in said Registry in Book 1451, Page 70.
- 2. The premises conveyed in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated May 5, 1994, and recorded in Franklin County Registry of Deeds, Book 1451, Page 73.

Tract 11: Rangeley, Franklin County, Maine

<u>Parcel 1</u>: The premises conveyed in the unrecorded deed from John Reed to The American Realty Company dated June 2, 1917.

Excepting and reserving the premises described in the deed from International Paper Company to Eugene M. Vaughn, et al, dated August 26, 1942, and recorded in Franklin County Registry of Deeds in Book 280, Page 547.

Parcel 2: The premises conveyed in the deed from Rumford Falls Paper Company to International Paper Company dated January 31, 1898, and recorded in said Registry in Book 139, Page 262.

Parcel 3: The premises conveyed in the deed from John A. Decker to International Paper Company dated November 28, 1900, and recorded in said Registry in Book 152, Page 512.

<u>Parcel 4</u>: The premises conveyed in the deed from John A. Decker to International Paper Company dated April 14, 1902, and recorded in said Registry in Book 153, Page 306, subject to the terms and conditions of said deed.

<u>Parcel 5</u>: The premises conveyed in the deed from Frederick S. Dickson to International Paper Company dated December 30, 1903, and recorded in said Registry in Book 156, Page 363.

Excepting and reserving from the above described Parcel 5 the following:

- 1. The premises described in the deed from International Paper Company to Frederick S. Dickinson dated February 4, 1904, and recorded in said Registry in Book 156, Page 364.
- 2. The premises described in a deed from International Paper Company to the State of Maine dated March 30, 1960, and recorded in said Registry in Book 361, Page 473.

<u>Parcel 6</u>: The premises conveyed in the Supreme Judicial Court judgment in favor of International Paper Company recorded in said Registry in Book 221, Page 508.

<u>Parcel 7</u>: The premises conveyed in the deed from Donald C. Morton to International Paper Company dated March 28, 1956, and recorded in said Registry in Book 338, Page 503.

Excepting and reserving from the above described Parcels 1 through 7 the following:

- 1. Premises described in the deed from International Paper Company to John A. Decker dated May 27, 1903, and recorded in said Registry in Book 152, Page 503.
- 2. Premises described in the deed from International Paper Company to Claude Stevens, et al, dated March 28, 1946, and recorded in said Registry in Book 297, Page 3.
- 3. Premises described in the deed from International Paper Company to Rumford Falls & Rangeley Lakes Railroad Company dated May 15, 1902, and recorded in said Registry in Book 152, Page 81.
- 4. Premises described in the deed from International Paper Company to John A. Decker dated May 27, 1903, and recorded in said Registry in Book 152, Page 506.
- 5. Out conveyance to Oquossoc Light and Power Company in an instrument dated September 13, 1939, and recorded in said Registry in Book 272, Page 87.

- 6. Out conveyance to the State of Maine in an instrument dated July 23, 1973, and recorded in said Registry in Book 463, Page 207.
- 7. Out conveyance to Louis B. Thalheimer, dated June 2, 1980, and recorded in said Registry in Book 624, Page 257.
- 8. Notice of Taking by the State of Maine, recorded on December 20, 1979, in said Registry in Book 579, Page 170.
- 9. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation in an instrument dated December 14, 1987, and recorded in said Registry in Book 1016, Page 301.
- 10. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation in an instrument dated December 14, 1987, and recorded in said Registry in Book 1016, Page 323.
- 11. Premises described in the deed from IP Timberlands Operating Company, Ltd., to Town of Rangeley dated August 31, 1989, and recorded in said Registry in Book 1119, Page 256.
- 12. Mineral rights described in the deed from International Paper Company to Town of Rangeley dated August 31, 1989, and recorded in said Registry in Book 1119, Page 259.
- 13. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated November 30, 1990, and recorded in said Registry in Book 1205, Page 254.
- 14. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated November 30, 1990, and recorded in said Registry in Book 1205, Page 250.
- 15. Terms and conditions of an instrument between Commonwealth of Massachusetts and William W. Gilbert and Lawrence Garrett recorded in said Registry in Book 20, Page 95.

The above described Parcels 1-7 are conveyed together with the benefit of the rights of way and rights contained in a Deed of Easement granted by Six Rivers Limited Partnership, et al. to SP Forests L.L.C. and International Paper Company of substantially even or near date herewith, to be recorded in said Registry of Deeds.

The above described Parcels 1-7 are conveyed subject to the following:

1. Terms and conditions of a Certificate of Judgment against Harry A. Whiting, et. al., dated June 15, 1922, and recorded in said Registry in Book 221, Page 508.

- 2. Terms and conditions of a Lease Agreement by and between International Paper Company and the Town of Rangeley in an instrument dated March 12, 1985, and recorded in said Registry in Book 824, Page 154.
- 3. Rights and easements granted to Forest Glen Associates in an instrument dated July 5, 1988, and recorded in Book 1042, Page 111.
- 4. The rights of way and rights contained in a Deed of Easement granted by SP Forests L.L.C. and International Paper Company to Six Rivers Limited Partnership, et al. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 12: Seven Ponds Township (Township 3, Range 5, WBKP)

That portion of the premises conveyed in the deed from ITT Rayonier Incorporated to International Paper Company dated December 8, 1980, and recorded in Franklin County Registry of Deeds in Book 640, Page 134, as lies in Township 3 Range 5 WBKP.

Excepting and reserving from the above described parcel:

- 1. That portion conveyed by the deed from SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 36, being a parcel of 34 acres, more or less.
- 2. That portion conveyed by the deed from SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43, and described therein as Parcels 2 and 3.

The above described property is conveyed with the benefit of:

- 1. The rights and easements reserved by SP Forests L.L.C. in its said deed to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43.
- 2. The rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

The above described parcel of land is conveyed subject to the following:

1. Memorandum of Agreement between Brown Company and Callahan Mining Corporation, et als, dated April 5, 1972, and recorded in said Registry of Deeds in Book 574, Page 278.

- 2. Memorandum of Exploration and Mining Lease Agreement between Brown Company and Houston Oil & Minerals Corporation dated August 1, 1977, and recorded in said Registry in Book 979, Page 20.
- 3. Terms and conditions as to the Boundary Headwaters Conservation Easement granted by SP Forests L.L.C. and International Paper Company to the Forest Society of Maine dated December 1, 2004, and recorded in said Registry in Book 2539, Page 1.
- 4. The Right of Way Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 63.
- 5. The Recreation Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 71.
- 6. The rights and easements conveyed by SP Forests L.L.C. in its said deeds to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 36 and Book 2539 and Page 43.
- 7. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 13: Temple, Franklin County, Maine

<u>Parcel 1</u>: The premises conveyed by the deed from Carroll J. Macomber to International Paper Company, dated April 12, 1965, and recorded in Franklin County Registry of Deeds in Book 391 Page 373, subject to rights and easement reserved in said deed.

Parcel 2: The premises conveyed by the deed from Marquis R. Neil to International Paper Company dated April 12,1965, and recorded in said Registry in Book 391, Page 375.

Excepting and reserving from the above-described premises:

So much thereof in Temple, Maine, as was conveyed by a deed from IP Timberlands Operating Company, Ltd., to International Paper Realty Corporation dated March 14,1985, and recorded in said Registry in Book 1205, Page 262.

Tract 14: Township E, Franklin County, Maine

Parcel 1: The premises conveyed by a deed from Otis Falls Pulp Company to International Paper Company, dated February 3, 1898, and recorded in Franklin County Registry of Deeds in Book 139, Page 137.

Parcel 2: The premises conveyed by the deed from Umbagog Pulp Company to International Paper Company dated January 21, 1898, and recorded in said Registry in Book 139, Page195.

<u>Parcel 3</u>: The premises conveyed by a deed from E. E. Richards to International Paper Company dated July 9,1901, and recorded in said Registry in Book 144, Page 341.

Parcel 4: The premises conveyed by a deed from E. E. Richards, Administrator of the Estate of Josiah F Prescott, to International Paper Company dated July 9,1901, and recorded in said Registry of Deeds in Book 117, Page 343.

Excepting and reserving from the above-described premises so much thereof in Township E, Maine, as was conveyed by:

- 1. The deed from International Paper Company to Harvey C. Wheeler dated April 2, 1934, and recorded in said Registry in Book 315, Page 35.
- 2. The indenture of release from International Paper Company to Harvey C. Wheeler dated May 25, 1934, and recorded in said Registry in Book 255, Page 409.
- 3. Notice of Taking by the State of Maine Highway Commission, recorded on October 29, 1935, and recorded in said Registry in Book 259, Page 132.
- 4. The deed from Amelia G. Wheeler and Beatrice W. O'Connor to Carl S. Wheeler and Monica Wheeler in an instrument dated November 26, 1948, and recorded in said Registry in Book 315, Page 37.
- 5. The deed from Carl S. Wheeler and Monica M. Wheeler to Jean Sikora dated May 31, 1958, and recorded in said Registry in Book 359, Page 97.
- 6. Out conveyance to the State of Maine in an instrument dated November 21, 1977, and recorded in said Registry in Book 537, Page 84.
- 7. Out conveyance to the State of Maine in an instrument dated November 21, 1977, and recorded in said Registry in Book 537, Page 108.
- 8. Out conveyance to the State of Maine in an instrument dated July 6, 1978, and recorded in said Registry in Book 568, Page 164.

- 9. The deed from International Paper Company to United States of America dated June 26, 1985, and recorded in said Registry of Deeds in Book 837, Page 281.
- 10. The deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated May 5, 1994, and recorded in said Registry in Book 1500, Page 235.

The above-described property is conveyed subject to:

- 1. An easement conveyed by International Paper Company to Rangeley Power Company dated August 11, 1960, and recorded in said Registry in Book 366, Page 366.
- 2. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 15: Wyman Township (Township 4, Range 3, BKP WKR)

The premises conveyed by a deed from Hudson Pulp and Paper Corporation to International Paper Company dated November 1, 1973, recorded in Franklin County Registry of Deeds in Book 465, Page 273.

The above described premises are conveyed subject to:

Rights and easements granted to Stratton Energy Association in an instrument dated April 28, 1988, and recorded in said Registry in Book 1028, Page 179.

The following pertain to all of the premises hereby conveyed.

The above described property is conveyed subject to and with the benefit of an unrecorded Crossing Rights Agreement among James River Corporation, International Paper Company, et al. dated December 8, 1980, as amended by the First Amendment to Crossing Rights Agreement recorded in the Franklin County Registry of Deeds on December 4, 1985 in Book 865, Page 228.

Excepting and reserving from this conveyance all minerals, mineral rights, subsurface materials, extractable subsurface materials or deposits, owned by Grantor's parent company, International Paper Company, all mineral leases held by International Paper Company and all royalties, rentals, and other payments relating to said minerals, as reserved in its deed to IP Timberlands Operating Company, LTD. dated March 14, 1985, and recorded in the Franklin County Registry of Deeds in Book 850, Page 160, and as may have been previously reserved or conveyed, and conveying the premises subject to all rights reserved by International Paper in said deed, including, without limitation, full rights of ingress and egress and use of the surface to the extent

reasonably necessary for the purposes of exploring drilling, mining (including shaft, in situ, open pit, surface or strip mining) developing, producing, removing, transporting and owning all of said minerals and mineral rights.

The premises hereby conveyed are also conveyed subject to, with the benefit of, or there is excepted from this conveyance, as appropriate, all real estate or rights therein, if any, including without limitation, flowage rights, rights of way, easements, licenses, leases, including without limitation, commercial, recreational and camp leases, and permits conveyed of record by the Grantor herein or Grantors' predecessors in interest and all real estate or rights therein, if any, acquired by the exercise of the power of eminent domain by the State of Maine or any political subdivision thereof or any other quasi-municipal or public utility entity having the power of eminent domain, which may be of record but not specifically referred to herein.

Excepting and reserving to the Grantor, International Paper Company, their respective affiliates, successors and assigns, from the property herein conveyed, the right to cross and recross the property herein conveyed for all purposes including, but not limited to, access to other lands of Grantor, International Paper Company, or their respective affiliates, now owned or hereafter acquired, whether contiguous or non-contiguous.

Also excepting and reserving from this conveyance all great ponds, and the property underlying said great ponds, falling in whole or in part within the property herein conveyed. Hereby conveying, however, as appurtenant to the above-described property, any right, title or interest that the Grantor may ever be determined to hold in or to said great ponds, or the property underlying said great ponds.

In addition to the matters set forth in the foregoing descriptions, the premises hereby conveyed are conveyed subject to the Permitted Encumbrances set forth in Exhibit B attached hereto and made a part hereof.

It is the parties' intent to convey and there is hereby conveyed any and all interest in timberlands, as distinguished from offices and mills and real estate appurtenant to said office and mills, in the above described towns, whether or not said timberlands or interests therein are specifically described herein, and specifically excluding the International Paper Company Woodyard premises in Farmington described in the deed from Robert Mayo to International Paper Company dated December 17, 1999, and recorded in said Registry in Book 1900, Page 139, its Stratton Office premises reserved in the deed from International Paper Company to IP Timberlands Operating Company, Ltd. dated March 14, 1985, and recorded in Book 850, Page 160, and its tower site located on premises reserved in the deed from International Paper Company dated September 1, 1982, and recorded in Book 708, Page 140.

It is also the parties' intent to except and reserve, and there is hereby excepted and reserved, any and all lands or interests therein which have been previously conveyed by SP Forests L.L.C. or its predecessors in title, including, but not limited to, Maine

Seaboard Paper Company, American Realty Company., Winn Water & Power Company, Umbagog Paper Company, St. Regis Paper Company, Champion International Corporation, and International Paper Company, whether or not of record or specifically excepted herein.

Exhibit B

to

Quitclaim Deed with Covenant Grantor: SP Forests L.L.C. & Sustainable Forests L.L.C. Grantee: Kennebec West Forest LLC

The Property hereby conveyed is subject to the following matters of title (collectively, the "Permitted Exceptions"):

(i) Rights, if any, relating to the construction and maintenance in connection with any public utility of wires, poles, pipes, conduits and appurtenances thereto, on, under or across the Property;

(ii) Restrictions on Grantee's ability to build upon or use the Property imposed by any current or future development standards, building or zoning ordinances or any other law or regulation of any governmental authority;

(iii) Rights of parties in possession and any state of facts which an accurate survey or an inspection of the Property would reveal, including, but not limited to, the location of boundary lines, improvements and encroachments, if any;

(iv) All outstanding easements, servitudes, rights-of-way, flowage rights, restrictions, licenses, leases, reservations, covenants and all other rights in third parties of record or acquired through prescription or adverse possession;

(v) The current year's taxes assessments, and other charges of any kind or nature imposed upon or levied against or on account of the Property by any governmental authority, which are not yet due and payable but are liens on the Property;

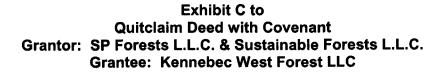
(vi) All previous reservations, exceptions and conveyances of the oil, gas, associated hydrocarbons, minerals and mineral substances, and royalty and other mineral rights and interests;

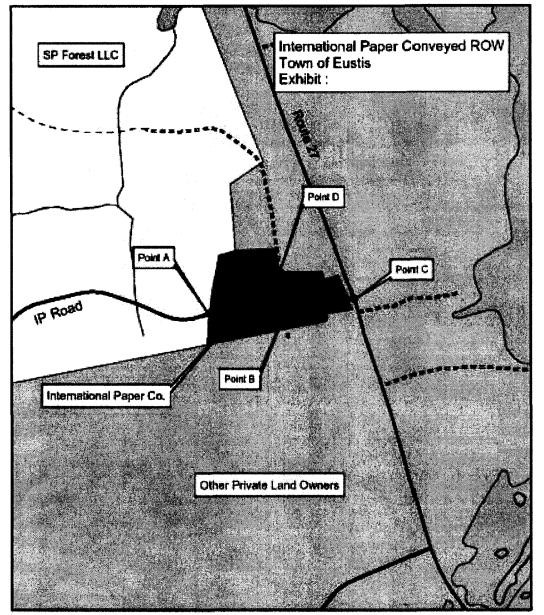
(vii) All claims of governmental authorities in and to any portion of the Property lying in the bed of any streams, creeks or waterways or Great Ponds, or other submerged lands or land now or formerly subject to the ebb and flow of tidal waters or any claims of riparian rights;

(viii) Any and all restrictions on use of the Property due to environmental protection laws, including, without limitation, wetlands protection laws, rules, regulations and orders;

(ix) Other standard title exceptions in the State of Maine shown on Schedule B-1 to the Lawyers Title Insurance Corporation title insurance commitment obtained by Grantee (other than as to mechanics and suppliers liens); and

(x) such other matters disclosed on Grantee's Lawyers Title Insurance Corporation title insurance commitment obtained by Grantee to which Grantee either does not object or agrees to accept.











FRANKLIN COUNTY Lusan Q. Black Register of Deeds

Eustis, Franklin County, December 2004

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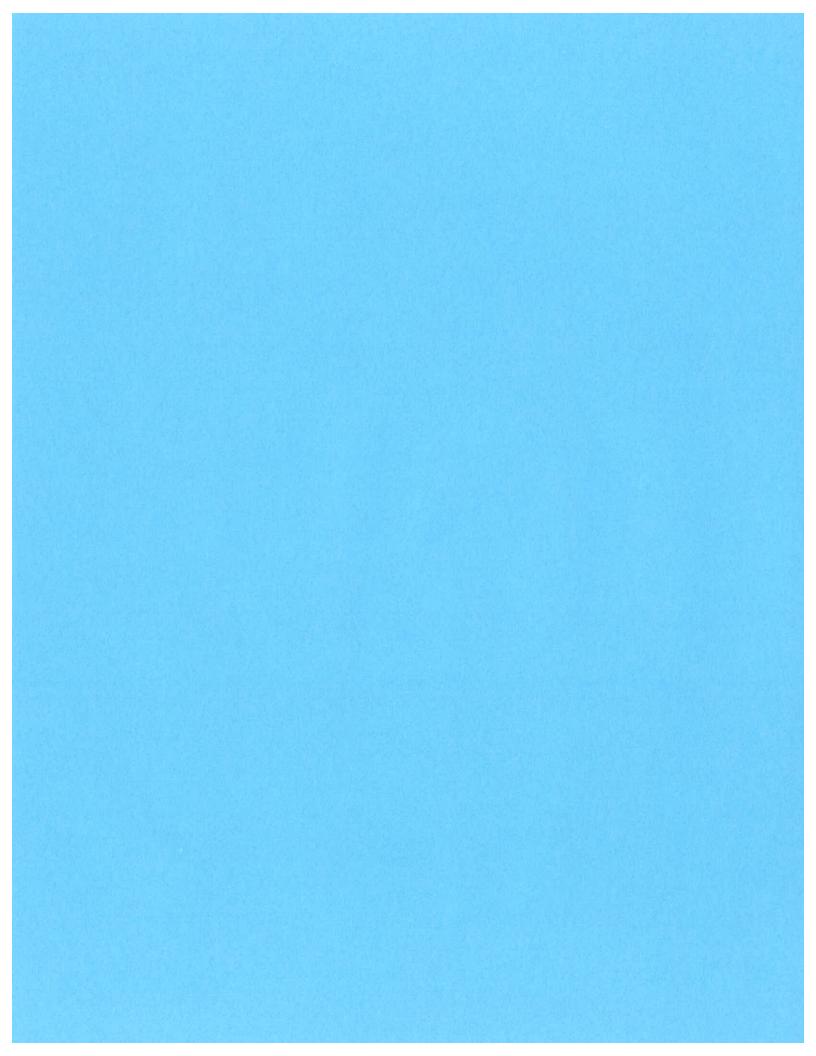
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QUITCLAIM DEED

INTERNATIONAL PAPER COMPANY, ("Grantor") a corporation organized and existing under the laws of the State of New York and having a place of business at 400 Atlantic Street, Stamford, CT 06921, its successors and assigns, for consideration of One Dollar (\$1.00) and other valuable consideration paid, grants to **KENNEBEC WEST FOREST LLC**, a Delaware limited liability company having a place of business at 40 Rowes Wharf, Boston, MA 02110 ("Grantee"), Grantee's successors and assigns, with quitclaim covenant, the following:

All right, title and interest to any and all mineral substances, as defined below presently owned by Grantor in the property located in **Franklin County, Maine**, more particularly described in **Exhibit A** attached hereto, together with the full and exclusive executive rights to lease such substances.

All the oil, gas, associated hydrocarbons, lead, zinc, copper, coal, coal seam gas, lignite, peat, sulphur, phosphate, iron ore, sodium, salt, uranium, thorium and other fissionable materials, molybdenum, vanadium, titanium, ilmenite, rutile, leucoxene, zircon, gold, silver, bauxite, granite, limestone, bedrock of any kind or character, kaolin and other clays, sand, gravel, aggregate and other mined or quarried stone or rock materials, industrial minerals, geothermal energy and all other mineral substances and ore deposits of any kind or character, whether solid, liquid or gaseous, and without limitation by enumeration of the minerals expressly mentioned herein, in, on, or under any of the land described in Exhibit A, and all executive rights and other rights to execute leases presently owned or held by Grantor, if any, with respect to the interests of any other parties in any or all said minerals in, on or under any of said land described in Exhibit A, together with the rights of ingress and egress and use of the surface to the extent reasonably necessary for the purposes of exploring, drilling, mining (including shaft, in situ, open pit, surface or strip mining), developing, producing, removing, transporting and owning all of minerals and mineral rights.

This conveyance is subject to all outstanding oil, gas, and other mineral and/or royalty rights, interests and leases shown of record on any of said property, if any such outstanding mineral rights appear of record. Grantor reserves no rights to mine, remove, consume, or to require or to prevent the removal or consumption of geologic or mineral resources as to the premises conveyed.

In witness whereof, INTERNATIONAL PAPER COMPANY has caused this deed to be signed and sealed in its corporate name by its duly authorized undersigned representative this ____29th_ day of _December__, 2004.

Maine Real Estate Transfer Tax Not Necessary

Witness:

INTERNATIONAL PAPER COMPANY A New York corporation

theen In Willemin

By: Printed Name: E. Wayne Plumme.

rauker 07,2004

Title: Httomay - in - fac

Date:

STATE OF MAINE

Cumberland County

Personally appeared the above-named _____

(Name) International Paper Company and acknowledged Horney in tal (Title)

before me the foregoing instrument to be his free act and deed in his said capacity and

the free act and deed of said International Paper Company.

Notary Public/Attomey-at-Law

EDWARD D. LEONARD III

Print or type name as written

Notary Commission Expires:_____

Exhibit A

То

Quitclaim Deed Grantor: International Paper Company Grantee: Kennebec West Forest LLC

Franklin County

The premises which are the subject of this mineral conveyance are the same premises conveyed by SP Forests L.L.C. to the Grantee herein by deed of substantially even date herewith.

Certain lots, parcels and tracts of land, together with any easements, covenants and other rights appurtenant thereto, in **Franklin County, Maine,** more particularly described as follows:

<u>Tract 1: Chain of Ponds Township, Township 2, Range 6 WBKP, Franklin County,</u> <u>Maine</u>

That portion of the premises conveyed in a deed from ITT Rayonier Incorporated to International Paper Company dated December 8, 1980, recorded in Franklin County Registry of Deeds, Book 640, Page 134, as lies in Township 2 Range 6 WBKP.

Excepting and reserving from the above described parcel of land the following:

1. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation dated July 12, 1985, and recorded in the Franklin County Registry of Deeds in Book 841, Page 276.

2. The premises described in Notices of Layout and Taking by the State of Maine dated June 26, 2002, March 26, 2003, and March 26, 2003, and recorded in the Franklin County Registry of Deeds in Book 2156, Page 293, Book 2272, Page 52, and Book 2272, Page 65, respectively.

3. The premises described in an unrecorded Notice of Layout and Taking by the State of Maine dated April 8, 2003.

4. The premises conveyed in a deed from SP Forests, LLC to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in Book 2539, Page 43.

Further excepting and reserving the minerals on the following described tracts:

Mineral Reservation Tract 2: Beginning at a point in Chain of Ponds Township, on the northerly line of Route 27, at coordinate North 5,024,768.0; East 366,587.7 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone

19; thence N 33° 13' 00" W, through land of SP Forest L.L.C., a distance of 194.6 meters to a point; thence N 19° 32' 15" E, through land of SP Forest L.L.C., a distance of 106.0 meters to a point; thence N 22° 28' 00" W, through land of SP Forest L.L.C., a distance of 286.5 meters to a point; thence N 63° 26' 00" E, through land of SP Forest L.L.C., a distance of 57.6 meters to a point; thence S 42° 20' 00" E, through land of SP Forest L.L.C., a distance of 119.4 meters to a point; thence S 44° 46' 30" E, through land of SP Forest L.L.C., a distance of 119.4 meters to a point; thence S 44° 46' 30" E, through land of SP Forest L.L.C., a distance of 208.6 meters to a point; thence S 03° 20' 45" W, through land of SP Forest L.L.C., a distance of 140.9 meters to a point; thence S 12° 26' 30" W, through land of SP Forest L.L.C., an approximate distance of 185.5 meters to a point on the northerly sideline of said Route 27; said point being approximately S 84° 15' 30" E, a distance of 50.4 meters from the point of beginning of the within described premises; thence in a northwesterly and westerly direction, by and along the northerly line of said Route 27, to the point of beginning of the within described premises, encompassing 18.9 acres, more or less.

Mineral Reservation Tract 15: Beginning at a point in Chain of Ponds Township, along the northerly line of Route 27, at coordinate North 5,026,084.5; East 363,011.5 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence N 39° 31' 15" E, through land of SP Forest L.L.C., a distance of 123.5 meters to a point; thence N 01° 17' 30" E, through land of SP Forest L.L.C., a distance of 300.5 meters, more or less, to a point along the northerly boundary line of Chain of Ponds Township and the southerly boundary line of Coburn Gore, so called; thence N 82° 48' 45" E, by and along said township boundary line, a distance of 432.8 meters to a point along said township boundary line; thence S 23° 49' 15" E, through land of SP Forest L.L.C., a distance of 174.6 meters to a point; thence S 15° 45' 00" E, through land of SP Forest L.L.C., a distance of 193.1 meters to a point; thence S 01° 53' 15" E, through land of SP Forest L.L.C., an approximate distance of 145.4 meters to a point along the northerly sideline of said Route 27; said point being approximately S 86° 20' 15" E, a distance of 643.8 meters from the point of beginning of the within described premises; thence in a northwesterly and westerly direction, by and along the northerly line of said Route 27, to the point of beginning of the within described premises, encompassing 49.0 acres, more or less.

This description is derived from coordinates scaled from mapping referenced to Zone 19, Universal Transverse Mercator (UTM) Coordinate System of 1927. It is the intent of this description that courses and distances from the coordinate value given will define the location, length and direction of the easement limits except where those limits coincide with boundaries established by physical monuments or record boundaries.

The above described parcel of land is conveyed subject to the following:

- 1. Rights described in an unrecorded Notice of Layout and Taking by the State of Maine dated April 8, 2003.
- 2. Terms and conditions to a Conservation Easement as set forth in an instrument dated December 1, 2004, and recorded in Book 2539, Page 1.

- 3. Rights and easements granted to The Megantic Fish and Game Corporation in an instrument dated December 1, 2004, and recorded in said Registry in Book 2539, Page 63.
- 4. Rights and easements granted to The Megantic Fish and Game Corporation in an instrument dated December 1, 2004, and recorded in said Registry in Book 2539, Page 71.

Tract 2: Chesterville, Franklin County, Maine

Parcel 1: The premises conveyed in the deed from Clyde F. Wheeler to International Paper Company dated September 13, 1965, recorded in Franklin County Registry of Deeds in Book 395, Page 139.

<u>Parcel 2:</u> The premises conveyed in the deed from Maurice C. Toothaker to International Paper Company dated November 18, 1965, recorded in Franklin County Registry of Deeds in Book 397, Page 1.

Parcel 3: The premises conveyed in the deed from Zibean F. Butterfield to International Paper Company dated March 1, 1966, recorded in Franklin County Registry of Deeds in Book 397, Page 88.

Parcel 4: The same premises conveyed in a deed from Grace S. Weeks to International Paper Company dated March 1, 1966, recorded in Franklin County Registry of Deeds in Book 397, Page 89.

<u>Parcel 5:</u> The premises conveyed in the deed from Lawrence V. Webber to International Paper Company dated March 1, 1966, recorded in Franklin County Registry of Deeds in Book 397, Page 91.

<u>Parcel 6:</u> The premises conveyed in the deed from Clyde F. Wheeler, et als, to International Paper Company dated June 23, 1966, recorded in Franklin County Registry of Deeds in Book 399, Page 286.

<u>Parcel 7</u>: The premises conveyed in the deed from Abraham Isaacson, et als, to International Paper Company dated November 1, 1967, recorded in Franklin County Registry of Deeds in Book 410, Page 88.

Excepting and reserving from the above described premises so much thereof in Chesterville, Maine, as was conveyed by:

1. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 63.

- 2. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 56.
- 3. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 42.
- 4. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 59.
- 5. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 66.
- 6. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to International Paper Realty Corporation as to mineral rights dated May 5, 1994, and recorded in Book 1451, Page 45.

Further excepting and reserving the minerals on the following described tracts:

Mineral Reservation Tract 17: Beginning at a point in Chesterville, at the intersection of the thread of McGurdy Stream, so called, and the northerly line of Mercer Road, so called, at approximate coordinate North 4,932,074; East 415,245 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence in a northwesterly direction, by and along the northerly line of said Mercer Road, 485 meters, more or less a westerly corner of land of SP Forest L.L.C.; thence N 03° 55' 30" W, by and along the westerly line of said SP Forest L.L.C. land, a distance of 405.5 meters to a corner of said SP Forest L.L.C. land; thence N 69° 06' 30" W, by and along the line of said SP Forest L.L.C. land, a distance of 319.7 meters to a corner of said SP Forest L.L.C. land; thence N 18° 25' 15" W, by and along the line of said SP Forest L.L.C. land, a distance of 473.3 meters to a corner of said SP Forest L.L.C. land; thence N 78° 05' 30" W, by and along the line of said SP Forest L.L.C. land, a distance of 193.8 meters to a corner of said SP Forest L.L.C. land; thence N 18° 27' 45" W, by and along the westerly line of said SP Forest L.L.C. land, a distance of 94.4 meters to a corner of said SP Forest L.L.C. land; thence N 68° 11' 45" E, by and along the line of said SP Forest L.L.C. land, a distance of 399.8 meters to a corner of said SP Forest L.L.C. land; thence S 46° 31' 00" E, through land of SP Forest L.L.C., a distance of 1425 meters, more or less, to point at the thread of said McGurdy Stream; thence in a southerly direction, by and along the thread of said McGurdy stream to the point of beginning of the within described premises, encompassing 194 acres, more or less.

Mineral Reservation Tract 29: Beginning at a point in Chesterville, at the northerly most corner of a parcel of SP Forest L.L.C. land that lies westerly of a road that runs westerly of Crowell Pond, so called, at approximate coordinate North 4,936,691; East

416,340 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence S 20° 07' 45" E, by and along the boundary line of land of SP Forest L.L.C., a distance of 399 meters, more or less to a corner of land of SP Forest L.L.C.; thence N 76° 35' 00" E, by and along the boundary line of land of SP Forest L.L.C., a distance of 329 meters, more or less, to a corner of said land of SP Forest L.L.C. at the road that runs westerly of Crowell Pond; thence in a southerly direction, by and along the boundary line of land of SP Forest L.L.C. as it follows said road, a distance of 1362 meters, more or less, to a point that said road intersects a road that crosses McGurdy Stream, so called; thence in a westerly and then southwesterly direction, by and along said road to the southerly most corner of said land of SP Forest L.L.C.; thence N 34° 26' 15" W, by and along the boundary line of land of SP Forest L.L.C., a distance of 296 meters, more or less, to a corner of said land of SP Forest L.L.C.; thence S 54° 11' 45" W, by and along the boundary line of land of SP Forest L.L.C., a distance of 248.3 meters, more or less, to a corner of said land of SP Forest L.L.C.; thence N 16° 19' 15" W, by and along the boundary line of land of SP Forest L.L.C., a distance of 452.6 meters, more or less, to a corner of said land of SP Forest L.L.C.; thence N 72° 47' 15" E, by and along the boundary line of land of SP Forest L.L.C., a distance of 444.2 meters, more or less, to a corner of said land of SP Forest L.L.C.; thence N 33° 36' 45" W, by and along the boundary line of land of SP Forest L.L.C., a distance of 253.4 meters, more or less, to a corner of said land of SP Forest L.L.C.; thence S 78° 21' 15" W, by and along the boundary line of land of SP Forest L.L.C., a distance of 370.4 meters, more or less, to a corner of said land of SP Forest L.L.C.; thence N 16° 06' 45" W, by and along the boundary line of land of SP Forest L.L.C., a distance of 900.7 meters, more or less, to a northwesterly corner of said land of SP Forest L.L.C.; thence N 73° 19' 00" E, by and along the northerly boundary line of said land of SP Forest L.L.C., a distance of 848.6 meters, more or less, to the point of beginning of the within described premises, encompassing 382 acres, more or less.

This description is derived from coordinates scaled from mapping referenced to Zone 19, Universal Transverse Mercator (UTM) Coordinate System of 1927. It is the intent of this description that courses and distances from the coordinate value given will define the location, length and direction of the easement limits except where those limits coincide with boundaries established by physical monuments or record boundaries.

The above described parcels of land are conveyed subject to the following:

Easement from SP Forests L.L.C., to Michael J. Coburn dated November 18, 2002, recorded in Franklin County Registry of Deeds in Book 2213, Page 282.

Tract 3: Coplin Plantation, Franklin County, Maine

<u>Parcel 1</u>: The premises located in Coplin Plantation conveyed by the deed from Hudson Pulp and Paper Corporation to International Paper Company dated October 30, 1973, recorded in the Franklin County Registry of Deeds in Book 465, Page 273.

<u>Parcel 2</u>: The premises conveyed by the deed from Roderick Dyer to IP Timberlands Operating Company, Ltd. dated June 16, 1992, recorded in said Registry in Book 1303, Page 231.

Parcel 3: The premises conveyed by the deed from Georgia-Pacific Corporation to IP Timberlands Operating Company, Ltd. dated June 24, 1992, recorded in said Registry in Book 1303, Page 229.

Excepting and reserving from the above-described premises the following:

- 1. Out conveyance to Hudson Pulp & Paper Corporation in an instrument dated April 1, 1965, and recorded in said Registry in Book 390, Page 316.
- 2. The premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated December 14, 1987, and recorded in said Registry in Book 1016, Page 306.
- 3. The premises conveyed in the deed from IP Timberlands Operating Company, Ltd. to Roderic Dyer dated June 15, 1992, and recorded in said Registry in Book 1293, Page 117.
- 4. The premises conveyed in the deed from IP Timberlands Operating Company Ltd. to Roderic Dyer dated June 15, 1992, and recorded in said Registry in Book 1376, Page 1.

The above-described property is conveyed subject to:

- 1. Terms and conditions of a Lease to Hudson Pulp and Paper Corporation dated February 7, 1974, and recorded in said Registry in Book 473, Page 425.
- 2. IP Timberlands Operating Company, Ltd. to Boise Cascade, et al., dated June 1, 1985, recorded in said Registry in Book 865, Page 228.
- 3. IP Timberlands Operating Company, Ltd. to Stratton Energy Associates, dated April 24, 1987 recorded at said registry in Book 1028, Page 179.
- 4. IP Timberlands Operating Company, Ltd. to Stratton Energy Associates, dated April 28, 1988 recorded in said Registry in Book 1028, Page 179, as amended by Amendment of Easement and Right of Way, dated June 12, 1990, and recorded in said Registry in Book 1222, Page 294.
- 5. IP Timberlands Operating Company, Ltd. to Georgia-Pacific Corporation, dated February 19, 1992 recorded in said Registry in Book 473, Page 425.
- 6. Terms and conditions of a Lease to Georgia Pacific Resins, Inc., dated February 20, 1992, and recorded in said Registry in Book 1341, Page 194.

7. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 4: Eustis, Franklin County, Maine

<u>Parcel 1</u>: The premises located in the Town of Eustis conveyed by a deed from Hudson Pulp & Paper Corp. to International Paper Company, dated October 30, 1973, recorded in Franklin County Registry of Deeds in Book 465, Page 270.

Parcel 2: The premises located in the Town of Eustis conveyed by a deed from Hudson Pulp & Paper Corp. to International Paper Company dated November 1, 1973, recorded in Franklin County Registry of Deeds in Book 835, Page 994.

Excepting and reserving from the above-described premises the following:

- 1. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated September 1, 1982, recorded in said Registry in Book 708, Page 137.
- 2. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated September 1, 1982, recorded in said Registry in Book 708, Page 140.
- 3. Out conveyance to Guy C. Grant in an instrument dated April 26, 1983, and recorded in said Registry in Book 740, Page 273.
- 4. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated May 5, 1994, recorded in said Registry in Book 1451, Page 049.
- 5. The premises conveyed by the deed from International Paper Company to International Paper Realty Corporation dated May 5, 1994 recorded in said Registry in Book 1451, Page 053.
- 6. The premises conveyed by the deed from International Paper Company to James L. Brochu dated June 20, 2001, recorded in said Registry in Book 2022, Page 281.

The above-described property is conveyed together with the benefit of the rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Grantor also hereby grants to Grantee, Grantee's employees, agents, contractors, lessees, licensees, successors and assigns, a certain non-exclusive sixty-six (66) foot wide rights of ways (ROW), as measured thirty-three (33) feet equidistant from the centerline of existing gravel roads located on Grantor's lands in Eustis, Franklin County,

for all purposes of a way, including but not limited to ingress and egress to conduct natural resource management, forest management, timber harvesting and hauling operations, camp and residential development access, and energy and telecommunication utilities, for the benefit of Grantees' lands acquired from SP Forests L.L.C. by deed of even date herewith located in Franklin County, now presently acquired and owned or hereinafter acquired, over and across the IP Road from **Point A to B to C** and across an unnamed artery extending northerly from the IP Road from **Point B to Point D**, both as shown in bold line on the Conveyed ROW map attached hereto as **Exhibit C**.

The above-described property is conveyed subject to:

- 1. An unrecorded easement conveyed by International Paper Company to Central Maine Power dated November 5, 1982.
- 2. A miscellaneous unrecorded agreement between IP Timberlands Operating Company, Ltd., and US. WINDPOWER INC., dated December 21, 1992.
- 3. An unrecorded easement conveyed by IP Timberlands Operating Company, LTD., to Stratton Energy Associates dated April 24, 1987.
- 4. Rights and easements granted to Rocco E. Risbara, Jr., and Marcia Risbara in an instrument dated August 22, 1986, and recorded in Book 921, Page 105.
- 5. Rights and easements granted to Rocco E. Risbara, Jr., and Marcia Risbara in an instrument dated August 22, 1986, and recorded in Book, 921, Page 105.
- 6. Boundary line agreement as set forth in instruments dated December 19, 1985, and January 22, 1986, and recorded in Book 881, Page 100, and Book 881, Page 101.
- 7. Terms and conditions of deed from Inhabitants of Eustis to IP Timberlands Operating Company, Ltd. dated October 16, 1989, and recorded in Book 1133, Page 116, and deed from IP Timberlands Operating Company, Ltd. to Inhabitants of Eustis dated October 25, 1989, and recorded in Book 1133, Page 13.
- 8. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 5: Farmington, Franklin County, Maine

Parcel 1: The premises conveyed by a deed from Lawrence V. Webber to International Paper Company dated June 22, 1965, recorded in Franklin County Registry of Deeds in Book 391, Page 413.

<u>Parcel 2</u>: The premises conveyed by a deed from Hammermill Paper Co. to IP Timberlands Operating Company, Ltd. dated April 30, 1987, and recorded in said Registry in Book 262, Page 49.

Parcel 3: The premises conveyed by a deed from Robert W. Mayo to International Paper Company dated December 17, 1999, recorded in said Registry in Book 1900, Page 139.

<u>Parcel 4</u>: The premises conveyed by a deed from William N. Osborne et al to SP Forests, L.L.C. dated December 29, 2000, recorded in said Registry in Book 1978, Page 305, subject to rights and easements reserved by said deed.

The above-described property is conveyed subject to:

- 1. Rights and easements reserved by William N. Osborne, et. al., in the deed from William Osborne, et. al to SP Forests L.L.C. dated December 29, 2000, and recorded in said Registry in Book 1978, Page 305.
- 2. Certificate of Cross Claims in an action by Perry A. Lamb in Farmington, SP Forests, L.L.C., et. al., Franklin County Superior Court Docket # CV-99-029, recorded in said Registry in Book 1953, Page 296, as affected by an Order dated November 15, 2001, and recorded in said Registry in Book 2100, Page 273, with respect to certain roads in Farmington, Maine.
- 3. Rights and easements reserved in an instrument by and between Lawrence V. Webber and International Paper Company, dated June 22, 1965, and recorded in said Registry in Book 391, Page 413.
- 4. Rights of Cousineau Lumber, Inc. reserved in the deed from Robert W. Mayo to International Paper Company dated December 17, 1999, and recorded in Book 1900, Page 139.

Tract 6: Industry, Franklin County, Maine

Parcel 1: The premises conveyed by a deed from Marquis R. Neil and Nellie J. Neil to International Paper Company dated October 19, 1965, and recorded in Franklin County Registry of Deeds in Book 395, Page 215.

<u>Parcel 2</u>: The premises conveyed by a deed from the Municipality of Industry to I.P. Timberlands dated July 12, 2000, and recorded in Franklin County Registry of Deeds in Book 1859, Page 198.

Tract 7: Township 1, Range 5 WBKP (Jim Pond Township)

The premises conveyed are described in the deed from Evergreen Timberlands Corporation to International Paper Company dated December 19, 1980, and recorded in the Franklin County Registry of Deeds in Book 642, Page 132 and the deed from the State of Maine to International Paper Company dated September 16, 1985, and recorded in said Registry in Book 862, Page 4.

Excepting and reserving, from the above described premises the following:

- 1. A lot of land conveyed by International Paper Company to Merrill and Fountain Club (formerly Merrill Rod and Reel Club) by deed dated November 23, 1981, and recorded in said Registry in Book 676, Page 222.
- 2. All dams, booms, piers, etc. conveyed by the Kennebec Reservoir Company to Central Maine Power Co. by instrument dated December 16, 1949, and recorded in Book 851, Page 591 of said Registry of Deeds.

Further excepting and reserving from the above described property:

<u>Mineral Reservation Tract 4</u>: Beginning at a point in Jim Pond Township, in land of SP Forest L.L.C., at coordinate North 5,013,737.2; East 376,606.0 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence N 11° 00' 30" W, through land of SP Forest L.L.C., a distance of 273.2 meters to a point; thence N 82° 49' 45" E, through land of SP Forest L.L.C., a distance of 259 meters, more or less, to a point on the westerly sideline of said Route 27; thence in a southerly direction, by and along the westerly sideline of said Route 27, a distance of 456 meters, more or less, to a point in said road sideline that lies S 60° 39' 00" E from the point of beginning of the within described premises; thence N 60° 39' 00" W, through land of SP Forest L.L.C., a distance of 307 meters, more or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; more or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; thence or less, to the point of beginning of the within described premises; the point or less.

Mineral Reservation Tract 5: Beginning at a point in Jim Pond Township, in land of SP Forest L.L.C. at coordinate North 5,012,685.9; East 378,683.9 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence S 89° 59' 45" E, through land of SP Forest L.L.C., a distance of 775.4 meters, more or less, to a point at the westerly high waterline of Shallow Pond, so called; thence in a southerly direction, by and along the westerly high waterline of said pond to a point at said high waterline being approximately S 03° 05' 45" E, a distance of 457.0 meters, more or less, from the last mentioned point; thence S 53° 39' 00" W, through land of SP Forest L.L.C., a distance of 142.0 meters to a point; thence S 89° 34' 15" W, through land of SP Forest L.L.C., a distance of 595.7 meters to a point; thence N 19° 38' 00" W, through land of SP Forest L.L.C., a distance of 82.0 meters, more or less, to a point on the southeasterly high waterline of the North Branch of Dead River; thence northeasterly, northerly and then northwesterly, by and along the easterly high waterline of said river to a point at said high waterline approximately N 18° 51' 45" W, a distance of 215.5 meters, more or less from the last mentioned point; thence N 01° 34' 30" E, through land of SP Forest L.L.C., a distance of 264.0 meters to the point of beginning of the within described premises, encompassing 93.5 acres, more or less.

<u>Mineral Reservation Tract 6:</u> Beginning at a point in Jim Pond township, in land of SP Forest L.L.C., at coordinate North 5,011,021.7; East 382,133.6 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence S 87° 55' 00" E, through land of SP Forest L.L.C., a distance of 293 meters, more or less, to a point 10.06 meters northeasterly from the centerline of a road in said land of SP Forest L.L.C.; thence in a northwesterly direction, 10.06 meters easterly of and parallel

to the centerline of said road, a distance of 261.5 meters to a point 10.06 meters easterly of the centerline of said road; thence N 79° 08' 30" E, through land of SP Forest L.L.C., a distance of 556 meters, more or less, to a point in the thread of Jim Pond Brook, so called; thence down said thread of brook in a southerly direction to a point in said thread being 727.8 meters from the last described point; thence N 89° 24' 00" E. through land of SP Forest L.L.C., a distance of 560 meters, more or less, to a point on the northwesterly sideline of the King and Bartlett Road, so called; thence in a southwesterly direction, by and along said road sideline, a distance of 362.5 meters to a point on said road sideline; thence S 89° 29' 15" E, crossing said road and continuing through land of SP Forest L.L.C., a distance of 432.7 meters to a point; thence S 01° 24' 30" E, through land of SP Forest L.L.C., a distance of 48 meters, more or less to a point in the thread of an unnamed brook; thence in a southwesterly direction, by and along the thread of said brook, a distance of 1100 meters, more or less, to a point on the northeasterly sideline of a road; thence in a northwesterly direction, by and along said road sideline, to a point at the intersection of said sideline with the southeasterly sideline of the King and Bartlett Road; thence in a northwesterly direction, crossing said King and Bartlett Road to a point on the northwesterly sideline of said road; thence in a southwesterly direction, by and along said road sideline, to a point on said road sideline at the northeasterly high water line of the North Branch of Dead River, so called; thence in a generally northwesterly direction, by and along said high water line to a point on said high waterline that lies S 20° 18' 45" E from the point of beginning of the within described premises; thence N 20° 18' 45" W, through land of SP Forest L.L.C., a distance of 21 meters, more or less, to the point of beginning of the within described premises, encompassing 331 acres, more or less.

<u>Mineral Reservation Tract 27:</u> Beginning at a point in Jim Pond Township, in land of SP Forest L.L.C., at coordinate North 5,009,760.2; East 382,602.0 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence N 77° 36' 15" E, through land of SP Forest L.L.C., a distance of 204 meters, more or less, to a point on the westerly sideline of Route 27, so called; thence in a southeasterly direction, by and along said route sideline, a distance of 305 meters to a point on said sideline at a boundary corner of land of SP Forest L.L.C.; thence S 80° 58' 15" W, by and along the boundary line of land of SP Forest L.L.C.; thence S 08° 47' 00" E, by and along the boundary line of land of SP Forest L.L.C., a distance of 104 meters, more or less, to a point on the southerly boundary line, a distance of 104 meters, more or less, to a point on the southerly boundary line, a distance of 46.0 meters to a point on said township boundary line, a 13° 51' 15" W, through land of SP Forest L.L.C., a distance of 46.0 meters to a point on said township boundary line; thence N 13° 51' 15" W, through land of SP Forest L.L.C., a distance of 46.0 meters to a point on said township boundary line; thence N 13° 51' 15" W, through land of SP Forest L.L.C., a distance of 46.0 meters to a point on said township boundary line; thence N 13° 51' 15" W, through land of SP Forest L.L.C., a distance of 46.0 meters to a point on said township boundary line; thence N 13° 51' 15" W, through land of SP Forest L.L.C., a distance of 393 meters, more or less, to the point of beginning of the within described premises, encompassing 17.8 acres, more or less.

This description is derived from coordinates scaled from mapping referenced to Zone 19, Universal Transverse Mercator (UTM) Coordinate System of 1927. It is the intent of this description that courses and distances from the coordinate value given will define the location, length and direction of the easement limits except where those limits coincide with boundaries established by physical monuments or record boundaries.

The premises hereby conveyed are conveyed subject to the following:

- 1. Flowage rights conveyed by the Kennebec Reservoir Company to Central Maine Power Co. by instrument dated December 16, 1949, and recorded in said Registry in Book 851, Page 591.
- 2. A right of way conveyed to Merrill and Fountain Club, in said deed recorded in Book 676, Page 222.
- 3. An unrecorded option agreement between IP Timberlands Operating Company, Ltd. and U.S. Windpower Inc. dated December 21, 1992, having a term of three years.
- 4. A Lease between International Paper Company and MRRC Inc. dated August 21, 1981, and recorded in said Registry in Book 668, Page 106 and assigned to King & Bartlett, Inc. by assignment dated October 9, 1991, as amended by amendment to lease dated October 17, 1991, between IP Timberlands Operating Company, Ltd. and King & Bartlett Inc. to expire September 30, 2006.
- 5. An unrecorded right of way easement granted by IP Timberlands Operating Company, LTD. to the State of Maine Dept. of Transportation dated November 8, 1996.
- 6. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 8: Kingfield, Franklin County, Maine

The premises conveyed are described in the deed from Ruth G. Wing to International Paper Company dated June 4, 1966, and recorded in the Franklin County Registry of Deeds in Book 397, Page 283.

Excepting and reserving, from the above-described premises the following:

Out conveyance to Ruth G. Wing in an instrument dated November 11, 1960, and recorded in said Registry in Book 363, Page 153.

The above described premises are conveyed together with the rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 9: Massachusetts Gore, Franklin County, Maine

That portion of the premises conveyed in the deed from ITT Rayonier Incorporated to International Paper Company dated December 8, 1980, and recorded in Franklin County Registry of Deeds in Book 640, Page 134, as lies in Massachusetts Gore.

Excepting and reserving the minerals on the following described tracts:

<u>Mineral Reservation Tract 3</u>: Beginning at a point in Massachusetts Gore, in land of SP Forest L.L.C., at coordinate North 5,019,473.7; East 359,948.3 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence N 88° 12' 45" E, through land of SP Forest L.L.C., a distance of 169.4 meters, to a point; thence S 17° 53' 45" E, through land of SP Forest L.L.C., a distance of 82.3 meters to a point; thence S 17° 33' 45" W, through land of SP Forest L.L.C., a distance of 417.4 meters to a point; thence S 84° 17' 30" W, through land of SP Forest L.L.C., a distance of 53.2 meters to a point; thence N 01° 53' 45" W, through land of SP Forest L.L.C., a distance of 476.5 meters to the point of beginning of the within described premises, encompassing 15.5 acres, more or less.

Mineral Reservation Tract 16: Beginning at a point along the northerly boundary line of Massachusetts Gore Township and the southerly boundary line of Coburn Gore at coordinate North 5,025,876.0; East 358,717.9 meters, referenced to Universal Transverse Mercator (UTM) Coordinate System of 1927, Zone 19; thence S 10° 01' 15" E, through land of SP Forest L.L.C., a distance of 285.9 meters to a point; thence S 50° 37' 00" E, through land of SP Forest L.L.C., a distance of 344.3 meters, to a point; thence S 25° 08' 00" E, through land of SP Forest L.L.C., a distance of 1036.8 meters to a point; thence S 02° 23' 00" E, through land of SP Forest L.L.C., a distance of 136.3 meters to a point; thence N 90° 00' 00" W, through land of SP Forest L.L.C., a distance of 425.6 meters to a point; thence N 00° 28' 00" W, through land of SP Forest L.L.C., a distance of 698.0 meters to a point; thence S 89° 12' 15" W, through land of SP Forest L.L.C., a distance of 260.4 meters, more or less, to a point on the international boundary between the United States of America and Canada; thence in a northerly direction, by and along the said international boundary to a point where said international boundary intersects the northerly boundary line of said Massachusetts Gore Township and the southerly boundary line of Coburn Gore, said point also being N 13° 22' 15" W, an approximate distance of 884.9 meters from the last mentioned point; thence N 81° 42' 30" E, by and along the northerly boundary line of said Massachusetts Gore Township and the southerly boundary line of Coburn Gore, a distance of 135.8 meters to the point of beginning of the within described premises, encompassing 110.8 acres, more or less.

This description is derived from coordinates scaled from mapping referenced to Zone 19, Universal Transverse Mercator (UTM) Coordinate System of 1927. It is the intent of this description that courses and distances from the coordinate value given will define the location, length and direction of the easement limits except where those limits coincide with boundaries established by physical monuments or record boundaries.

The above described property is conveyed together with:

- 1. The rights and easements reserved by SP Forests L.L.C. in its deed to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43.
- 2. The rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

The above described property is conveyed subject to:

- 1. The Boundary Headwaters Conservation Easement granted by SP Forests L.L.C. and International Paper Company to the Forest Society of Maine dated December 1, 2004, and recorded in said Registry in Book 2539, Page 1.
- 2. The rights and easements contained in the deed from SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43.
- 3. The Right of Way Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in the Franklin County Registry of Deeds in Book 2539, Page 63.
- 4. The Recreation Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 71.
- 5. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 10: New Sharon, Franklin County, Maine

<u>Parcel 1</u>: The premises in New Sharon, Maine conveyed in the deed of Mary K. Snow to International Paper Company dated April 26, 1965, and recorded in Franklin County Registry of Deeds in Book 390, Page 306, subject to rights and easements reserved by said Mary K. Snow in said deed.

<u>Parcel 2</u>: The premises in New Sharon, Maine conveyed in the deed of Maurice A. Taylor to International Paper Company dated May 25, 1965, and recorded in said Registry in Book 391, Page 369.

Parcel 3: The premises in New Sharon, Maine conveyed in the deed of Owen W. Smith to International Paper Company dated April 25, 1966, and recorded in said Registry in Book 397, Page 167.

Excepting and Reserving from said Parcel 3:

- 1. The premises conveyed in the deed from International Paper Company to International Paper Realty Corporation dated May 5, 1994, and recorded in said Registry in Book 1451, Page 70.
- 2. The premises conveyed in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated May 5, 1994, and recorded in Franklin County Registry of Deeds, Book 1451, Page 73.

Tract 11: Rangeley, Franklin County, Maine

<u>Parcel 1</u>: The premises conveyed in the deed from John Reed to The American Realty Company dated June 2, 1917.

Excepting and reserving the premises described in the deed from International Paper Company to Eugene M. Vaughn, et al, dated August 26, 1942, and recorded in Franklin County Registry of Deeds in Book 280, Page 547.

Parcel 2: The premises conveyed in the deed from Rumford Falls Paper Company to International Paper Company dated January 31, 1898, and recorded in said Registry in Book 139, Page 262.

<u>Parcel 3</u>: The premises conveyed in the deed from John A. Decker to International Paper Company dated November 28, 1900, and recorded in said Registry in Book 152, Page 512.

<u>Parcel 4</u>: The premises conveyed in the deed from John A. Decker to International Paper Company dated April 14, 1902, and recorded in said Registry in Book 153, Page 306, subject to the terms and conditions of said deed.

<u>Parcel 5</u>: The premises conveyed in the deed from Frederick S. Dickson to International Paper Company dated December 30, 1903, and recorded in said Registry in Book 156, Page 363.

Excepting and reserving from the above described Parcel 5 the following:

1. The premises described in the deed from International Paper Company to Frederick S. Dickinson dated February 4, 1904, and recorded in said Registry in Book 156, Page 364.

2. The premises described in a deed from International Paper Company to the State of Maine dated March 30, 1960, and recorded in said Registry in Book 361, Page 473.

<u>Parcel 6</u>: The premises conveyed in the Supreme Judicial Court judgment in favor of International Paper Company recorded in said Registry in Book 221, Page 508.

<u>Parcel 7</u>: The premises conveyed in the deed from Donald C. Morton to International Paper Company dated March 28, 1956, and recorded in said Registry in Book 338, Page 503.

Excepting and reserving from the above described Parcels 1 through 7 the following:

- 1. Premises described in the deed from International Paper Company to John A. Decker dated May 27, 1903, and recorded in said Registry in Book 152, Page 503.
- 2. Premises described in the deed from International Paper Company to Claude Stevens, et al, dated March 28, 1946, and recorded in said Registry in Book 297, Page 3.
- 3. Premises described in the deed from International Paper Company to Rumford Falls & Rangeley Lakes Railroad Company dated May 15, 1902, and recorded in said Registry in Book 152, Page 81.
- 4. Premises described in the deed from International Paper Company to John A. Decker dated May 27, 1903, and recorded in said Registry in Book 152, Page 506.
- 5. Out conveyance to Oquossoc Light and Power Company in an instrument dated September 13, 1939, and recorded in said Registry in Book 272, Page 87.
- 6. Out conveyance to the State of Maine in an instrument dated July 23, 1973, and recorded in said Registry in Book 463, Page 207.
- 7. Out conveyance to Louis B. Thalheimer, dated June 2, 1980, and recorded in said Registry in Book 624, Page 257.
- 8. Notice of Taking by the State of Maine, recorded on December 20, 1979, in said Registry in Book 579, Page 170.
- 9. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation in an instrument dated December 14, 1987, and recorded in said Registry in Book 1016, Page 301.

- 10. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation in an instrument dated December 14, 1987, and recorded in said Registry in Book 1016, Page 323.
- 11. Premises described in the deed from IP Timberlands Operating Company, Ltd., to Town of Rangeley dated August 31, 1989, and recorded in said Registry in Book 1119, Page 256.
- 12. Mineral rights described in the deed from International Paper Company to Town of Rangeley dated August 31, 1989, and recorded in said Registry in Book 1119, Page 259.
- 13. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated November 30, 1990, and recorded in said Registry in Book 1205, Page 254.
- 14. Premises described in the deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated November 30, 1990, and recorded in said Registry in Book 1205, Page 250.
- 15. Terms and conditions of an instrument between Commonwealth of Massachusetts and William W. Gilbert and Lawrence Garrett recorded in said Registry in Book 20, Page 95.

The above described Parcels 1-7 are conveyed together with the benefit of the rights of way and rights contained in a Deed of Easement granted by Six Rivers Limited Partnership, et al. to SP Forests L.L.C. and International Paper Company of substantially even date herewith, to be recorded in said Registry of Deeds.

The above described Parcels 1-7 are conveyed subject to the following:

- 1. Terms and conditions of a Certificate of Judgment against Harry A. Whiting, et. al., dated June 15, 1922, and recorded in said Registry in Book 221, Page 508.
- 2. Terms and conditions of a Lease Agreement by and between International Paper Company and the Town of Rangeley in an instrument dated March 12, 1985, and recorded in said Registry in Book 824, Page 154.
- 3. Rights and easements granted to Forest Glen Associates in an instrument dated July 5, 1988, and recorded in Book 1042, Page 111.
- 4. The rights of way and rights contained in a Deed of Easement granted by SP Forests L.L.C. and International Paper Company to Six Rivers Limited Partnership, et al. of substantially even or near date herewith to be recorded in said Registry of Deeds.

Tract 12: Seven Ponds Township (Township 3, Range 5, WBKP)

That portion of the premises conveyed in the deed from ITT Rayonier Incorporated to International Paper Company dated December 8, 1980, and recorded in Franklin County Registry of Deeds in Book 640, Page 134, as lies in Township 3 Range 5 WBKP.

Excepting and reserving from the above described parcel:

- 1. That portion conveyed by the deed from SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 36, being a parcel of 34 acres, more or less.
- 3. That portion conveyed by the deed from SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43, and described therein as Parcels 2 and 3.

The above described property is conveyed with the benefit of:

- 1. The rights and easements reserved by SP Forests L.L.C. in its said deed to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 43.
- 2. The rights of way and rights contained in a Grant of Rights of Way given by Bayroot, LLC to SP Forests L.L.C. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

The above described parcel of land is conveyed subject to the following:

- 1. Memorandum of Agreement between Brown Company and Callahan Mining Corporation, et als, dated April 5, 1972, and recorded in said Registry of Deeds in Book 574, Page 278.
- 2. Memorandum of Exploration and Mining Lease Agreement between Brown Company and Houston Oil & Minerals Corporation dated August 1, 1977, and recorded in said Registry in Book 979, Page 20.
- 3. Terms and conditions as to the Boundary Headwaters Conservation Easement granted by SP Forests L.L.C. and International Paper Company to the Forest Society of Maine dated December 1, 2004, and recorded in said Registry in Book 2539, Page 1.
- 4. The Right of Way Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 63.

- 5. The Recreation Easement granted by SP Forests L.L.C. to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 71.
- 6. The rights and easements conveyed by SP Forests L.L.C. in its said deeds to The Megantic Fish and Game Corporation dated December 1, 2004, and recorded in said Registry in Book 2539, Page 36 and Book 2539 and Page 43.
- 7. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 13: Temple, Franklin County, Maine

<u>Parcel</u> 1: The premises conveyed by the deed from Carroll J. Macomber to International Paper Company, dated April 12, 1965, and recorded in Franklin County Registry of Deeds in Book 391 Page 373, subject to rights and easement reserved in said deed.

<u>Parcel 2</u>: The premises conveyed by the deed from Marquis R. Neil to International Paper Company dated April 12,1965, and recorded in said Registry in Book 391, Page 375.

Excepting and reserving from the above-described premises:

So much thereof in Temple, Maine, as was conveyed by a deed from IP Timberlands Operating Company, Ltd., to International Paper Realty Corporation dated March 14,1985, and recorded in said Registry in Book 1205, Page 262.

Tract 14: Township E, Franklin County, Maine

<u>Parcel 1</u>: The premises conveyed by a deed from Otis Falls Pulp Company to International Paper Company, dated February 3, 1898, and recorded in Franklin County Registry of Deeds in Book 139, Page 137.

<u>Parcel 2</u>: The premises conveyed by the deed from Umbagog Pulp Company to International Paper Company dated January 21, 1898, and recorded in said Registry in Book 139, Page195.

Parcel 3: The premises conveyed by a deed from E. E. Richards to International Paper Company dated July 9,1901, and recorded in said Registry in Book 144, Page 341.

<u>Parcel 4</u>: The premises conveyed by a deed from E. E. Richards, Administrator of the Estate of Josiah F Prescott, to International Paper Company dated July 9,1901, and recorded in said Registry of Deeds in Book 117, Page 343.

Excepting and reserving from the above-described premises so much thereof in Township E, Maine, as was conveyed by:

- 1. The deed from International Paper Company to Harvey C. Wheeler dated April 2, 1934, and recorded in said Registry in Book 315, Page 35.
- 2. The indenture of release from International Paper Company to Harvey C. Wheeler dated May 25, 1934, and recorded in said Registry in Book 255, Page 409.
- 3. Notice of Taking by the State of Maine Highway Commission, recorded on October 29, 1935, and recorded in said Registry in Book 259, Page 132.
- 4. The deed from Amelia G. Wheeler and Beatrice W. O'Connor to Carl S. Wheeler and Monica Wheeler in an instrument dated November 26, 1948, and recorded in said Registry in Book 315, Page 37.
- 5. The deed from Carl S. Wheeler and Monica M. Wheeler to Jean Sikora dated May 31, 1958, and recorded in said Registry in Book 359, Page 97.
- 6. Out conveyance to the State of Maine in an instrument dated November 21, 1977, and recorded in said Registry in Book 537, Page 84.
- 7. Out conveyance to the State of Maine in an instrument dated November 21, 1977, and recorded in said Registry in Book 537, Page 108.
- 8. Out conveyance to the State of Maine in an instrument dated July 6, 1978, and recorded in said Registry in Book 568, Page 164.
- 9. The deed from International Paper Company to United States of America dated June 26, 1985, and recorded in said Registry of Deeds in Book 837, Page 281.
- 10. The deed from IP Timberlands Operating Company, Ltd. to International Paper Realty Corporation dated May 5, 1994, and recorded in said Registry in Book 1500, Page 235.

The above-described property is conveyed subject to:

- 1. An easement conveyed by International Paper Company to Rangeley Power Company dated August 11, 1960, and recorded in said Registry in Book 366, Page 366.
- 2. The rights of way and rights contained in a Grant of Rights of Way given by SP Forests L.L.C. to Bayroot, LLC. of substantially even or near date herewith, to be recorded in said Registry of Deeds.

Tract 15: Wyman Township (Township 4, Range 3, BKP WKR)

The premises conveyed by a deed from Hudson Pulp and Paper Corporation to International Paper Company dated November 1, 1973, recorded in Franklin County Registry of Deeds in Book 465, Page 273.

The above described premises is conveyed subject to:

Rights and easements granted to Stratton Energy Association in an instrument dated April 28, 1988, and recorded in said Registry in Book 1028, Page 179.

The following pertain to all of the premises described above.

The above described property is conveyed subject to and with the benefit of an unrecorded Crossing Rights Agreement among James River Corporation, International Paper Company, et al. dated December 8, 1980, as amended by the First Amendment to Crossing Rights Agreement recorded in the Oxford County Registry of Deeds in Book 1407, Page 175.

Mineral Reserved Parcels: Grantor hereby reserves to Grantor, Grantor's successors and assigns, full rights of ingress and egress and use of the surface to the extent reasonably necessary for the purposes of exploring, drilling, mining (including shaft, in situ, open pit, surface or strip mining) developing, producing, removing, transporting and owning all of said minerals and mineral rights on said Mineral Reserved Parcels.

Permit to Use Sand and Gravel: Grantor hereby grants to Grantee, its successors and assigns, permission to use sand, clay, and/or gravel located on the Mineral Reserved Parcels described above for non-commercial purposes of constructing and maintaining roads now existing or hereinafter constructed on said premises.

The premises hereby conveyed are also conveyed subject to, with the benefit of, or there is excepted from this conveyance, as appropriate, all real estate or rights therein, if any, including without limitation, flowage rights, rights of way, easements, licenses, leases, including without limitation, commercial, recreational and camp leases, and permits conveyed of record by the Grantor herein or Grantors' predecessors in interest and all real estate or rights therein, if any, acquired by the exercise of the power of eminent domain by the State of Maine or any political subdivision thereof or any other quasi-municipal or public utility entity having the power of eminent domain, which may be of record but not specifically referred to herein.

Excepting and reserving to International Paper Company, its affiliates, successors and assigns, from the property herein conveyed, the right to cross and recross the property herein conveyed for all purposes including, but not limited to, access to other lands owned by International Paper Company or its affiliates, whether contiguous or non-contiguous.

Also excepting and reserving from this conveyance all great ponds, and the property underlying said great ponds, falling in whole or in part within the property herein conveyed. Hereby conveying, however, as appurtenant to the above-described property, any right, title or interest that the Grantor may ever be determined to hold in or to said great ponds, or the property underlying said great ponds.

Except for the Mineral Reserved Parcels, it is the parties' intent to convey and there is hereby conveyed any and all interest in any and all minerals and mineral rights in the above described towns, whether or not specifically described herein.

It is also the parties' intent to except and reserve, and there is hereby excepted and reserved, any and all minerals or mineral rights, which have been previously conveyed by International Paper Company or its predecessors in title, including, but not limited to, Winn Water & Power Company, and Umbagog Paper Company, whether or not of record or specifically excepted herein.

It is also the parties' further intent to except and reserve, and there is hereby excepted and reserved, any and all minerals, mineral rights, including royalties, and all permits or agreements relating thereto owned or held by International Paper Company pertaining to land previously conveyed by International Paper Company which are not part of this conveyance.

Exhibit B

to

Quitclaim Deed with Covenant Grantor: International Paper Company Grantee: Kennebec West Forest LLC

The Property hereby conveyed is subject to the following matters of title (collectively, the "Permitted Exceptions"):

(i) Rights, if any, relating to the construction and maintenance in connection with any public utility of wires, poles, pipes, conduits and appurtenances thereto, on, under or across the Property;

(ii) Restrictions on Grantee's ability to build upon or use the Property imposed by any current or future development standards, building or zoning ordinances or any other law or regulation of any governmental authority;

(iii) Rights of parties in possession and any state of facts which an accurate survey or an inspection of the Property would reveal, including, but not limited to, the location of boundary lines, improvements and encroachments, if any;

(iv) All outstanding easements, servitudes, rights-of-way, flowage rights, restrictions, licenses, leases, reservations, covenants and all other rights in third parties of record or acquired through prescription or adverse possession;

(v) The current year's taxes assessments, and other charges of any kind or nature imposed upon or levied against or on account of the Property by any governmental authority, which are not yet due and payable but are liens on the Property;

(vi) All previous reservations, exceptions and conveyances of the oil, gas, associated hydrocarbons, minerals and mineral substances, and royalty and other mineral rights and interests;

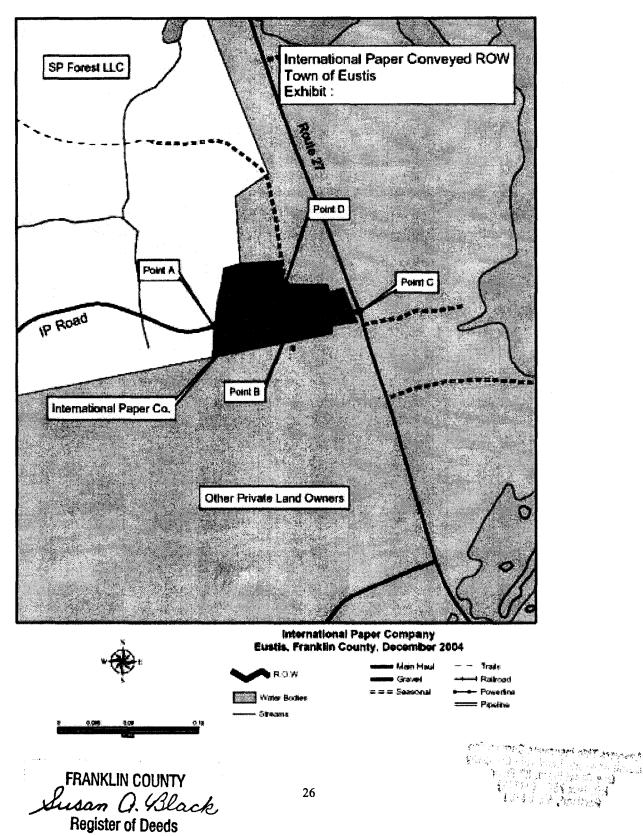
(vii) All claims of governmental authorities in and to any portion of the Property lying in the bed of any streams, creeks or waterways or Great Ponds, or other submerged lands or land now or formerly subject to the ebb and flow of tidal waters or any claims of riparian rights;

(viii) Any and all restrictions on use of the Property due to environmental protection laws, including, without limitation, wetlands protection laws, rules, regulations and orders;

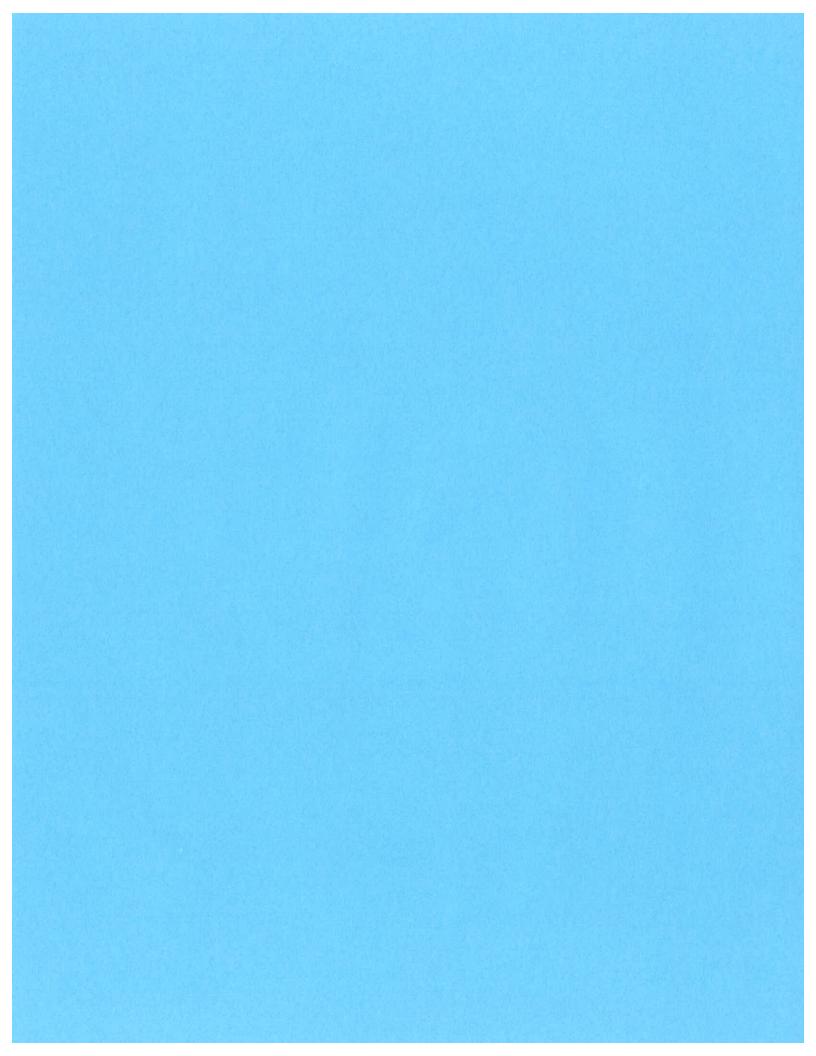
(ix) Other standard title exceptions in the State of Maine shown on Schedule B-1 to the Lawyers Title Insurance Corporation title insurance commitment obtained by Grantee (other than as to mechanics and suppliers liens); and

(x) such other matters disclosed on Grantee's Lawyers Title Insurance Corporation title insurance commitment obtained by Grantee to which Grantee either does not object or agrees to accept.

Exhibit C to **Quitclaim Deed with Covenant Grantor: International Paper Company Grantee: Kennebec West Forest LLC**



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STC-298-0170 Kibby Franklin County S. D. Warren Company

QUITCLAIM DEED Without Covenant

010509

S. D. WARREN COMPANY, a Pennsylvania corporation with a mailing address of 225 Franklin Street, Boston, Massachusetts 02110 ("Grantor") hereby grants to SDW TIMBER 11, L.L.C., a Delaware limited liability company with a mailing address of 225 Franklin Street, Boston, Massachusetts 02110 ("Grantee"), all of Grantor's right, title and interest in and to the land, together with any improvements located thereon, and all merchantable and unmerchantable timber located thereon, whether growing, lying or standing, situated in Kibby, County of Franklin and State of Maine, more particularly described on Schedule A attached hereto and made a part hereof.

TO HAVE AND TO HOLD the same, together with all rights, easements, privileges and appurtenances thereunto belonging, to the said Grantee, its successors and assigns forever.

MEANING AND INTENDING TO CONVEY and hereby conveying all of the real property owned by Grantor that is situated in Kibby, Franklin County, Maine, whether or not specifically described on Schedule A, including without limitation the real property conveyed by Skylark, Inc., to Grantor by deed of near or even date herewith, to be recorded in the Franklin County Registry of Deeds.

Said premises is conveyed subject to real estate taxes and assessments not yet due and payable.

IN WITNESS WHEREOF, the said S. D. Warren Company has caused this instrument to be executed this <u>s</u>⁴⁴ day of November, 1998.

WITNESS:

S. D. WARREN COMPANY

Sarah G. Manchester Print Name: Assistant Gorolary

COMMONWEALTH OF MASSACHUSETTS COUNTY OF SUFFOLK ss.

November 5 , 1998

Personally appeared the above-named Sarah F. Manchester

Assistant Secretary of S. D. Warren Company and acknowledged the foregoing instrument to be his/her free act and deed in his/her said capacity, and the free act and deed of said corporation.

Before me,

SEAL

Kalenin Mckarn Notary Public/Attorney-at-Law

Print name: My commission expires:

KAREN M. MORASH, Notary Public My Commission Expires April 15, 2005

Transfer Tax Not Necessary Maine Real Estate

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Kibby Franklin County S. D. Warren

SCHEDULE A

Tract 1

All that part of Township No. One (1), Range Six (6) West of Bingham's Kennebec Purchase in the northerly and being the remaining part of said Township after the conveyances by the State of Maine to William Kibble and H. G. Stevens, Trustee, said conveyances being dated September 17, 1830, and recorded in State Land Office, book "Records of Deeds," Vol. 4. pp. 29 and 28.

Excepting and Reserving, however, five hundred acres for public uses of equal average value of land and timber in said tract.

The part of said Township hereby conveyed including the reservation contains 10,540 acres more or less.

Tract 2

A certain tract or parcel of land situated in Township No. One in the Sixth Range of Townships, West of Bingham's Kennebec Purchase, in the County of Franklin, and said State of Maine, commonly called "Kibbie", more specifically described as follows, viz:

The East seven hundred and fifty eight fifteen hundred sixty eighth parts (758/1568) of the South seven twelfths of said Township, the West line of the land above described to be run at right angles to the South line of said Township.

Tract 3

A certain tract of land situated in the Southwest part of Township No. 1 in Range 6, West of Bingham's Kennebec Purchase, in the County of Franklin, in said State of Maine, known as Kibby Township" and bounded as follows; viz: On the North by a Public Lot and the Woodruff strip, so called; on the East by land now or formerly of Josiah Chase and Alonzo H. Chase and on the South and West by the south and west lines of said Township, respectively, excepting however, all Public Lots located within said tract.

BK 1799PG 172

Tract 4

A certain piece or parcel of land situated in Township Number One, Range Six, West of Bingham's Kennebec Purchase in the County of Franklin and State of Maine, and bounded and described as follows: viz; On the North by land of said grantee; on the East by the East line of said Township One, Range Six; on the South by land of said grantee and on the West by the West line of said Township One, Range Six.

Tract 5

Township 1, Range 6, WBKP (Kibby)

Three certain lots or parcels of land situated in Township 1 Range 6 WBKP, (Kibby), Franklin County, Maine, bounded and described as follows:

First Parcel - Beginning at a yellow birch in the westerly line of said township where a stream crosses said line, thence running easterly at right angles with said west line, 98 rods to a spruce marked by 3 1865, thence southerly on a line parallel with said west line 137 rods to a fir tree marked by 3 1865, hence westerly a right angle with the last line 98 rods to a fir cree marked by 3 1865 and standing in the said west line, thence northerly on the said west line 137 rods to the first mentioned bounds containing 83 1/3 acres in northerly half of said township.

Second Parcel - Commencing at spruce tree standing in the west line of said township and marked by - 1865 just 320 rods from the southwest corner of said township, thence running easterly on a line parallel with the south line of said township 291 1/2 rods to a spruce tree marked by - 1865, thence northerly on a line parallel with the west line of said township 320 rods to a cedar tree marked by - 1865, thence westerly on a line parallel with the south line of said township 291 1/2 rods to a spruce tree marked by - 1865 standing in the west line of said township, thence southerly on the west line of said township 320 rods to the first mentioned bounds containing 583 1/3 acres in the southerly half of said township.

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Third Parcel - Beginning at a cedar post marked S. W. Cor. 500 Ac. P. L. N. W. Cor. 583 Ac. P. L. T. L. \$ \$1936, with ones, and an Eight (8) inch diameter breast high White Maple Range 6, W. B. K. P. Franklin County, Maine (commonly known as Kibbie Town) Two (2) miles northerly on said west line from the southwest corner of said town; thence south 82° east one hundred eighty-six (186) rods to a cedar post, marked S. E. Cor. 500 Ac. P. L. 1936, with stones, but no witness tree marked as there was no suitable tree standing near; thence North 8 east One (1) mile and One Hundred Eleyen (111) rods to a cedar post marked N. E. Cor. 500 Ac. P. L. V 1936, with stones, and a Nine (9) inch diameter breast high Fir witness tree, marked VV 1936; thence westerly on an old spotted line, which is an extension of and the southerly boundary of the 83-1/3 acre Public Lot, so called, a distance of One Hundred and Eighty-six (186) rods to a cedar post marked N. W. Cor. 500 Ac. P. L. S. W. Cor. 83 Ac. P. L. T. L. 1936, with stones, and a Six (6) inch diameter breast high White Birch witness tree, marked V/ 1936; thence southerly along said west town line One (1) mile and One Hundred Ten (110) rods to the place of beginning. The above lot contains five hundred (500) acres.

Excepting and reserving to the State of Maine, its successors and assigns, from the premises conveyed herein, any and all public roads or great ponds, in, on, or over any of the above described lands.

Tract 6

All of that certain area situated in Township 1, Range 6, W.B.K.P., <u>Kibby</u>, Franklin County, Maine, on the shore of Bugeye Pond, bounded and described as follows:

(A) Lots 1 and 2 of Lease Area "A", all as shown on a plan for Scott Paper Company entitled Bugeye Pond Lease Area "A", surveyed by MacIntosh & Pickett, drawn by MacIntosh and dated 9/15/59, a copy of which plan is attached as <u>EXHIBIT</u> <u>132</u> to deed from Scott Paper Company dated December 30, 1970 and recorded in the Franklin County Registry of Deeds in Book 434, Page 566, and to which reference is hereby made for a more particular description of the lots herein conveyed.

EXCEPTING AND RESERVING FROM THE ABOVE-DESCRIBED LANDS THEREFROM THE FOLLOWING PARCEL :

Scott Paper Company to the State of Maine, dated March 27, 1978 and recorded in the Franklin County Registry of Deeds in Book 544, Page 131; and any interest in public lots conveyed by Scott Paper Company to the State of Maine dated May 7, 1985 and recorded in the Franklin County Registry of Deeds in Book 1319, Page 207.

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Exhibit A -

Reference is made to the following deeds for the preceding descriptions of Tract 1 through Tract 6: J. Manchester Hayes to Hollingsworth & Whitney Company dated July 23, 1901 Tract 1: and recorded in the Franklin County Registry of Deeds in Book 145. Page 450. Tract 2: Charles H. Clark. et al to Hollingsworth & Whitney Company dated September 23, 1903 and recorded in said Registry in Book 153, Page 36. Tract 3: Franklin and Somerset Land and Lumber Company to Hollingsworth & Whitney Company dated December 19, 1903 and recorded in said Registry in Book 156. Page 255. Tract 4: Margaret Louisa Woodruff, et al to Hollingsworth & Whitney Company dated April 10, 1917 and recorded in said Registry in Book 196, Page 382. Tract 5: State of Maine to S.D. Warren Company dated November 28, 1990 and recorded in said Registry in Book 1194, Page 302. Tract 6: Skylark, Inc. To S.D. Warren Company by deed of near or even dated herewith to be recorded in said Registry.

Lands of Hollingsworth & Whitney Company were conveyed by Hollingsworth & Whitney Company to Scott Paper Company by deed dated October 27, 1954, recorded in Franklin County Registry of Deeds in Book 334, Page 165. Lands of Scott Paper Company were conveyed by Scott Paper Company to S. D. Warren Company (a Pennsylvania corporation) by deed dated July 24, 1986, recorded in Franklin County Registry of Deeds in Book 913, Page 6.

FRANKLIM, SS REC'O. 98 NOV - 9 PM 3: 51 Page 4 of 4 ATTEST-REGISTER LUSAN O Black

6K | 799PG | 79

S70 Z 48 - C 200 Skinner Franklin County S. D. Warren Company

QUITCLAIM DEED Without Covenant

010512

S. D. WARREN COMPANY, a Pennsylvania corporation with a mailing address of 225 Franklin Street, Boston, Massachusetts 02110 ("Grantor") hereby grants to SDW TIMBER II, L.L.C., a Delaware limited liability company with a mailing address of 225 Franklin Street, Boston, Massachusetts 02110 ("Grantee"), all of Grantor's right, title and interest in and to the land, together with any improvements located thereon, and all merchantable and unmerchantable timber located thereon, whether growing, lying or standing, situated in Skinner, County of Franklin and State of Maine, more particularly described on Schedule A attached hereto and made a part hereof.

TO HAVE AND TO HOLD the same, together with all rights, easements, privileges and appurtenances thereunto belonging, to the said Grantee, its successors and assigns forever.

MEANING AND INTENDING TO CONVEY and hereby conveying all of the real property owned by Grantor that is situated in Skinner, Franklin County, Maine, whether or not specifically described on Schedule A, including without limitation the real property conveyed by Skylark, Inc., to Grantor by deed of near or even date herewith, to be recorded in the Franklin County Registry of Deeds.

Said premises is conveyed subject to real estate taxes and assessments not yet due and payable.

IN WITNESS WHEREOF, the said S. D. Warren Company has caused this instrument to be executed this <u>5</u> day of November, 1998.

WITNESS:

S. D. WARREN COMPANY

Bv: 2 Print Name: Sarah F. Manchester

Its: Assistant Se

COMMONWEALTH OF MASSACHUSETTS COUNTY OF SUFFOLK ss.

November 5 , 1998

Personally appeared the above-named Sarah F. Manchester

<u>Assistant Secretary</u> of S. D. Warren Company and acknowledged the foregoing instrument to be his/her free act and deed in his/her said capacity, and the free act and deed of said corporation.

Before me,

SEAL

Havenn. Maras

Notary Public/Attorney-at-Law Print name:

My commission expires: KAREN M. MORASH, Notary Public

My Commission Expires April 15, 2005

Transfer Tax Not Necessary Maine Real Estate

BK 1799PG 180

Skinner Frankin County S. D. Warren

SCHEDULE A

<u>Tract 1</u>

A certain lot or parcel of land situated in the County of Franklin and State of Maine, and known as Township Number One in the Seventh Range of Townships, west of Bingham's Kennebec Purchase and south of adjoining Township Number One, Range Eight, west of Bingham's Kennebec Purchase, called "Lowelltown".

Excepting and reserving the State's right, title and interest in and to any and all public roads. or great ponds in, on or over Skinner.

Reference is made to the following deeds for the preceding description:

Deed from the Beaudry Lumber, Inc. to Scott Paper Company dated June 28, 1968, recorded in the Franklin County Registry of Deeds, Book 416, Page 5; Lands of Scott Paper Company were conveyed to S.D. Warren Company by deed dated July 24, 1986, recorded in said Registry in Book 913, Page 6.

FRANKLIN, SS REC'D. 98 NOV - 9 PM 3: 51 Page 1 of 1 ATTEST-REGISTER Susan O'Alarb

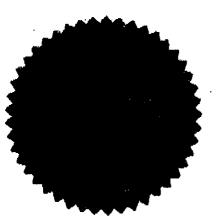
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State of Maine



Department of the Secretary of State

I, the Secretary of State of Maine, certify that according to the provisions of the Constitution and Laws of the State of Maine, the Department of the Secretary of State is the legal custodian of the Great Seal of the State of Maine which is hereunto affixed and that the paper to which this is attached is a true copy from the records of this Department.



In Testimony Whereof, I have caused the Great Seal of the State of Maine to be hereunto affixed. Given under my hand at Augusta, Maine, September 14, 1999.

DAN A. GWADOSKY SECRETARY OF STATE

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LI	FOREIGN MITED LIABILITY COMPANY	File No, 19990070FC Pages 2 Fee Paid \$ 250
	STATE OF MAINE	DCN 1983431200018 LNME FILED
	ENDED APPLICATION FOR THORITY TO DO BUSINESS	Julie L. Flynn Deputy Store Flags
		A True Copy When Altested By Signature
	Timber II, L.L.C. inited Liability Company in Jurisdiction of Organization)	Deputy Secretary of State
		l <u></u>
, Pursuant to i	BI MRSA §715, the undersigned limited liability co	mpany gives notice of the following changes to its application:
•	·	
FIRST:	The name of the limited liability company in it indicate)	s jurisdiction of organization has been changed to (if no change, so
FIRST:		
FIRST:	indicate) Plum Crook Maine Tir If different, the name under which the limited the State of Maine pursuant to §603.2.B.* is (aberlands, L.L.C.
	indicate) Plum Crook Maine Tin If different, the name under which the limited the State of Maine pursuant to §603.2.B.* is (N/A	aberlands, L.L.C. liability company proposes to apply for authority to do business in if not applicable, so indicate)
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SUBMIT COMPLETED FORMS TO: CORPORATE EXAMINING SECTION, SECRETARY OF STATE, 101 STATE HOUSE STATION, AUGUSTA, ME 04333-0101 TEL. (207) 287-4195

FRANKLIN COUNTY Susan Q. Black Register of Deeds

EXHIBIT B.6 SITE ACCESS

This exhibit provides a discussion of the use of public and private roads to access the Project site for construction, anticipated levels of traffic use and signage, proposed improvements to existing private roads, proposed new private road construction, and summary information about proposed stabilization and revegetation of roads. The use of public and private roads during operation and maintenance will be small in comparison, consisting predominantly of commuting by operations and maintenance personnel, but will use the same public and private roads as those described for the construction phase whether the use is for commuting or periodic repair/replacement of turbine system components.

Documentation of TransCanada's rights to use existing private roads is provided in Exhibit B.5.

B.6.1 Existing Public Roads

In general, the traffic analysis performed for the Kibby Project remains applicable to the proposed Kibby Expansion Project and has been revised to reflect the smaller project. The major difference is that the Kibby Expansion project will have a lower volume of traffic, as there are fewer WTG locations to develop.

Delivery of turbine components will be managed by the Project contractor. It is anticipated that the turbines will be transported from the nearest seaport or factory either in Quebec or Maine and delivered to the Project site. The turbine components will travel either from the North through Quebec and along State Route 27, or from the South along State Route 27 to Gold Brook Road. Both of these routes were utilized in connection with the Kibby Project and proved to be efficient and effective. Additional traffic will be generated by delivery of the equipment and materials for the collector line and substation, construction personnel commuting and other construction and employment needs. These additional deliveries will arrive from either direction depending on the procurement source. It is anticipated that most of the raw materials (rock) needed for new or improved roads will be generated on-site however initially up to 50,000 cubic yards of rock and gravel may be brought to the site to commence access road construction prior to obtaining material from the ridge. This imported fill material will be obtained from existing commercial sources in Franklin County.

Oversize load permits for size and weight will be acquired from the Maine Bureau of Motor Vehicles as appropriate. Additionally, TransCanada or the contractor will coordinate with the MDOT, Maine State Police and others as appropriate to ensure that all appropriate safety precautions are taken and to ensure minimal effect to other roadway users.

In general, traffic flow will be toward Gold Brook Road in the morning, and toward Eustis or Coburn Gore in the afternoon. Construction traffic will vary throughout the various phases of the construction schedule. The estimated vehicle transportation associated with the Project during times of peak activity is summarized in Table B.6. Peak activity is estimated to occur during the summer 2011 construction season when overlapping activities associated with foundation, construction, turbine installation and road, collector line and substation construction result in several different crews accessing the site. The number of vehicle trips depends substantially on the amount of carpooling between site workers and the type of WTG foundations utilized, which affects the number of concrete trucks.

TransCanada will require its contractor to have its personnel use the same parking area on State Route 27 in Eustis that has been utilized for Kibby construction. From this parking area, the contractor will transport the workers to the job site from Eustis using vans and other construction vehicles. It is also important to note that the turbine components and construction equipment will be delivered on specialized transport vehicles, while most of the vehicle traffic will be tractor trailers or passenger vehicles.

Traffic related to the construction of the Kibby Project to date has not raised any community concerns. The entrances into the Project Construction Control Center and Gold Brook Road are identical to those used for Kibby Project construction. Site distance is adequate and no problems related to site distance or Project component/material deliveries have occurred during the construction of the first phase of the Kibby Project. As a result, none are expected during construction of the Kibby Expansion Project.

Component	Typical Load	Average Number of Vehicles Per Day
Construction Personnel	During peak construction there will be $120 - 150$ construction personnel on-site; it is assumed that only approximately 50 personnel vehicles will drive to the site.	50 / day
Construction Equipment	Moving of construction equipment to and from the site.	12 / day
Material Delivery	Delivery of various materials to the site (does not include turbine components, cut and fill material, wood or concrete).	15 / day
Concrete Trucks	Up to 10 concrete truckloads per foundation.	$10 / day^1$
Turbine Components ²	Blades (3 blades, each 144 feet in length). One blade per truck.	3
	Tower (4 sections, varying lengths). One section per truck.	4
	Nacelle (heaviest piece at 70 tons). One nacelle per truck.	1
	Hub. One hub per truck.	1

 Table B.6: Vehicle Transportation Requirements During Construction

Component	Typical Load	Average Number of Vehicles Per Day
	Miscellaneous components. One "lot" per truck.	1
Imported Fill	Total of 50,000 cubic yards may be imported at the beginning of the project for access road construction until significant on-site sources can be generated for use.	20 / day
On-site Cut and Fill	Most will come from within site area, 10 to 20 cubic yards per dump truck.	To suit site conditions
Other Traffic	This includes visitors, consultants, etc.	10

¹Concrete estimate reflects the rock anchor type foundations anticipated. Gravity type foundations, if any, would require 80 truckloads each.

² Turbine component daily vehicle trips assume one turbine installed per day. This will vary depending on the actual number of turbines or parts of turbines installed.

Signage for the Project during construction, other than the primary sign for the Project, will be limited to informational and safety signs associated with site activities and roadway closures as necessary. Most of the signage will be for information dealing with traffic management or health and safety concerns. Where required or relevant, specific signage will be developed with the landowners for shared roads and facilities. Signs associated with Project construction and operations will be consistent with LURC standards in 10.27.J. A primary sign will be located at the existing Kibby Project construction control center which is also the location of the permanent, existing O&M Building. Sign information will include the Project name and ownership, construction contractor information, and contact information. The sign will direct visitors to check in at the construction control center (later, the adjacent O&M Building) for additional Project information or to access the site.

Following construction, the permanent sign near the O&M Building will remain (revised to reflect post-construction information). Permanent signs will be posted at the last access road pull off before the ridge and near each turbine warning of the potential for falling ice and snow and restricted access. In addition, signs will be placed on the substation fence to warn the public of the high voltage present and restricted access.

B.6.2 Existing Private Roads

The primary private roads to be used to access all turbine locations are Gold Brook Road (also known as Beaudry Road), which intersects Route 27 just south of Lower Pond in Chain of Ponds Township, and the Mile 5 Road, an existing Plum Creek logging road that begins at milepost 5 off the Gold Brook Road. Gold Brook Road runs generally north through the Project area, and the Mile 5 Road extends west toward the northern end of the Sisk Mountain ridge. A new access road off the Mile 5 Road will be required to reach the Sisk Mountain ridgeline and individual turbines. Access to the new substation will be via the Gold Brook Road and Wahl Road. Wahl

Road extends from approximately milepost 6 on Gold Brook Road toward the east. The proposed collector line will generally parallel these existing, new and improved roads from the individual turbines on the ridge to the substation. As a result, access to the collector line will be from these same roads and will not require any additional access other than periodic, short temporary access spurs from these permanent roads.

B.6.2.1 Improvements to Existing Private Roads

The existing Gold Brook Road and Wahl Road up to the Kibby Substation, as already improved for Kibby Project construction, will not require any additional improvements for construction or operation of the Kibby Expansion Project. No new pull-off locations will be required along these two roads. Only normal grading and maintenance activities will take place on these two roads during the construction phase.

Wahl Road

Approximately 1,200 linear feet of the existing Wahl Road, beginning at the entrance to the existing Kibby Substation and ending at the entrance to the new Kibby Expansion Substation, will require improvements to modify crowns and sips in the road to enable transport of the transformer to the site or "low-bed" trailers and provide for safe use during construction and operation of the Kibby Expansion Project. Roadway improvements will be implemented, consistent with Plum Creek's seasonal roadway activities, to ensure road grades, widths and curves are adequate for delivery of substation components and are maintained in serviceable condition. In general, the gravel roadway travel surface will be improved to 20 feet wide and provisions will be made to manage stormwater runoff. Additional discussion, specifications and drawings for the improvements to this section of Wahl Road are provided in Exhibit B.13 and Attachment B.13-1.

Mile 5 Road

The first approximately 1.3 miles of the Mile 5 Road, beginning at the Gold Brook Road, is a maintained, frequently used logging road with a drivable surface that varies between approximately 10 feet and 15 feet wide. This portion of the road will nonetheless require improvements to a 20-foot wide gravel travel surface and installation of improved stormwater management structures to handle the loads associated with construction equipment delivery of turbine components and to serve as a portion of the reliable, safe permanent access to the Sisk Mountain ridgeline. Where existing bridge weights are not sufficient, structural improvements or replacement bridges will be installed. A load-carrying capacity of 90 to 100 tons is required.

The next approximately 0.9 mile of the Mile 5 Road is currently characterized as a winter road, which is a road that has been created by grubbing and leveling a travel surface but with little

additional gravel or improvements. It is generally only drivable when frozen. This winter road will also be rebuilt as a permanent, 20-foot wide gravel access road, with engineered stormwater management features such as adequate culverts where needed, that will be able to accommodate the loads required for construction and operation of the Project year round. As a result, approximately 2.2 miles of the Mile 5 Road will be improved or rebuilt to provide a portion of the access to the turbines on ridgeline.

Because the Mile 5 Road is used by other traffic, pull-off locations will be constructed that will enable safe traffic management along the access road during construction. Pull-offs will be located in upland areas only, as well as previously-cleared areas, as much as possible. Additional discussion, specifications and drawings for the improvements to this section of the Mile 5 Road, including the location of the pull-offs, are provided in Exhibit B.13.

Use of the existing Mile 5 Road will reduce the amount of new clearing and disturbed area necessary to access the Sisk Mountain ridge. Plum Creek will continue to have ownership and responsibility for maintaining these existing roads (Gold Brook Road, Wahl Road and Mile 5 Road), which are considered "land management roads" under LURC definitions.

B.6.3 New Road Construction

B.6.3.1 Mile 5 Road to the Ridgeline

A new section of road will be required from approximate milepost 2.2 on the improved Mile 5 Road to the Sisk ridgeline. This portion of the access road will be approximately 1.1 miles long. Routing of this road has been designed to take advantage of previously cleared areas which have currently grown back to young trees and brush (the first approximately 1,600 linear feet), avoiding wetland and other protected resource impacts as much as possible while, at the same time, allow for slopes that can be safely traveled by heavy equipment and loads. This was accomplished through the incorporation of a switchback design, which minimizes and balances cuts and fills, and generally keeps the length of the road as short as practicable. It would be built as a rock and gravel road, with a 20-foot wide travel surface, and make maximum use of the super-elevated road construction and stormwater management techniques developed during construction of the Kibby Project. Ditches or other measures that channelize runoff will be avoided to the maximum extent possible. Vegetation may be cut back along the edges during construction to allow for the passage of wide loads. Pull offs will be provided in upland locations to facilitate safe passage of construction equipment on the steeper grades up to the ridge.

B.6.3.2 Crane Roads

Mountaintop roads connecting the turbines must carry the same heavy loads as the access roads,

but must also be wide enough for the wide-tracked heavy-lift erection cranes to move from WTG to WTG. A total of approximately 3.6 miles of crane roads will be required. Routing of the crane roads has taken into consideration the same physical and environmental considerations as the new access road, with special emphasis placed on totally avoiding any disturbance within the Bicknell's thrush core habitat and bog lemming habitat and minimizing to the maximum extent practicable impact within the overall Bicknell's thrush and subalpine fir habitats.

The crane roads would have a 34-foot wide rock and gravel travel surface and use the same super-elevated roads design and construction techniques as the new access road segment. The crane will be brought to the ridgeline dis-assembled, and assembled near the first turbine pad. The design assumes that the crane will then travel from one site to the next along the crane road as each turbine site is ready. As a practical matter, detailed logistics planning will be incorporated into the construction process and it is likely that "walking" the crane from site to site will occur for clusters of turbine sites; for other sites, it may be more appropriate to take the time for dis-assembling and re-assembling. Following construction, only 20 feet of the 34-foot construction road width will be maintained.

Where rock is encountered, ripping or blasting will be utilized. Blasting will be performed safely and efficiently with minimal impact to areas adjacent to the blast sites. The Project's Blasting Plan is provided in Exhibit B.13, Attachment B.13-2. TransCanada will be responsible for the ongoing maintenance of new Project roads.

Additional details, specifications, cut and fill estimates and drawings for new road construction are provided in Exhibit B.13. The plans provided in Exhibit B.13 reflect specific design measures for each planned roadway. However, it is acknowledged that the final selection of appropriate design elements can only be made based on actual, in-field conditions and professional engineering judgment. Therefore, the plans also reflect a series of design measures, referred to as a "toolbox," that will be selected as appropriate to respond to a range of anticipated site conditions. These techniques have been developed and modified through a series of site visits, meetings, and discussions with regulatory agencies (including LURC, DEP, and the Maine State Soil Scientist), as well as experience gained on the Kibby Project. This approach was successfully utilized in construction of the Kibby Project to maintain the existing hydrology and other sensitive attributes present in fragile mountain areas.

B.6.3.3 Temporary Skid Trail/Construction Access

In order to allow for efficient progression of ridge line clearing activity, a skidder trail from the vicinity of WTG #15 to the existing access trail to the temporary met tower located on the Sisk Mountain ridge will be needed to avoid the disruption of construction activity on the permanent Project roads for the purpose of hauling logs down from the ridge. The skidder trail will be

approximately 0.6 miles long, 12 feet wide and is located to avoid wetlands and other sensitive resources and the steeper terrain in this area. To minimize the amount of new land area affected, the trail will then utilize approximately 1 mile of the existing access trail to the temporary met tower down to the Mile 2.5 and Gold Brook Roads.

Once clearing activities have been completed on the ridge, rock fill from on-site blasting activities will be added to reduce some of the steeper slopes, and the trail will be used for temporary construction access by vehicles capable of traveling the steep grades that remain. Following construction, the fill will be removed and unvegetated areas will be stabilized and allowed to revegetate. The approximate location of the skidder trail is shown on Figure B.13-2.

B.6.3.4 Temporary Collector System Spur Roads

The proposed collector line will generally parallel the existing, new and improved roads from the individual turbines on the ridge to the substation. As a result, access to the collector line will primarily be from these same roads and will not require any additional access other than periodic, short temporary access spurs from these permanent roads. Any short spurs that are used will be confined to upland areas, will utilize previously-cleared areas as much as possible, and will require minimal grading and temporary fill, if any. Temporary access spurs to the collector line and access along the collector line ROW will be restored to original contour and stabilized following construction.

B.6.4 Post-Construction Stabilization and Revegetation

As outlined in more detail in Exhibit B.14, following construction all areas of disturbed soils, excluding roads, portions of the turbine pads, or other areas not intended to be revegetated, would be stabilized with ECM. Steeper graded slopes and channels may be stabilized using means other than exclusively vegetation or ECM, including rock and vegetation reinforced with matting.

B.6.5 Public Access, Vehicular Circulation and Parking

The land owner will continue to control access to the site, to the extent that is currently done. In general, public access on existing forestry roads, and the current uses of the site, as allowed by the landowners, can continue following completion of construction. All existing private roads are owned by Plum Creek or KWF and are private commercial forestry roads, extensively utilized by logging trucks. Public access is allowed, and the roads are used by local travelers. Public access to the existing roadway network will continue. New ridgeline roads will be gated and public access restricted during defined periods for safety reasons. Signs will be posted notifying users of roadway closures.

However, there may be times during Project construction that the existing Plum Creek or KWF roadway network may be temporarily closed to the public due to the nature of the construction activities (e.g., blasting) or the delivery of large pieces of equipment. Construction activities and equipment delivery requiring road closure will be scheduled to the extent possible to minimize restricted access during high use periods.

The majority of on-site construction traffic will travel along Gold Brook Road and other branch roads (e.g., Wahl Road and the Mile 5 Road) to construction areas. Limited construction worker vehicle parking will also be accommodated at the construction control center established for the Kibby Project located at the intersection of Gold Brook Road and Route 27, and transportation logistics to other portions of the Project site will be managed by the contractor from that location. The Construction Control Center will be expanded by approximately 1 acre to accommodate the Kibby Expansion Project.

The location and circulation of Project construction vehicles and Plum Creek's logging vehicles on the Plum Creek roadway network will be monitored using CB radios as is being done during construction of the Kibby Project. Each vehicle is required to carry a radio and announce its location and direction of travel as it passes each milepost and half-milepost marker. The presence of large vehicles and equipment on the roadway system is therefore known and drivers are able to anticipate when it may be necessary to pull to the side of the road to allow larger vehicles to pass.

As is the case for Kibby Project construction, a parking area on State Route 27 in Eustis will be provided for most construction personnel commuter vehicles. Contractor personnel are then transported to the job site in multi-passenger vans and other construction vehicles. Limited additional contractor and visitor parking is provided at the construction control center near the intersection of Gold Brook Road and State Route 27. This helps greatly to minimize and control vehicular circulation and the amount of vehicle parking required at individual construction locations.

EXHIBIT B.7 LAND DIVISION HISTORY

The following is a land division history for the parent parcels now owned by KWF in Chain of Ponds Township and Plum Creek in Kibby Township:

B.7.1 KWF Parent Parcel – Chain of Ponds Township

The parent parcel in Chain of Ponds Township was acquired by KWF from SP Forests LLC by deed dated December 30, 2004 and recorded in the Franklin County Registry of Deeds in Book 2551, Page 302. Prior to KWF's ownership, the parent parcel was conveyed as follows:

- 2004, December 1: Out-parcel conveyed to The Megantic Fish and Game Corporation by deed recorded in the Franklin County Registry of Deeds in Book 2539, Page 43. This lot is not counted for subdivision purposes as this was a transfer to an abutter.
- 1999, June 16: Entire parent parcel conveyed to SP Forests LLC by IP Timberlands Operating Company, LTD by deed recorded in the Franklin County Registry of Deeds in Book 1865, Page 98.
- 2009, September: Two parcels conveyed to Maine Department of Transportation under threat of eminent domain by deed recorded in the Franklin County Registry of Deeds in Book 3186, Page 127. These lots were historically leased by Maine Department of Transportation for at least twenty years prior to the sale.

There were no conveyances of the parent parcel between March 11, 1989 and June 16, 1999 other than in connection with a corporate reorganization of IP Timberlands Operating Company, LTD. In connection with this corporate reorganization, the entire parent parcel was conveyed by IP Timberlands Operating Company, LTD to IP N-S Assets, LP after which the name of IP N-S Assets, LP was changed to IP Timberlands Operating Company, LTD.

There are seven historically leased lots located on the parent parcel. All of these leased lots have been in existence for more than 20 years (with inception dates ranging from 1973 to 1981). Four of these lots were conveyed to the leaseholders (following conveyance by KWF to its parent entity Black Bear Forest, Inc. and a conveyance by Black Bear Forest, Inc. to its subsidiary Black Bear Cub, Inc., an affiliate of KWF):

- Lot 970-102 (located on Caribou Pond) conveyed to Robert Witherly;
- Lot 970-66 (located on Lower Pond) conveyed to Donald E. Olen, Sr.;
- Lot 970-36 (located off Route 27) conveyed to Kenneth G. Jones; and
- Lot 970-17 (located on Route 27) conveyed to Robert G. Cushman.

The remaining leased lots continue to be owned by KWF and leased to the long-term tenants as follows:

- Lot 970-057 (located off Route 27) leased to James K. Brochu;
- Lot 970-072 (located on Gold Brook Road) leased to Michael Reeve; and
- Lot 970-087 (located northerly and westerly of a small beaver pond) leased to Robert S. Smith.

In light of the foregoing, there have been no unauthorized divisions within the past 20 years.

B.7.2 Plum Creek Parent Parcel – Kibby Township

The parent parcel in Kibby Township was acquired by SDW Timber II, LLC (now known as Plum Creek Maine Timberlands, LLC) from S.D. Warren Company ("SDW") by deed dated November 5, 1998 and recorded in the Franklin County Registry of Deeds in Book 1799, page 170. Prior to SDW/Timber II, LLC/Plum Creek's ownership, the parent parcel was conveyed as follows:

• 1986, July 24: Entire parent parcel conveyed to SDW by Scott Paper Company by deed recorded in the Franklin County Registry of Deeds in Book 913, Page 6.

In light of the foregoing, there have been no unauthorized divisions within the past 20 years.

EXHIBIT B.8 EXISTING USES AND STRUCTURES

The predominant use of the Project area is for production and harvesting of forest products and, more recently, for wind power generation. Commerical harvesting activities may continue except in the areas utilized for turbine placement. Additionally, the private roadway network is used not only for logging activities, but also by other forest management companies and land owners (such as Domtar, the Passamaquoddy Nation, State of Maine) and the general public. The Project area, particularly in Kibby Township, is also used for limited recreational purposes such as hiking, hunting, camping, snowmobiling and fishing consistent with the Plum Creek policy of allowing public access to its timberlands.

The Kibby Project is located primarily in Kibby Township and extends for a small portion into Skinner Township. That project consists of 44 3.0 MW Vestas V90 turbines, associated collector lines, access roads, substation, and O&M Building located in Chain of Ponds Township near the intersection of Gold Brook Road and State Route 27. Twenty two turbines are currently operational, and completion of the remaining 22 turbines will occur next year. The Kibby Project also includes a 27.6-mile 115 kV transmission line connecting that project to the Bigelow substation in Carrabassett Valley.

There are no structures on the parcels to be developed other than those associated with the Kibby Project and the temporary met tower on the Sisk Mountain Ridge. The temporary met tower was authorized by LURC Development Permit DP-483, and was installed by TransCanada in Chain of Ponds Township as part of development of this Project. The Project will utilize existing infrastructure associated with the Kibby Project, including improved access roads, the 27-mile 115 kV transmission line, and the O&M Building.

EXHIBIT B.9 FINANCIAL AND TECHNICAL CAPACITY

B.9.1 Financial Capacity

The Kibby Expansion Project will be financed in its entirety by TransCanada, utilizing internal sources of funding. As of December 31, 2008, TransCanada had over \$39 billion of assets, \$3 billion of cash flow and \$1.4 billion of net income from continuing operations. The vast majority of these are long-lived assets that are regulated by federal authorities in either the United States or Canada, providing long term stability to TransCanada's earnings. TransCanada has a solid track record of success driven by diligent and disciplined execution of growth strategies. A copy of TransCanada's 2008 Annual Report is provided in Attachment B.9-1.

As evidenced in the letter provided as Attachment B.9-2, TransCanada Corporation has committed to advance as necessary the funds required for the Project.

TransCanada's issuer rating assigned by Moody's Investors Service (Moody's) is Baaa1 with a stable outlook. Credit ratings on TCPL's senior unsecured debt assigned by Dominion Bond Rating Service Limited (DBRS), Moody's and Standard & Poor's are currently A, A3 and A-, respectively. All three organizations maintain a stable outlook on their ratings.

Additional information regarding TransCanada's financial capacity to fully fund any necessary decommissioning costs is provided in Exhibit A.7.

B.9.2 Technical Capacity

B.9.2.1 The Applicant

The applicant, **TransCanada**, is the same applicant to whom the LURC Kibby Project Rezoning Petition and Development Plan approval was granted. TransCanada is responsible for the design, permitting, and construction of the Kibby Project adjacent to the Kibby Expansion Project in the same topography and climate associated with the Boundary Mountains area. The Kibby Project includes 44 Vestas V90 3.0 MW wind turbines capable of generating 132 MW of electric power, approximately 28.8 miles of new or improved access roads, approximately 3.9 miles of new 34.5 kV collector lines, a substation, an approximately 27.6-mile long 115 kV transmission line, and other associated facilities. The Kibby Project to date has been recognized in Maine as an extremely successful project in terms of its statewide significance, use of innovative state-of the-art construction techniques and the sensitivity to and protection of environmental resources during and after construction. The same level of expertise from essentially the same design and construction management team, with yet additional experience gained from the Kibby Project and recent projects in Canada, is behind the Kibby Expansion Project.

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure. TransCanada's approximately 3,550 employees provide industry-leading expertise in natural gas pipeline and power generation operations, and have the project management skills, industry experience, financial resources, and proven track record that are required to successfully develop the Kibby Expansion Project, as demonstrated by the recent successful development, permitting, ongoing construction and now operation of the Kibby Project in Maine. TransCanada plays a vital role in connecting energy supplies to key Canadian and U. S. markets. It has a network of more than 36,500 miles of pipeline that taps into virtually all major gas supply basins in North America. A growing independent power producer, TransCanada owns, controls or is developing approximately 10,900 MW of power generation in Canada and the U. S. With a proven track record in developing and operating large infrastructure projects, TransCanada has demonstrated an understanding of the range of technical analyses important to demonstrating project acceptability.

TransCanada's Wind Projects

TransCanada has extensive experience in developing wind projects in North America. The development and implementation of the Kibby Project in Maine is likely the best example of TransCanada's development expertise and commitments to stakeholder relations and responsible development practices. The Kibby Project is TransCanada's first wind power development project in the U.S. With 66 MW of its 132 total MW of generation currently in operation, the Kibby Project is already New England's largest operating wind power development. TransCanada believes its Kibby Project has set the bar for responsible wind power development in Maine, and looks forward to continuing the cooperative working relationships developed with regulatory and resource agencies in permitting of the Kibby Expansion.

TransCanada is also the majority owner of Cartier Wind Energy Inc. ("Cartier") in the Province of Quebec, which was awarded six projects representing a total of 739.5 MW by Hydro-Québec Distribution in a Request for Proposals issued in October 2004. TransCanada's combination of competitive pricing, power experience and strong balance sheet led to Cartier being awarded 739.5 of the total 1,000 MW awarded. The assets related to these projects are indirectly co-owned with Innergex. These projects represent an investment of more than \$1.1 billion. Commissioning began in 2006 and will continue up to 2012.

The Cartier projects are:

- Baie des Sables (109.5 MW);
- Anse à Valleau (100.5 MW);
- Carleton (109.5 MW);
- Les Méchins (150 MW);

- Montagne-Sèche (58.5 MW); and
- Gros-Morne I and II (211.5 MW).

As documented in this application, TransCanada's experience in a wide range of energy projects, including wind power, and commitment to corporate responsibility have resulted in thorough consideration of engineering and environmental issues as the Kibby Expansion Project feasibility was assessed and project details refined.

B.9.2.2 The Permitting Team

TRC Environmental Corporation ("TRC") is the primary environmental consultant, and is completing or managing all of the environmental studies, analysis, and permitting. The Project is being managed from TRC's Augusta office, with nearly all the field and permitting staff coming from TRC's Augusta, South Portland or Lowell, Massachusetts offices. TRC cultural resources staff is also conducting all of the archaeology and historic structures investigations. The participating TRC staff form essentially the same core team that completed the environmental studies, permitting work and permit compliance support during permitting and construction of the Kibby Project.

TRC is a multi-disciplinary, full service engineering and environmental consulting firm with staff that has over 30 years of experience in environmental management and energy development project assessment and permitting in Maine. TRC is one of the largest full service environmental consulting firms nationally. With a core competency of over 2,600 environmental engineers, scientists and planners, TRC is a public corporation with 73 offices located throughout the nation. TRC is a national leader in providing siting, licensing, engineering and compliance services for energy transmission, distribution, and generation facilities, including extensive experience in the northeast and Maine. TRC staff has completed federal, state, and local permitting for approximately 20 wind power developments in the U.S. and thousands of miles of electric transmission and natural gas pipelines, providing an intimate familiarity with the specialized issues and requirements associated with permitting wind and other energy projects as well as environmental inspection during construction and ongoing compliance during operation.

Jean Vissering Landscape Architecture ("Jean Vissering") completed the scenic character evaluation. Jean Vissering has conducted aesthetic evaluations for a number of wind projects, including the Kibby Project, as well as having authored several papers and guideline documents on the aesthetics of siting wind turbines. She is working with TRC staff for production of visual simulations and other graphic support.

Stantec conducted the avian and bat studies. Stantec is a multi-disciplinary natural resources, infrastructure, engineering and environmental services company, with offices throughout the

U.S. and Canada. Stantec's staff located in their Topsham, Maine office is well-known for their experience in evaluating the impact of wind farms on avian resources and mapping the movement of migratory birds and bats over proposed wind sites. Stantec's Topsham staff conducted the radar and bat monitoring studies for the Kibby Project.

Verrill Dana, LLP ("Verrill Dana"), with headquarters in Portland, Maine, serves as legal counsel on the Kibby Expansion Project. Verrill Dana has successfully permitted major utility infrastructure projects in Maine, including the Kibby Project and three other grid-scale wind power projects in Maine, several Maritimes & Northeast Pipeline projects and the Bangor Hydro-Electric Company 345 kV transmission line project. Verrill Dana also represents First Wind, L.L.C. ("First Wind"), another major developer of grid-scale wind power projects in the U.S. Two of First Wind's Maine projects are currently operational and others are in various stages of the permitting/development process. Verrill Dana has managed other large environmental permitting matters, including expansion of one of the state's two commercial landfills and the licensing of Maine Yankee's independent spent fuel installation facility, and provides developers and other clients with the full range of environmental services on permitting, compliance, litigation and transactional matters.

Barton Gingold, with offices in Portland, Maine, is Maine's oldest independent full-service management consulting firm. It specializes in communication, government and public relations, community outreach, marketing and mediation. The firm has worked on multiple energy projects including windpower, hydropower and natural gas and electrical transmission. Barton Gingold is assisting with the public outreach aspects of the Kibby Expansion Project, as it did for the Kibby Project.

ATTACHMENT B.9-1

TransCanada 2008 Annual Report



annual report

celebrating yesterday delivering today building for tomorrow



celebrating yesterday

It was a true engineering wonder of its time. Nearly 3,700 kilometres of steel pipe – pushed through some of the toughest terrain in Canada.

Up to 5,000 workers persevered through a multitude of obstacles,

Canadian Mainline Construction Facts

- \$375 million original cost.
- 655,000 tons of pipe carried by 25,000 railway cars.
- 184 lakes and rivers crossed.
- Permission needed from more than 5,000 landowners.
- Swamp-like muskeg swallowed vehicles up to their door handles.
- Impenetrable rock that took up to 30,000 sticks of dynamite per kilometre to dislodge.
- Workers faced bonenumbing winters and mosquito-infested summers.
- Rain, mud, snow and ice were the yearly challenges faced by crews.

often under extremely adverse conditions, to build what would be the world's longest pipeline.

In 2008, TransCanada's Canadian Mainline celebrated 50 years of history – recognizing a milestone anniversary of the final weld on the first pipeline system designed to deliver Alberta natural gas to markets in Ontario and Quebec.

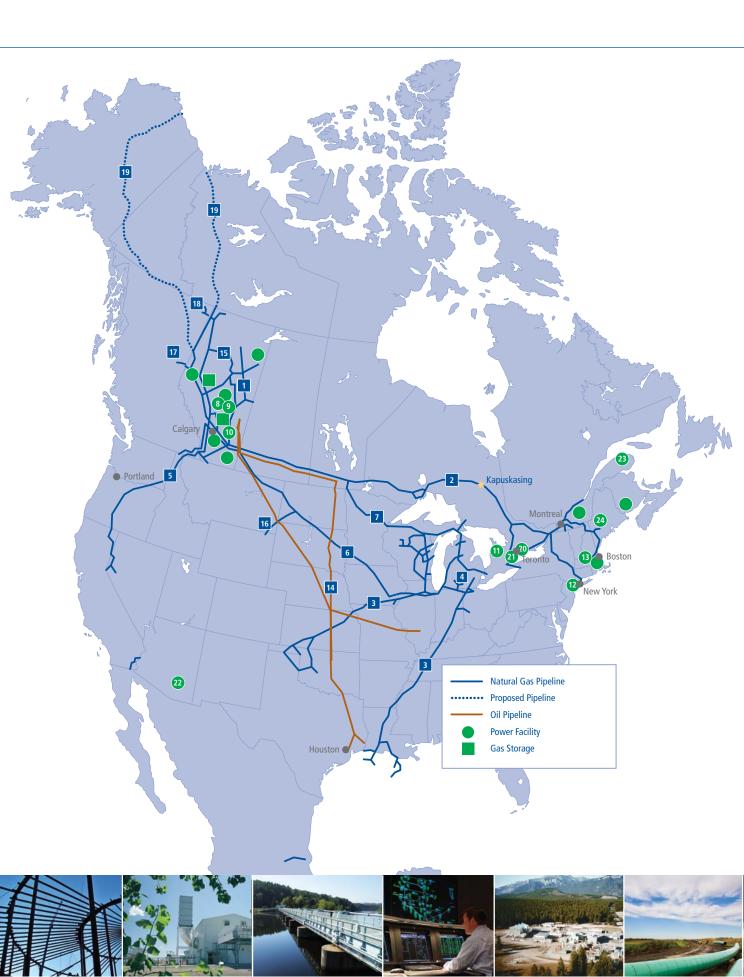
Construction of the Mainline's western leg began on June 17, 1956 at Burstall, Saskatchewan. Natural gas reached the cities of Winnipeg, Manitoba and Regina, Saskatchewan on the Canadian Prairies in September 1957. Workers pushed on, challenged by the terrain and the remoteness of the land - moving about one kilometre a day across Ontario and, finally into Quebec. The final weld on the pipeline took place in Kapuskasing, Ontario on October 10, 1958.

To commemorate the event, Canada Post and TransCanada unveiled a special edition Canadian postage stamp, depicting a single, anonymous welder representing thousands of labourers who worked to complete the historic pipeline.



A little known fact – a silver dollar was welded to the pipe in that location. That silver dollar is now on display at TransCanada's head office in Calgary, Alberta.





Pipelines

TransCanada operates one of the largest natural gas pipeline systems in North America. With 50 years of experience, we are experts in the business of operating, maintaining and building large-diameter, long-haul pipelines. The strength of our pipeline business is rooted in these examples of critical infrastructure:

Delivering 20% of the natural gas consumed in North America

1 Alberta System This 23,705 kilometre (14,730 mile) pipeline moves approximately 11 Bcf/d, making it one of the largest in North America. It gathers natural gas for use in Alberta and delivers it to provincial border points for export to North American markets. In 2008, the Alberta System gathered 66 per cent of the natural gas produced in Western Canada.

2 Canadian Mainline This 14,101 kilometre (8,762 mile) pipeline extends east from the Alberta border to Quebec and connects with other natural gas pipelines in Canada and the United States. Across the Canadian prairies, the system consists of five parallel lines capable of transporting approximately 7.0 Bcf/d.

ANR Pipeline System A ANR Storage This 17,000 kilometre (10,563 mile) pipeline has a peak day capacity of 6.8 Bcf/d. It delivers natural gas from producing fields in Texas, Oklahoma, Louisiana and the Gulf of Mexico to markets in Wisconsin, Michigan, Illinois, Ohio and Indiana. ANR also owns and operates 250 Bcf of regulated natural gas storage capacity in Michigan.

5 GTN **6** Northern Border **7** Great Lakes These three natural gas pipelines include a total of 7,828 kilometres (4,864 miles) of pipe and deliver natural gas from Western Canada to premium markets across North America.

Energy

TransCanada has built a successful power business by acquiring low-cost, baseload generation, and developing new large-scale facilities backed by long-term power purchase arrangements. Today we own or have interests in 19 power plants in Canada and the United States. We also have a significant non-regulated natural gas storage business in Alberta where we own or have the rights to 120 Bcf of capacity. Some examples of our Energy assets include:

Capacity to power 11 million homes

8 9 Sundance 10 Sheerness Through these power purchase arrangements in Alberta and a number of other wholly-owned plants, we market 20 per cent of the province's power.

1 Bruce Power Canada's first private nuclear generating station, this facility currently produces 4,700 MW of power or more than 20 per cent of Ontario's electricity.

12 Ravenswood Generating Station Located in Queens, New York, the 2,480 MW power plant is capable of supplying 20 per cent of New York City's power needs.

¹³ TC Hydro 13 hydroelectric facilities on the Connecticut and Deerfield rivers in New Hampshire, Vermont and Massachusetts produce 583 MW of power.



delivering today

TransCanada is a leading North American energy infrastructure company.

With approximately \$40 billion in assets, today we are a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas and oil pipelines, power generation and natural gas storage facilities.

Our 59,000 kilometre (36,661 mile) wholly-owned natural gas pipeline network taps into virtually every major natural gas

\$40 billion in assets

supply basin on the continent and provides our customers with unparalleled access to premium markets. Each day we deliver 20 per cent of the natural gas consumed in North America. Looking forward, our vast pipeline network is well positioned to connect new sources of supply such as shale gas, coalbed methane and offshore liquefied natural gas as well as supply from the north.

We are also one of the continent's largest providers of natural gas storage and related services with

4,000 talented employees

approximately 370 billion cubic feet of capacity – enough to meet the needs of nearly four million homes each year.

As one of Canada's largest independent power producers, TransCanada owns, controls or is developing more than 10,900 megawatts of power generation in Canada and the United States – enough capacity to power 11 million homes. Our diversified power portfolio includes natural gas, nuclear, coal, hydro and wind generation primarily located in Alberta, Ontario, Quebec and the northeastern United States.

Recently, we made a significant entry into the oil pipeline business through the Keystone Pipeline System. When completed it will be one of North America's largest oil delivery systems with the capacity to move 1.1 million barrels per day from Western Canada to markets in the U.S. Midwest and Gulf Coast.

Going forward, we will continue to create value for our shareholders and our customers by building and operating the energy infrastructure that North America needs.

Today, we are in the midst of an \$18 billion capital program that will see a number of attractive, low-risk projects completed over the next four years. They include expansions of our existing pipeline infrastructure, new pipeline infrastructure, new natural gas storage facilities and new power plants – critical infrastructure in the markets we serve.

As we build for tomorrow, TransCanada is committed to being a reliable and safe operator, with a focus on providing low-cost, competitive services to our customers.

Creating value for our shareholders and customers

With growth comes greater responsibility. Responsibility

to our investors, to our customers, to our employees, to the contractors who work diligently with us, to the regulators across the continent who scrutinize our proposals, to the thousands of residents in communities located near our pipelines and power plants, and to the environment. We have always worked hard to ensure environmental sustainability wherever we operate.

Our success is a reflection of our exceptional team of 4,000 committed and motivated employees who bring skill, experience, energy and knowledge to the work they do. They are our competitive advantage.





building for tomorrow \$18 billion capital program underway

Pipelines

14 Keystone Pipeline System This US\$12 billion pipeline will stretch 6,176 kilometres (3,837 miles) from Hardisty, Alberta to refining centres in the U.S. Midwest and Gulf Coast. When completed, Keystone will be one of the largest oil delivery systems in North America with the capacity to move 1.1 million barrels of oil a day to an American market looking for a growing and reliable supply. In 2008, TransCanada agreed to increase its ownership interest up to 79.99 per cent of Keystone.

Keystone will deliver 1.1 million barrels of oil per day to U.S. markets

15 Alberta System North Central Corridor Expansion Stretching 300 kilometres (186 miles) across northern Alberta, the \$925 million North Central Corridor expansion will optimize natural gas flows on the Alberta System and allow TransCanada to address changing supply and demand dynamics in the province.

16 Bison Pipeline Project The 480 kilometre (298 mile) Bison Pipeline project will move natural gas from the Powder River Basin in Wyoming to the

Northern Border System in North Dakota, tapping into a growing supply of U.S. Rockies natural gas for Midwest markets in the United States. The US\$500 - US\$600 million initiative is expected to begin shipping natural gas in late 2010.

17 Groundbirch 18 Horn River Pipeline

Projects Groundbirch and Horn River are both designed to transport natural gas to market from shale gas deposits in northeastern British Columbia. TransCanada held a successful open season late in 2008 for the Groundbirch line, with commitments reaching 1.1 Bcf/d by 2014. The 77 kilometre (48 mile) project should be operational in late 2010. The company continues to work with potential shippers on the Horn River line. It is expected to start shipping gas in early 2011.

19 Northern Pipeline Projects Billed as the largest construction project in U.S. history, the US\$26 billion (2007 dollars) Alaska Pipeline would transport natural gas from untapped reserves in Prudhoe Bay in the North to Alberta, where it would integrate with the Alberta System to provide access to diverse markets across North America. TransCanada has received a license from the Alaska government to advance the 2,760 kilometre (1,715 mile) line and is



committed to moving the project through an open season in 2010 and the subsequent regulatory process. If successful, the project could be sanctioned in 2014, with natural gas anticipated to start flowing in 2018. In Canada, TransCanada and the other co-venture companies involved in the Mackenzie Gas Pipeline project continue to pursue approval of the proposed 1,200 kilometre (746 mile) pipeline project, focusing on obtaining regulatory approval and the Canadian government's support of an acceptable fiscal framework.



Attractive, low-risk projects...

Today, TransCanada is in the midst of an \$18 billion capital program that will see a number of attractive, low-risk energy infrastructure projects completed over the next four years. Each project has



Energy

1 Bruce Power The \$3.4 billion refurbishment of Bruce A Units 1 and 2 is expected to be completed in 2010. TransCanada's share of the capital investment is approximately \$1.7 billion.

Bruce Power will add 1,500 MW to the Ontario market

When complete, the two units will be capable of delivering 1,500 MW of electricity to the Ontario market – enough to power one and a half million homes. Bruce Power is made up of two generating stations – A and B – with each consisting of four generating units. TransCanada owns 48.9 per cent of Bruce A and 31.6 per cent of Bruce B.

20 Portlands Energy 21 Halton Hills

Construction of the Portlands Energy Centre is nearing completion and should be fully operational early in 2009. The 550 MW facility can supply 25 per cent of Toronto's electricity needs. This high-efficiency power plant is 50 per cent owned by TransCanada and is expected to cost \$730 million. Work on the \$670 million Halton Hills Generating Station is 50 per cent complete. The 683 MW facility should be operational late in 2010. Located 40 kilometres (25 miles) west of Toronto, Halton Hills will generate enough power for 600,000 homes.

22 Coolidge TransCanada continues to establish its energy footprint in the U.S. with a 575 MW power project in Coolidge, Arizona. The US\$500 million plant will provide a quick response to peak power demands, have reserve capacity, and the ability to add power quickly to support reliability in the region. Construction is expected to begin in the summer of 2009 and be complete in 2011.

23 Cartier **24** Kibby The Cartier and Kibby Wind projects will generate clean, renewable electricity for thousands of families. Cartier is the largest wind power project in Canada, valued at \$1.1 billion. Its six phases will ultimately generate 740 MW of power. Three phases are now complete, with the remainder coming on stream by 2012. TransCanada owns 62 per cent of Cartier. Residents of New England will ultimately see 44 wind turbines built between 2009 and 2010 as part of the US\$320 million Kibby project. This 132 MW initiative will be the largest wind power development in the state, providing enough 'green energy' for 50,000 homes in the state of Maine.

been commercially secured through long-term contractual arrangements. These arrangements, along with our expertise in developing, building and operating largescale energy infrastructure gives us confidence these projects will generate attractive, long-term returns for our shareholders. Looking forward, we will continue to cultivate a high quality portfolio of future growth opportunities that will create additional value for decades to come.

generating long-term returns for our shareholders

2008 Financial Highlights

Building on our track record of success

Net Income

\$1.4 billion or \$2.53 per common share, a 10% increase⁽²⁾</sup>

Comparable Earnings[®]

\$1.3 billion or \$2.25 per common share, an 8% increase⁽²⁾

Dividends Declared

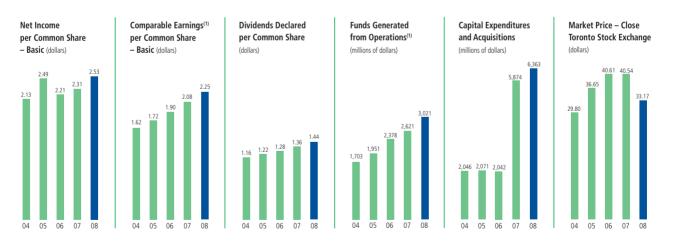
\$1.44 per common share, a 6% increase⁽²⁾</sup>

Funds Generated from Operations[®]

\$3.0 billion, a 15% increase⁽²⁾

Capital Expenditures and Acquisitions

\$6.4 billion invested in core businesses



(1) Non-GAAP measure that does not have any standardized meaning prescribed by generally accepted accounting principles. For more information on non-GAAP measures see page 16 in the Management's Discussion and Analysis of the 2008 Annual Report. (2) Compared to 2007.

	2004	2005	2006	2007	200
Income					
Comparable earnings ⁽¹⁾	786	839	925	1,100	1,27
Net income	1,032	1,209	1,079	1,223	1,44
Cash Flow					
Funds generated from operations	1,703	1,951	2,378	2,621	3,02
(Increase)/decrease in operating working capital	29	(49)	(303)	215	(18
Net cash provided by operations	1,732	1,902	2,075	2,836	2,84
Capital expenditures and acquisitions	2,046	2,071	2,042	5,874	6,36
Balance Sheet					
Total assets		24,113	25,909	30,330	39,41
Long-term debt	9,749	9,640	10,887	12,377	15,36
Junior subordinated notes Common shareholders' equity	- 6,565	- 7,206	_ 7,701	975 9,785	1,21 12,89
Common Share Statistics Year ended December 31	2004	2005	2006	2007	200
	2004	2005	2006	2007	200
Year ended December 31	2004 \$1.62	2005 \$1.72	2006 \$1.90	2007 \$2.08	200 \$2.2
Year ended December 31 Comparable earnings ⁽¹⁾ – Basic					
Year ended December 31 Comparable earnings ⁽¹⁾ – Basic Net income per share – Basic	\$1.62	\$1.72	\$1.90	\$2.08	\$2.2
	\$1.62 \$2.13	\$1.72 \$2.49	\$1.90 \$2.21	\$2.08 \$2.31	\$2.2 \$2.5 \$2.5
Year ended December 31 Comparable earnings ⁽¹⁾ – Basic Net income per share – Basic Net income per share – Diluted Dividends declared per share Common shares outstanding (millions)	\$1.62 \$2.13 \$2.12 \$1.16	\$1.72 \$2.49 \$2.47 \$1.22	\$1.90 \$2.21 \$2.20 \$1.28	\$2.08 \$2.31 \$2.30 \$1.36	\$2.2 \$2.5 \$2.5 \$1.4
Year ended December 31 Comparable earnings ⁽¹⁾ – Basic Net income per share – Basic Net income per share – Diluted Dividends declared per share Common shares outstanding (millions) Average for the year	\$1.62 \$2.13 \$2.12 \$1.16 484.1	\$1.72 \$2.49 \$2.47 \$1.22 486.2	\$1.90 \$2.21 \$2.20 \$1.28 488.0	\$2.08 \$2.31 \$2.30 \$1.36 529.9	\$2.2 \$2.5 \$2.5 \$1.4 569.
Year ended December 31 Comparable earnings ⁽¹⁾ – Basic Net income per share – Basic Net income per share – Diluted Dividends declared per share Common shares outstanding (millions)	\$1.62 \$2.13 \$2.12 \$1.16	\$1.72 \$2.49 \$2.47 \$1.22	\$1.90 \$2.21 \$2.20 \$1.28	\$2.08 \$2.31 \$2.30 \$1.36	\$2.2 \$2.5 \$2.5 \$1.4 569.
Year ended December 31 Comparable earnings ⁽¹⁾ – Basic Net income per share – Basic Net income per share – Diluted Dividends declared per share Common shares outstanding (millions) Average for the year End of year	\$1.62 \$2.13 \$2.12 \$1.16 484.1	\$1.72 \$2.49 \$2.47 \$1.22 486.2	\$1.90 \$2.21 \$2.20 \$1.28 488.0	\$2.08 \$2.31 \$2.30 \$1.36 529.9	\$2.2 \$2.5 \$2.5
Year ended December 31 Comparable earnings ⁽¹⁾ – Basic Net income per share – Basic Net income per share – Diluted Dividends declared per share Common shares outstanding (millions) Average for the year	\$1.62 \$2.13 \$2.12 \$1.16 484.1	\$1.72 \$2.49 \$2.47 \$1.22 486.2	\$1.90 \$2.21 \$2.20 \$1.28 488.0	\$2.08 \$2.31 \$2.30 \$1.36 529.9	\$2.2 \$2.5 \$2.5 \$1.4 569

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning prescribed by generally accepted accounting principles. For more information on non-GAAP measures see page 16 in the Management's Discussion and Analysis of the 2008 Annual Report.

Financial Highlights

Chairman's Message

Being able to say that 2008 was another strong year for TransCanada comes with considerable satisfaction. Success can be elusive at the best of times, but to be successful in this difficult global economy is a true achievement. TransCanada has done just that, producing strong financial results and making significant progress on a number of important initiatives.

Recognition of this performance was demonstrated by our ability to secure significant funding during 2008 for our large portfolio of attractive projects. This support in the capital markets was particularly gratifying and these funds will be used to continue to deliver long-term value to our shareholders.

In early February, as a further reflection of the confidence we have in the company, the Board approved an increase in the dividend on common shares for the ninth consecutive year, taking the quarterly dividend to \$0.38 per common share or \$1.52 annually. We also approved a three per cent discount on common shares issued under our dividend reinvestment and share purchase plan. The plan allows common and preferred shareholders to participate in our future by purchasing additional common shares at a discount.

While our financial track record is sound, we continue our commitment to social responsibility. TransCanada is one of only five companies from Canada to be recognized among this year's Global 100 Most Sustainable Corporations in the World. These companies are honoured as having the best ability to manage environmental, social and governance risks. In addition, TransCanada was named to The Dow Jones Sustainability Index, recognizing the financial performance of leading sustainability-driven companies worldwide.

The Board of Directors of TransCanada remains focused on strong corporate governance. Overseeing strategic direction and decision-making by the executive leadership are key responsibilities at all times but especially in this challenging environment, and we are focused on the goals and objectives we set for TransCanada over the long-term.

In the final analysis, though, delivering results must be founded on a practical philosophy, sound strategy and flawless execution. TransCanada's thoughtful, measured approach, the company's leaders and our 4,000 employees across North America are the reasons for our success. Along with all of the members of the Board of Directors, I would like to thank each team member for their extraordinary efforts in advancing our business in 2008. The company has doubled its asset base over the last decade to \$40 billion through your contributions and continues on its path of becoming North America's leading energy infrastructure company.

On behalf of the Board of Directors,

Joch

S. Barry Jackson

Letter to Shareholders

TransCanada delivered strong operating and financial results in 2008. Each of our major business units generated strong results, with growing cash flows and excellent progress on major initiatives. Capital projects were executed to a very high standard, setting the stage for continued growth in earnings, cash flow and shareholder value in the years to come.

In 2008, TransCanada earned \$1.4 billion or \$2.53 per share, compared to \$1.2 billion or \$2.31 per share in 2007, an increase of 10 per cent on a per share basis. Comparable earnings⁽¹⁾ per share increased approximately eight per cent to \$2.25 per share.

Funds generated from operations⁽¹⁾ increased substantially, to a record \$3 billion. That represents a 15 per cent increase over 2007 and is nearly three times as large as our funds generated from operations⁽¹⁾ in 1999.

Our long term shareholders will recall that TransCanada established a new strategic direction in 2000, shedding international assets, exiting the volatile midstream business and focusing our efforts on pipeline and power generation opportunities within North America. In 2001 we further reduced our exposure to commodity price volatility by selling our natural gas marketing and trading business.

Since 1999 TransCanada has invested approximately \$24 billion in stable, value-creating pipeline and energy growth opportunities. Those investments have transformed TransCanada: today we are the unquestioned leader in North American natural gas transmission; we are building a large and very competitive oil pipeline business; we are one of North America's largest and most profitable natural gas storage operators; and we own the largest and most profitable private-sector power business in Canada.

Our investments have been both large and profitable. Since 1999 our comparable earnings⁽¹⁾ per share have grown at a compound average annual rate of nine per cent, from \$1.08 in 1999 to \$2.25 in 2008. Over that same period we generated significant additional earnings and cash proceeds from the sale of non-core assets and certain other items. These transactions funded a significant portion of our capital program over the past nine years.

TransCanada's strong financial performance has enabled our Board of Directors to increase our dividend on common shares in each of the past nine years. Most recently, we increased our dividend to \$1.52 per share on an annualized basis, an increase of six percent over 2008. Our Board of Directors also approved an increase in the discount on the issuance of common shares from treasury under our Dividend Reinvestment and Share Purchase Plan from two to three per cent. This provides existing shareholders with

an opportunity to participate in the future growth of the company by reinvesting their dividends in additional common shares.

Our natural gas pipeline business achieved excellent results in 2008. Each day we deliver approximately 20 per cent of the natural gas consumed in North America, and we continue to build on that industry-leading position. We are currently investing more than \$1.5 billion to expand and extend our Alberta System. We have asked Canada's National Energy Board to assume jurisdiction over the Alberta System, a move that will enable TransCanada to compete for new natural gas supplies in British Columbia, the Northwest Territories and Alaska. We are excited by the prospects for shale gas development in northeastern British Columbia and we look forward to extending our system to serve producers in the Montney and Horn River shale plays.

We continue to build a large scale, profitable natural gas pipeline business in the United States. Our 2007 acquisition of the ANR System has proven to be both profitable and well-timed. Rockies volumes have filled the southwest leg of ANR, and the emerging Haynesville and Fayetteville shale plays are expected to contribute significant volumes to the southeast leg in the years ahead. ANR's large natural gas storage business in Michigan has grown significantly since acquisition, and we see significant capital investment opportunities throughout the ANR System in the years ahead. Notably, we now have a strong commercial and business development team in Houston, Texas, improving our access to natural gas pipeline opportunities in the United States.

Our efforts to bring Mackenzie and Alaska gas to market continue to move forward. These large, long term projects will connect more than 4 Bcf/d to our Alberta System, providing shippers with unparalleled access to premium North American markets through our GTN, Northern Border, Great Lakes and Canadian Mainline systems.

Five years ago we identified the opportunity to move growing volumes of crude oil from Alberta's oilsands to major United States refining centres in the southern Midwest and Gulf Coast regions. Construction is well underway on our Keystone pipeline from Hardisty, Alberta to Wood River and Patoka, Illinois, with flows commencing in early 2010. We are currently finalizing regulatory applications for the Keystone expansion, which will extend our reach to premium markets in the Gulf Coast region. Both Keystone and the Gulf Coast expansion are underpinned by long-term contracts to move more than 900,000 barrels per day.

Our power generation business has grown more than tenfold over the past nine years, and projects currently under construction will deliver significant growth in cash flow and earnings over the next three years. The 550 MW Portlands Energy Centre in Toronto is expected to be in service in first quarter 2009. The 683 MW Halton Hills Generating Station located west of Toronto is expected to be in service in third quarter 2010. The 1,500 MW refurbishment of Bruce A Units 1 and 2 is also expected to come on line in

2010. Other projects now under construction or in development include the Cartier and Kibby Wind projects and the Coolidge Generating Station. These large-scale generating projects are highly efficient, located in premium markets, and underpinned by strong, long-term commercial arrangements.

Energy infrastructure is a long-cycle, capital intensive business, and we structure our projects carefully to ensure stable profitability throughout the cycle. With a strong balance sheet and significant liquidity, TransCanada has the ability to endure turbulent economic times, today and in the future. Our strong cash flows from existing assets together with continued access to capital markets means we are well positioned to fund our sizeable capital program and deliver growing cash flow and earnings in the years ahead.

TransCanada's enduring success is a reflection of the skills and commitment of our outstanding team of 4,000 employees located in Calgary, Houston and many other regions across North America. Our employees truly are our competitive advantage. Their operating and commercial expertise, their project development and execution capabilities and their dedication to value creation are unparalleled in the energy infrastructure industry. I am confident that we will continue to deliver significant shareholder value for many years to come.

Hal Kvisle President and Chief Executive Officer

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning prescribed by generally accepted accounting principles. For more information on non-GAAP measures see page 16 in the Management's Discussion and Analysis of the 2008 Annual Report.

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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.

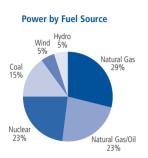
TransCanada's Alberta System gathered 66 per cent of the natural gas produced in Western Canada or 15 per cent of total North American production in 2008. TransCanada exports natural gas from the Western Canada Sedimentary Basin (WCSB) to Eastern Canada and the U.S. West, Midwest, and Northeast through 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

oil transmission assets that complement TransCanada's existing assets, acquiring partners' interests in associated pipelines and acquiring stand-alone transmission enterprises in new regions of North America.

Commercially develop and physically execute new asset investment programs

TransCanada's current \$18 billion capital program is expected to begin generating revenue over the next four years beginning in 2009. The Company is committed to completing the projects in its capital programs on time and on budget to deliver service to its customers and returns to its shareholders. Its large portfolio of projects is characterized by highly contracted, long-term revenue streams and limited exposure to capital cost risks. These are key features of TransCanada's model for managing construction risks and improving the return realized from new investment programs. This strategy will be applied to Pipelines and Energy growth opportunities that address North America's emerging energy infrastructure needs.

Maximize TransCanada's competitive strengths

TransCanada will use its competitive strengths to achieve responsible, profitable operations and growth. In the Pipelines and Energy infrastructure businesses, size and scale of operations must be large enough to compete effectively and offer recognized value to customers. The Company believes its competitive strengths include the discipline it applies in operations, governance and project, financial and risk management, and its ability to obtain capital at suitable terms. TransCanada strives to provide customers with safe, low-cost, reliable and responsible service by such means as improved efficiencies, operational reliability and enhanced environmental and safety performance. The Company also strives to maintain constructive relationships with its key stakeholder groups. Utilizing these strengths is the responsibility of all employees, and all employees contribute to the success of the Company. To maximize the quality, capability and contribution of the Company's employees, management encourages and supports its employees' innovative thinking, development and leadership.

Maximize TransCanada's financial strength and reputation

TransCanada continues to value its reputation for financial strength based on a history of predictable, growing earnings and cash flow. The Company continues to communicate its financial performance to current and prospective debt and equity holders, while making its management of risks transparent. TransCanada strives to maintain access to low-cost capital in all market environments to enable it to capture growth opportunities and improve its financial performance.

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 Discontinued operations	1,440	1,223	1,051 28
	1,440	1,223	1,079
Comparable earnings ⁽¹⁾	1,279	1,100	925
Per Common Share Data Net income – basic Continuing operations Discontinued operations	\$2.53 _	\$2.31 _	\$2.15 0.06
	\$2.53	\$2.31	\$2.21
Net income – diluted Continuing operations Discontinued operations	\$2.52 - \$2.52	\$2.30 - \$2.30	\$2.14 0.06 \$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⁾ (Increase)/decrease in operating working capital	3,021 (181)	2,621 215	2,378 (303)
Net cash provided by operations	2,840	2,836	2,075
Balance Sheet Total assets Total long-term liabilities	39,414 20,392	30,330 16,511	25,909 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		2007	2005
(millions of dollars except per share amounts)	2008	2007	2006
Pipelines			
Comparable earnings	740	686	529
Specific items (net of tax):	152		
Calpine bankruptcy settlements GTN lawsuit settlement	152	_	_
Bankruptcy settlement with Mirant	-	_	18
Gain on sale of Northern Border Partners, L.P. interest	-	-	13
Net earnings	902	686	560
nergy			
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
	014	514	452
Corporate	(402)		(22
Comparable expenses Specific item:	(102)	(45)	(33
Income tax reassessments and adjustments	26	68	72
	(76)	23	39
Net (expenses)/earnings	(70)	25	59
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):	1,275	1,100	920
Calpine bankruptcy settlements	152	-	-
GTN lawsuit settlement Writedown of Broadwater costs	10 (27)	_	-
Gain on sale of land	-	14	-
Fair value adjustments of natural gas storage inventory and forward contracts Bankruptcy settlement with Mirant	-	7	- 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 Fair value adjustments of natural gas storage inventory and forward contracts	-	0.03 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 unrealized power) operations 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 vield 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 forwardlooking information, which is given as of the date it is expressed in this MD&A or otherwise, and to not use futureoriented 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.

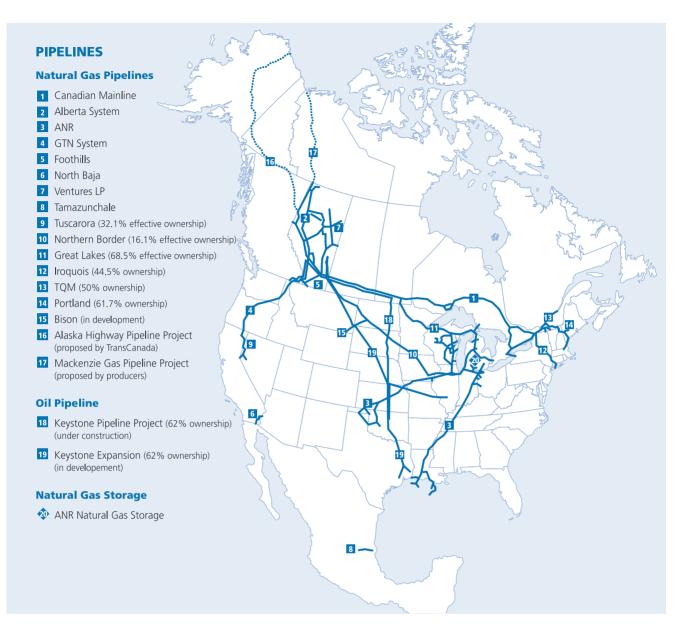
Operating income is reported in the Company's Energy business segment and comprises revenues less operating expenses as shown on the Consolidated Income Statement. A reconciliation of operating income to net income is presented in the "Energy" section of this MD&A.

OUTLOOK

TransCanada's corporate strategy is underpinned by a long-term focus on growing its Pipelines and Energy businesses in a disciplined and measured manner. In 2009 and beyond, TransCanada expects its net earnings and cash flow, combined with a strong balance sheet and proven access to capital markets, to provide the financial strength TransCanada will need to complete its current capital expenditure program and continue to pursue other long-term growth opportunities and create additional value for its shareholders in the same disciplined and measured manner utilized in developing its current capital expenditure program. TransCanada believes this prudence is especially important in the economic environment that currently exists in North America. In 2009, the Company will continue to implement its strategy and grow the Pipelines and Energy businesses as discussed in the "TransCanada's Strategy" section of this MD&A.

The current economic slowdown is not expected to have a significant impact on TransCanada's near-term earnings as the majority of TransCanada's operations are underpinned by either long-term contracts or earn a regulated return. In addition, TransCanada's continued focus on risk management is expected to further lessen the negative impact of the current economic slowdown to TransCanada.

The Company's results in 2009 may be affected positively or negatively by a number of factors and developments as discussed throughout this MD&A, including without limitation, the factors and developments discussed in the "Forward-Looking Information", "Pipelines – Business Risks" and "Energy – Business Risks" sections. Refer to the "Pipelines – Outlook", "Energy – Outlook" and "Corporate – Outlook" sections of this MD&A for further discussion of outlook.



CANADIAN MAINLINE Owned 100 per cent by TransCanada, the Canadian Mainline is a 14,101 km (8,762 miles) natural gas transmission system in Canada that extends from the Alberta/Saskatchewan border east to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S.

ALBERTA SYSTEM Owned 100 per cent by TransCanada, the Alberta System is a 23,705 km (14,730 miles) natural gas transmission system in Alberta. One of the largest transmission systems in North America, it gathers natural gas for use within the province and delivers it to provincial boundary points for connection with the Company's Canadian Mainline and Foothills natural gas pipelines and with the natural gas pipelines of other companies.

ANR Owned 100 per cent by TransCanada, ANR is a 17,000 km (10,563 miles) transmission system that transports natural gas from producing fields located primarily in Texas and Oklahoma on its southwest leg and in the Gulf of Mexico and Louisiana on its southeast leg. The system extends to markets located mainly in Wisconsin, Michigan, Illinois, Ohio and Indiana. ANR's natural gas pipeline also connects with other natural gas pipelines providing access to diverse sources of North American supply including Western Canada and the Rocky Mountain supply basin, and a variety of markets in the midwestern and northeastern U.S. ANR also owns and operates regulated underground natural gas storage facilities in Michigan with a total capacity of 250 Bcf.

GTN SYSTEM Owned 100 per cent by TransCanada, the GTN System is a 2,174 km (1,351 miles) natural gas transmission system that links Foothills with Pacific Gas and Electric Company's California Gas Transmission System, with Williams Companies, Inc.'s Northwest Pipeline in Washington and Oregon, and with Tuscarora.

FOOTHILLS Owned 100 per cent by TransCanada, the 1,241 km (771 miles) Foothills transmission system in Western Canada carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada.

NORTH BAJA Owned 100 per cent by TransCanada, the North Baja natural gas transmission system extends 129 km (80 miles) from Ehrenberg in southwestern Arizona to a point near Ogilby, California on the California/Mexico border and connects with the Gasoducto Bajanorte natural gas pipeline system in Mexico.

VENTURES LP Owned 100 per cent by TransCanada, Ventures LP is comprised of a 161 km (100 miles) pipeline and related facilities that supply natural gas to the oil sands region near Fort McMurray, Alberta as well as a 27 km (17 miles) pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.

TAMAZUNCHALE Owned 100 per cent by TransCanada, the 130 km (81 miles) Tamazunchale natural gas pipeline in east central Mexico extends from the facilities of Pemex Gas near Naranjos, Veracruz, to an electricity generating station near Tamazunchale, San Luis Potosi.

TUSCARORA Owned 100 per cent by PipeLines LP, Tuscarora is a 491 km (305 miles) pipeline system transporting natural gas from the GTN System at Malin, Oregon, to Wadsworth, Nevada, with delivery points in northeastern California and northwestern Nevada. TransCanada operates Tuscarora and effectively owns 32.1 per cent of the system through its 32.1 per cent interest in PipeLines LP.

NORTHERN BORDER Owned 50 per cent by PipeLines LP, the 2,250 km (1,398 miles) Northern Border natural gas transmission system serves the U.S. Midwest from a connection with Foothills near Monchy, Saskatchewan. TransCanada operates Northern Border and effectively owns 16.1 per cent of the system through its 32.1 per cent interest in PipeLines LP.

GREAT LAKES Owned 53.6 per cent by TransCanada and 46.4 per cent by PipeLines LP, the 3,404 km (2,115 miles) Great Lakes natural gas transmission system connects with the Canadian Mainline at Emerson, Manitoba, and serves markets in Central Canada and the midwestern U.S. TransCanada operates Great Lakes and effectively owns 68.5 per cent of the system through its 53.6 per cent direct ownership interest and its indirect ownership, which it has through its 32.1 per cent interest in PipeLines LP.

IROQUOIS Owned 44.5 per cent by TransCanada, the 666 km (414 miles) Iroquois pipeline system connects with the Canadian Mainline near Waddington, New York, and delivers natural gas to customers in the northeastern U.S.

TQM Owned 50 per cent by TransCanada, TQM is a 572 km (355 miles) pipeline system that connects with the Canadian Mainline and transports natural gas from Montréal to Québec City in Québec, and connects with the Portland system. TQM is operated by TransCanada.

PORTLAND Owned 61.7 per cent by TransCanada, Portland is a 474 km (295 miles) pipeline that connects with TQM near East Hereford, Québec and delivers natural gas to customers in the northeastern U.S. Portland is operated by TransCanada.

BISON The Bison pipeline project is a proposed 480 km (298 miles) pipeline from the Powder River Basin in Wyoming to the Northern Border system in North Dakota.

KEYSTONE Keystone is an oil pipeline consisting of 3,456 km (2,147 miles) of pipe under construction that will initially transport crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma. In addition, an expansion to the U.S. Gulf Coast is under development, which is expected to add approximately 2,720 km (1,690 miles) of pipe to the system. Commissioning of the segment to Wood River and Patoka is expected to begin in late 2009. Commissioning of the segment to Cushing is expected to begin in late 2010. The expansion to the U.S. Gulf Coast is expected to begin in late 2010. The expansion to the U.S. Gulf Coast is expected to be commissioned in 2012, subject to regulatory approvals. In 2008, TransCanada agreed to increase its ownership interest in Keystone up to 79.99 per cent. At December 31, 2008, TransCanada owned 62 per cent of Keystone.

TRANSGAS Owned 46.5 per cent by TransCanada, TransGas is a 344 km (214 miles) natural gas pipeline system extending from Mariquita in the central region of Colombia to Cali in southwestern Colombia.

GAS PACIFICO/INNERGY Owned 30 per cent by TransCanada, Gas Pacifico is a 540 km (336 miles) natural gas pipeline extending from Loma de la Lata, Argentina to Concepción, Chile. TransCanada also has a 30 per cent ownership interest in INNERGY, an industrial natural gas marketing company based in Concepción that markets natural gas transported on Gas Pacifico.

PIPELINES – HIGHLIGHTS

- Net income from Pipelines was \$902 million in 2008, an increase of \$216 million from \$686 million in 2007. Comparable earnings from Pipelines were \$740 million in 2008, an increase of \$54 million from \$686 million in 2007.
- The Keystone partnerships began building the portion of the Keystone pipeline that will deliver oil to markets in the U.S. Midwest and to Cushing, Oklahoma, and secured shipping commitments for a future expansion to serve markets on the U.S. Gulf Coast.
- TransCanada began construction of the North Central Corridor expansion at a cost of approximately \$925 million following approval from the Alberta Utilities Commission (AUC).
- TransCanada received approval from the AUC for the Alberta System's 2008-2009 Revenue Requirement Settlement.
- TransCanada filed an application with the National Energy Board (NEB) to establish federal jurisdiction over the Alberta System. A decision is expected in first quarter 2009.
- ANR completed the second phase of its storage enhancement project (STEP 2008), which added 14 Bcf of storage capacity.
- TransCanada was awarded a license from the State of Alaska to construct the Alaska Pipeline Project under the *Alaska Gasline Inducement Act* (AGIA).

PIPELINES RESULTS

Year ended December 31 (millions of dollars)

	2008	2007	2006
Wholly Owned Pipelines			
Canadian Mainline	278	273	239
Alberta System	145	138	136
ANR ⁽¹⁾	132	104	n/a
GTN	65	58	46
Foothills	24	26	27
	644	599	448
Other Pipelines			
Great Lakes ⁽²⁾	44	47	44
PipeLines LP ⁽³⁾	25	18	4
Iroquois	18	15	15
Tamazunchale ⁽⁴⁾	16	10	2
Other ⁽⁵⁾	34	46	51
Northern Development	(9)	(7)	(5)
General, administrative, support costs and other	(32)	(42)	(30)
	96	87	81
Comparable Earnings ⁽⁶⁾	740	686	529
Calpine bankruptcy settlements ⁽⁷⁾	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

⁽¹⁾ ANR's results include earnings from the date of acquisition of February 22, 2007.

- ⁽²⁾ Great Lakes' results reflect TransCanada's 53.6 per cent ownership in Great Lakes since February 22, 2007 and 50 per cent ownership prior to that date.
- (3) PipeLines LP's results include TransCanada's effective ownership of an additional 14.9 per cent interest in Great Lakes since February 22, 2007 as a result of PipeLines LP's acquisition of a 46.4 per cent interest in Great Lakes and TransCanada's 32.1 per cent interest in PipeLines LP. Prior to this date, TransCanada had a 13.4 per cent ownership interest in PipeLines LP.
- ⁽⁴⁾ Tamazunchale's results include operations since December 1, 2006.
- ⁽⁵⁾ Other includes results of Portland, Ventures LP, TQM, TransGas and Gas Pacifico/INNERGY.
- ⁽⁶⁾ Refer to the "Non-GAAP Measures" section of this MD&A for further discussion of comparable earnings.
- ⁽⁷⁾ GTN and Portland received shares of Calpine with an initial after-tax value of \$95 million and \$38 million (TransCanada's share), respectively, from the bankruptcy settlements with Calpine. These shares were subsequently sold for an additional after-tax gain of \$19 million.

Net earnings from the Pipelines business were \$902 million in 2008 compared to \$686 million in 2007 and \$560 million in 2006. Comparable earnings from the Pipelines business of \$740 million in 2008 excluded the \$152 million after-tax (\$279 million pre-tax) gains received by Portland and the GTN System from the bankruptcy settlements with Calpine and \$10 million after-tax (\$17 million pre-tax) proceeds received by GTN from a lawsuit settlement with a software supplier. The \$54 million increase in comparable earnings in 2008 from 2007 was primarily due to a full year of earnings from ANR, the Alberta System rate settlement and higher earnings for the Canadian Mainline. Comparable earnings in 2006 were \$529 million and excluded an \$18 million bankruptcy settlement with Mirant and a \$13 million gain on sale of TransCanada's general partner interest in Northern Border Partners, L.P. The increase in comparable earnings in 2007 compared to 2006 was primarily due to the acquisitions of ANR and additional interest in Great Lakes, higher earnings as a result of rate settlements for Canadian Mainline and the GTN System, and an increased ownership in PipeLines LP.

PIPELINES – FINANCIAL ANALYSIS

Canadian Mainline

The Canadian Mainline is regulated by the NEB, which sets tolls that provide TransCanada with the opportunity to recover projected costs of transporting natural gas, including a return on the Canadian Mainline's average investment base. The NEB also approves new facilities before construction begins. Net earnings from the Canadian Mainline are affected by changes in the investment base, the rate of return on common equity (ROE), the level of deemed common equity and potential incentive earnings.

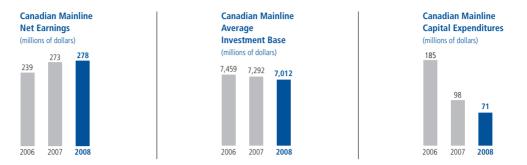
The Canadian Mainline currently operates under a five-year tolls settlement effective from 2007 to 2011. The cost of capital reflects an ROE as determined by the NEB's ROE formula on deemed common equity of 40 per cent. The remaining capital structure consists of short- and long-term debt, following the agreed upon redemption of the US\$460 million 8.25 per cent Preferred Securities in 2007.

The settlement also established certain elements of the Canadian Mainline's fixed operating, maintenance and administration (OM&A) costs for each of the five years. The variance between actual and agreed-upon OM&A costs accrues entirely to TransCanada from 2007 to 2009, and will be shared equally between TransCanada and its customers in 2010 and 2011. All other cost elements of the revenue requirement are treated on a flow-through basis. The settlement also allows for performance-based incentive arrangements that the Company believes are mutually beneficial to both TransCanada and its customers.

Net earnings of \$278 million in 2008 were \$5 million higher than \$273 million in 2007 primarily due to higher performance-based incentives earned and increased OM&A cost savings and an ROE of 8.71 per cent in 2008, as determined by the NEB, compared to 8.46 per cent in 2007. These increases were partially offset by a lower average investment base.

Net earnings of \$273 million in 2007 were \$34 million higher than \$239 million in 2006. The increase primarily reflected the positive impact of the increase in deemed common equity ratio to 40 per cent from 36 per cent as a

result of the Canadian Mainline tolls settlement, performance-based incentives earned and OM&A cost savings. These increases were partially offset by a lower allowed ROE of 8.46 per cent in 2007 (2006 – 8.88 per cent) and a lower average investment base.



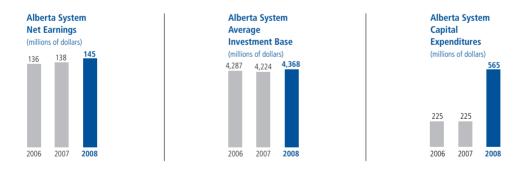
Alberta System

Construction and operation of the Alberta System's facilities and the terms and conditions of its services, including rates, are regulated by the AUC, primarily under the provisions of the *Gas Utilities Act (Alberta)* and the *Pipeline Act (Alberta)*.

In December 2008, the AUC approved TransCanada's 2008-2009 Revenue Requirement Settlement Application, as discussed further in the "Pipelines – Opportunities and Developments" section of this MD&A.

The Alberta System's net earnings of \$145 million in 2008 were \$7 million higher than in 2007. The increase was due to the recognition of earnings related to the revenue requirement settlement. Earnings in 2007 reflected an ROE of 8.51 per cent on deemed common equity of 35 per cent.

Net earnings of \$138 million in 2007 were \$2 million higher than in 2006. The increase was primarily due to OM&A cost savings, partially offset by a lower allowed ROE and a lower investment base in 2007. The allowed ROE prescribed by the Alberta Energy and Utilities Board, the AUC's predecessor, was 8.51 per cent in 2007 compared with 8.93 per cent in 2006 on deemed common equity of 35 per cent.



ANR

TransCanada completed the acquisition of ANR in February 2007. The operations of ANR are regulated primarily by the U.S. Federal Energy Regulatory Commission (FERC). ANR provides natural gas transportation, storage and various capacity-related services to a variety of customers in both the U.S. and Canada. ANR's transmission system has a peak-day capacity of 6.8 billion cubic feet per day (Bcf/d). Due to the seasonal nature of its business, ANR's volumes and revenues are generally expected to be higher in the winter months. ANR also owns and operates 250 Bcf of underground natural gas storage facilities in Michigan. ANR's regulated natural gas storage and transportation services operate under current FERC-approved tariff rates. These tariffs include maximum and minimum rate levels for services and permit ANR to discount or negotiate rates on a non-discriminatory basis.

ANR Pipeline Company's (ANR Pipeline) rates were established pursuant to a settlement approved by the FERC effective November 1997. ANR Storage Company's rates were established pursuant to a settlement approved by the FERC effective June 1990. None of ANR's FERC-regulated operations are required to file for new rates at any time in the future, nor are any of the operations prohibited from filing a rate case.

Net income for 2008 was \$132 million compared to \$104 million for the period from the date of acquisition on February 22, 2007 to December 31, 2007. The increase in 2008 was primarily due to a full year of earnings in 2008 and increased revenues from new growth projects, partially offset by higher OM&A costs, including remediation expenditures for damage caused by Hurricane Ike.

GTN

Both of GTN's systems, the GTN System and North Baja (collectively, GTN), are subject to FERC-approved tariffs that establish maximum and minimum rates for various services. GTN's pipeline rates were established pursuant to a settlement approved by the FERC in January 2008, and these rates became effective January 1, 2007. Under the settlement, a five-year moratorium was established during which the GTN System and the settling parties are prohibited under the *Natural Gas Act of 1938* from taking certain actions, including any filings to adjust rates. The settlement also requires the GTN System to file a rate case within seven years of the effective date. The systems are permitted to discount or negotiate these rates on a non-discriminatory basis. GTN's earnings are affected by variations in contracted volume levels, volumes delivered and prices charged under the various service types, as well as by variations in the costs of providing services.

GTN's comparable earnings were \$65 million in 2008, an increase of \$7 million compared to 2007 primarily due to decreased OM&A expenses. An increase in revenues for North Baja was offset by a decrease in revenues for the GTN System.

Comparable earnings were \$58 million in 2007, a \$12 million increase from 2006. The increase was primarily due to the positive impact of the rate case settlement in 2007, partially offset by lower long-term firm contracted volumes, a higher provision taken for non-payment of contract revenues from Calpine and a weaker U.S. dollar in 2007.

Other Pipelines

TransCanada's direct and indirect investments in various natural gas pipelines and its project development activities relating to natural gas and oil transmission opportunities throughout North America are included in Other Pipelines.

TransCanada's comparable earnings from Other Pipelines were \$96 million in 2008 compared to \$87 million in 2007. The increase was primarily due to lower general, administrative and support costs, and higher earnings from PipeLines LP, Tamazunchale and Iroquois, partially offset by lower earnings from Gas Pacifico/INNERGY, TransGas, Portland and Great Lakes.

Comparable earnings from Other Pipelines were \$87 million in 2007, a \$6 million increase compared to 2006. The increase was primarily due to higher PipeLines LP earnings resulting from TransCanada's increased ownership interests in PipeLines LP and Great Lakes, and a full year of earnings in 2007 from Tamazunchale. These increases were partially offset by higher project development and support costs associated with growing the Pipelines business, the effects of a weaker U.S. dollar in 2007 and proceeds of a bankruptcy settlement received by Portland in 2006.

At December 31, 2008, Other Assets included \$74 million and \$42 million for capitalized costs related to the Keystone expansion to the U.S. Gulf Coast and the Bison pipeline project, respectively.

PIPELINES – OPPORTUNITIES AND DEVELOPMENTS

Keystone

Keystone is expected to deliver crude oil from Hardisty, Alberta, to U.S. Midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma.

In March 2008, the U.S. Department of State issued a Presidential Permit to Keystone authorizing construction, maintenance and operations of facilities at the U.S./Canada border for the transportation of crude oil between the two countries. Construction of Keystone began in May 2008 in both Canada and the U.S. Commissioning of the Wood River and Patoka segment is expected to commence in late 2009 with commercial operations to follow in early 2010. Commissioning of the Cushing segment is expected to commence in late 2010.

In June 2008, Keystone received approval from the NEB to add new pumping facilities to accommodate an increase to approximately 590,000 Bbl/d from 435,000 Bbl/d in volumes to be delivered to the Cushing markets.

After an open season conducted during third quarter 2008, Keystone secured additional firm, long-term contracts totaling 380,000 Bbl/d for an average term of approximately 17 years. With these shipper commitments, Keystone will proceed with the necessary regulatory applications in Canada and the U.S. for approvals to construct and operate an expansion of the pipeline system that will provide additional capacity from Western Canada to the U.S. Gulf Coast in 2012 and will increase the total commercial capacity of Keystone to approximately 1.1 million Bbl/d. With the additional contracts, Keystone now has secured long-term commitments for 910,000 Bbl/d for an average term of approximately 18 years. This includes commitments made by shippers to sign transportation service agreements for 35,000 Bbl/d of capacity in an open season to be held in 2009. The commitments represent approximately 83 per cent of the commercial design of the system.

The entire Keystone project is currently expected to cost approximately US\$12 billion between 2008 and 2012. In 2008, the Keystone partnerships made capital expenditures of approximately \$1.7 billion on the entire project, of which \$1.0 billion was contributed by TransCanada.

TransCanada has agreed to increase its equity ownership in the Keystone partnerships up to 79.99 per cent from 50 per cent with ConocoPhillips' equity ownership being reduced concurrently to 20.01 per cent. In accordance with this agreement, TransCanada will fund 100 per cent of the construction expenditures until the participants' project capital contributions are aligned with the revised ownership interests. At December 31, 2008, TransCanada's equity ownership in the Keystone partnerships was approximately 62 per cent. Certain parties that have made volume commitments to the Keystone expansion have an option to acquire up to a combined 15 per cent equity ownership in the Keystone partnerships by the end of first quarter 2009. If all of the options are exercised, TransCanada's equity ownership would be reduced to 64.99 per cent.

Keystone's tolls, tariffs and facilities are regulated by the NEB in Canada and the FERC in the U.S., and have been approved for the segments shipping to Wood River, Patoka and Cushing. The Company expects the tolls and tariffs to remain in place for the term of the initial shipper contracts, which comprise approximately 83 per cent of Keystone's commercial capacity.

Canadian Mainline

In December 2008, the NEB announced that, pursuant to its formula, the 2009 allowed ROE for NEB-regulated pipelines, including the Canadian Mainline, will be 8.57 per cent, a decrease from 8.71 per cent in 2008.

Alberta System

In December 2008, the AUC approved the Alberta System's 2008-2009 Revenue Requirement Settlement Application. As part of the settlement, fixed costs were established for ROE, income taxes and OM&A costs. Any variances between actual costs and those agreed to in the settlement accrue to TransCanada, subject to an ROE and income tax adjustment mechanism, which accounts for variances between actual and settlement rate base, and income tax assumptions. The other cost elements of the settlement are treated on a flow-through basis.

In November 2008, an NEB hearing concluded on TransCanada's application to establish Federal jurisdiction over the Alberta System. A decision is expected from the NEB at the end of February 2009. Changing from AUC to NEB jurisdiction will allow the expansion of the Alberta System beyond Alberta provincial borders.

In October 2008, the AUC approved TransCanada's application for a permit to construct the North Central Corridor expansion at a cost of approximately \$925 million. The expansion comprises a 300 km (186 miles) natural gas pipeline and associated compression facilities on the northern section of the Alberta System.

On September 8, 2008, TransCanada reached a proposed agreement with Canadian Utilities Limited (ATCO Pipelines) to provide seamless natural gas transmission service to customers. If approved by regulatory authorities, the arrangement will see the two companies combine physical assets under a single rates and services structure with a single commercial interface for customers but with each company separately managing assets within distinct operating territories in the province. TransCanada continues to work with all stakeholders to finalize this agreement.

In February 2008, the AUC initiated a Generic Cost of Capital proceeding to review the generic ROE and capital structures of AUC regulated utilities. In November 2008, TransCanada filed an application requesting an 11 per cent ROE on 40 per cent deemed common equity for the Alberta System in 2009. The hearing is scheduled to begin on May 19, 2009.

ANR

In 2008, ANR completed its STEP 2008 project, which added 14 Bcf of storage and 200 million cubic feet per day (mmcf/d) of withdrawal capacity to the Cold Springs 1 storage field located in Northern Michigan, and increased ANR's total storage capacity to 250 Bcf. The project was completed under budget and service was provided on schedule. Supply on ANR's southwest leg was increased as a result of an interconnect with the Rockies Express natural gas pipeline, which commenced service in January 2008. There is strong potential for new supply on the southeast leg from shale gas in the mid-continent region, and another interconnect with the Rockies Express pipeline is planned for the southeast leg in Indiana in mid-2009. ANR is also pursuing other supply additions on both its southwest and southeast legs.

In September 2008, certain portions of the Company's Gulf of Mexico offshore facilities were impacted by Hurricane Ike. The Company estimates its total exposure to damage costs to be approximately US\$30 million to US\$40 million, mainly to replace, repair and abandon capital assets, including the estimated cost to abandon an offshore platform. At December 31, 2008, capital expenditures of US\$2 million and OM&A costs of US\$6 million had been incurred. The remaining costs are primarily expected to be capital expenditures. Service on the majority of the offshore facilities has been restored and related throughput volumes have returned to near pre-hurricane levels. The timing of the remaining facilities' return to service is primarily dependent upon decisions to be made by upstream producers regarding their damaged facilities in the Gulf of Mexico.

Palomar

In December 2008, Palomar Gas Transmission LLC filed with the FERC for a certificate to build a pipeline extending from the GTN System in central Oregon, to the Columbia River northwest of Portland. The proposed pipeline is expected to be capable of transporting up to 1.3 Bcf/d of natural gas. The project is a 50/50 joint venture of GTN and Northwest Natural Gas Co.

North Baja

In September 2008, the FERC approved North Baja's application to build a natural gas pipeline to serve the Yucca Power Plant owned by Arizona Public Service Company. Three miles of the proposed pipeline are expected to be in the U.S. and owned by North Baja, and another three miles in Mexico are owned by Gasoducto Bajanorte. Pending final approval by the U.S. Government, construction is expected to commence in first quarter 2009 with a projected in-service date of May 2009.

Portland

On April 1, 2008, Portland filed a general rate case with the FERC proposing a rate increase of approximately six per cent as well as other changes to its tariffs. In accordance with a FERC order dated May 1, 2008, the proposed tariffs went into effect on September 1, 2008, subject to refund. The hearing is scheduled to begin on July 13, 2009.

TQM

In December 2008, the NEB concluded a proceeding with respect to TQM's Cost of Capital application for 2007 and 2008. The application sought an ROE of 11 per cent on deemed equity of 40 per cent. The proceeding also provided an opportunity for TQM to propose alternatives to the current ROE formula. A decision from the NEB is expected in first quarter 2009.

U.S. Rockies Pipeline Projects

The Bison pipeline project is a proposed pipeline from the Powder River Basin in Wyoming to the Northern Border system in North Dakota. The project has shipping commitments for approximately 405 mmcf/d and is expected to be in service in fourth quarter 2010. The capital cost of the Bison pipeline project is estimated at US\$500 million to US\$600 million. TransCanada continues to work with Bison shippers to finalize the size and design of this project.

In addition, TransCanada is proposing the Pathfinder pipeline project, a 1,006 km (625 miles) pipeline from Meeker, Colorado to the Northern Border system in North Dakota. A portion of the Pathfinder pipeline may share a common route with the Bison pipeline and may also share some common facilities. TransCanada continues to work with prospective Pathfinder shippers to advance this project.

TransCanada and Williams Gas Pipeline Company, LLC (Williams) are evaluating the development of the Sunstone pipeline, a proposed pipeline from Wyoming to Stanfield, Oregon. This project would provide Pacific Northwest and California markets with access to incremental Rockies supply. TransCanada and its partner continue to work with customers to determine the appropriate size, time and route for this project.

Mackenzie Gas Pipeline Project

The MGP is a proposed 1,200 km (746 miles) natural gas pipeline to be constructed from a point near Inuvik, Northwest Territories to the northern border of Alberta, where it is expected to connect to the Alberta System.

TransCanada's involvement with the MGP arises from a 2003 agreement between the Mackenzie Valley Aboriginal Pipeline Group (APG) and the MGP, whereby TransCanada agreed to finance the APG's one-third share of the pre-development costs associated with the project. Cumulative advances made by TransCanada totaled \$140 million at December 31, 2008 and are included in Other Assets. These amounts constitute a loan to the APG, which becomes repayable only after the natural gas pipeline commences commercial operations. The total amount of the loan is expected to form part of the rate base of the pipeline and to subsequently be repaid from the APG's share of future natural gas pipeline revenues or from alternate financing. If the project does not proceed, TransCanada has no recourse against the APG for recovery of advances made. Accordingly, TransCanada's ability to recover its investment through loan repayments and/or equity ownership in the project depends upon a successful outcome of the project.

Under the terms of certain MGP agreements, TransCanada holds an option to acquire up to a five per cent equity ownership in the natural gas pipeline at the time of the decision to construct it. In addition, TransCanada gains certain rights of first refusal to acquire 50 per cent of any divestitures by existing partners and an entitlement to obtain a one-third interest in all expansion opportunities once the APG reaches a one-third ownership share, with the other natural gas pipeline owners and the APG sharing the balance.

TransCanada and the other co-venture companies involved in the MGP continue to pursue approval of the proposed project, focusing on obtaining regulatory approval and the Canadian government's support of an acceptable fiscal framework. Project timing continues to be uncertain. Detailed discussions with the Canadian government have taken place and have resulted in a proposal in January 2009 from the government to the MGP. The co-venture group is considering the proposal and is expected to respond to the government in the near future. In the event the co-venture group is unable to reach an agreement with the government on an acceptable fiscal framework, the parties will need to determine the appropriate next steps for the project. For TransCanada, this may result in a reassessment of the carrying amount of the APG advances.

Alaska Pipeline Project

In November 2007, TransCanada submitted an application to the State of Alaska for a license to construct the Alaska Pipeline Project under the AGIA. In January 2008, Alaska Governor Sarah Palin's administration determined that TransCanada's application was the only proposal that met all of the state's requirements and in December 2008 the State of Alaska issued the AGIA license to TransCanada. Under the AGIA, the State of Alaska has agreed to reimburse a share of TransCanada's eligible pre-construction costs to a maximum of US\$500 million.

The Alaska Pipeline Project will be a 4.5 Bcf/d natural gas pipeline extending approximately 2,760 km (1,715 miles) from a new natural gas treatment plant at Prudhoe Bay, Alaska to Alberta. This pipeline will integrate with the Alberta System to provide access to diverse markets across North America. The application included provision for expansions up to 5.9 Bcf/d through the addition of compressor stations in Alaska and Canada. TransCanada estimated the total capital cost of the entire project to be approximately US\$26 billion in 2007 dollars.

Since the AGIA license was awarded, TransCanada has moved forward with developing the project, which involves engineering, environmental, aboriginal relations and commercial work to conclude an initial binding open season by mid-2010. TransCanada continues its efforts to align with potential shippers and if sufficient firm contracts are secured in the open season, construction would begin following regulatory approvals, with an anticipated in-service date of 2018.

PIPELINES – BUSINESS RISKS

Supply, Markets and Competition

TransCanada faces competition at both the supply and market ends of its systems. This competition comes from other natural gas pipelines accessing the increasingly mature WCSB and markets served by TransCanada's pipelines. In addition, the continued expiration of long-term firm contracts has resulted in significant reductions in long-term firm contracted capacity and shifts to short-term firm and interruptible contracts on the Canadian Mainline, the Alberta System, Foothills and the GTN System.

In 2008, the gas supply environment changed. Production out of the WCSB declined while supply in the U.S. grew. Previously it had been expected that U.S. supply would decline. Furthermore, with lower natural gas prices, lower cost U.S. gas developments may hinder the further development of WCSB gas supplies.

TransCanada's primary source of natural gas supply is the WCSB. The WCSB has remaining discovered natural gas reserves of approximately 57 trillion cubic feet and a reserves-to-production ratio of approximately nine years at current levels of production. Historically, sufficient additional reserves have been discovered on an ongoing basis to maintain the reserves-to-production ratio at close to nine years, however, supply from the WCSB has declined in recent years due to a continued reduction in levels of drilling activity in the basin. The reduced drilling activity is a result of lower prices, higher supply costs, which include higher royalties in Alberta, and competition for capital from other North American basins that have lower exploration costs. Drilling levels in the WCSB are expected to reach a low point in 2009 and then should begin to recover in the ensuing years assuming that gas prices stabilize at \$6 to \$7 per gigajoule (GJ) and that finding and development costs become more economical. TransCanada anticipates there will be excess natural gas pipeline capacity out of the WCSB in the foreseeable future as a result of capacity expansions on its wholly owned and partially owned natural gas pipelines over the past decade, competition from other pipelines, and significant growth in natural gas demand within Alberta driven by oil sands and electricity generation requirements.

TransCanada's Alberta System is the major natural gas gathering and transportation system for the WCSB, connecting most of the natural gas processing plants in Alberta to domestic and export markets. Despite reduced overall drilling levels, activity remains robust in certain areas of the WCSB, which has resulted in the need for new transmission infrastructure. The primary areas of high activity have been deeper conventional drilling in western Alberta and in the foothills region of B.C., and coalbed methane development in central Alberta. Recently, shale gas production in B.C. has emerged as a potentially significant natural gas supply source.

Historically, TransCanada's eastern natural gas pipeline system has been supplied by long-haul flows from the WCSB and by short-haul volumes received from storage fields and interconnecting pipelines in southwestern Ontario. Over the last few years, the Canadian Mainline has experienced reductions in long-haul flows, which have been partially offset by increases in short-haul volumes, resulting in an increase in Canadian Mainline tolls.

Demand for natural gas in TransCanada's key eastern markets, which are served by the Canadian Mainline, is expected to continue to increase, particularly to meet the expected growth in natural gas-fired power generation. However, the Company believes the current environment could reverse this trend in the short term given sufficient levels of erosion of market demand. Although there are opportunities to increase market share in Canadian domestic and U.S. export markets, TransCanada faces significant competition in these regions. Consumers in the northeastern U.S. generally have access to an array of natural gas pipeline and supply options. Eastern markets that historically received Canadian supplies only from TransCanada are now capable of receiving supplies from new natural gas pipelines that source U.S. and Atlantic Canadian supplies.

The source of oil supply for Keystone is located primarily in Alberta, which produces approximately 79 per cent of the oil in the WCSB. In 2008, the WCSB produced a total of approximately 2.4 million Bbl/d, comprised of 1.2 million Bbl/d of conventional crude oil and condensate, and 1.2 million Bbl/d of oil from the oil sands area of Alberta. The production of conventional oil has been declining but has been offset by increases in production of oil from the Alberta oil sands. The Alberta Energy Resources Conservation Board has estimated that there are 173 billion barrels of remaining established reserves in the Alberta oil sands.

A decline in oil prices in late 2008 has resulted in announcements of delays in oil sands projects and upgraders, however, in December 2008, the Canadian Association of Petroleum Producers forecast WCSB oil supply would increase from 2.4 million Bbl/d in 2008 to 3.5 million Bbl/d by 2015 and 4.1 million Bbl/d by 2020.

Keystone has 910,000 Bbl/d of contracts for capacity, on a ship or pay basis, with an average contract life of 18 years, which the Company believes will provide incentive for contract shippers to ship on Keystone. However, Keystone must compete for spot throughput with other oil pipelines from Alberta.

Keystone's markets for crude oil are refiners in the U.S. Midwest and Gulf Coast regions. A competing pipeline can also deliver WCSB crude oil to the Midwest markets supplied by Keystone. Currently, competing pipelines can deliver oil to the U.S. Gulf Coast, through interconnections with other pipelines. Keystone must also compete with U.S. domestically produced oil and imported oil for markets in the Midwest and Gulf Coast regions.

ANR's natural gas supply is primarily sourced from the Gulf of Mexico and mid-continent U.S. regions, which are also served by competing natural gas pipelines. ANR also has competition from other natural gas pipelines and storage operations in its primary markets in the U.S. Midwest. The Gulf of Mexico region is extremely competitive given its extensive natural gas pipeline network. ANR is one of many interstate and intrastate pipelines in the region competing for new and existing production as well as for new supplies from shale production in the mid-continent, from the Rockies Express natural gas pipeline originating in the Rocky Mountain region, and from LNG. Several new natural gas pipelines are proposed or under construction to connect new supplies to the numerous pipelines in the Gulf of Mexico region. ANR competes with other natural gas pipelines in the region to attract supply to its pipeline for alternative markets and storage. In addition to pipeline competition for market and supply, current difficult economic conditions are expected to reduce energy demand and may put future ANR capacity renewals at risk as the North American economy slows or potentially contracts in key markets in the upper U.S. Midwest. As lower natural gas prices reduce drilling activity, the supply growth that has been fuelling the growth in pipeline infrastructure in the mid-continent could slow down but is still expected to exceed demand requirements in the near term. These factors could negatively affect pipeline capacity value as transportation capacity becomes more abundant.

The GTN System must compete with other pipelines to access natural gas supplies and markets. Transportation service capacity on the GTN System provides customers in the U.S. Pacific Northwest, California and Nevada with access to supplies of natural gas primarily from the WCSB. These three markets may also access supplies from other basins. In the Pacific Northwest market, natural gas transported on the GTN System competes with the Rocky Mountain natural gas

supply and with additional western Canadian supply transported by other pipelines. Historically, natural gas supplies from the WCSB have been competitively priced in relation to supplies from the other regions serving these markets. The GTN System has experienced significant contract non-renewals since 2005 as the natural gas it transports from the WCSB competes for the California and Nevada markets against supplies from the Rocky Mountain and southwestern U.S. basins. Recently, Pacific Gas and Electric Company, the GTN System's largest customer, received California Public Utilities Commission approval to commit to capacity on a proposed competing project out of the Rocky Mountain basin to the California border.

Regulatory Financial Risk

Regulatory decisions continue to have a significant impact on the financial returns from existing investments in TransCanada's Canadian wholly owned pipelines and are expected to have a similarly significant impact on financial returns from future investments. TransCanada remains concerned that current financial returns approved by regulators are not as competitive as returns from other assets with similar risk profiles. In recent years, TransCanada applied to the NEB and the AUC for an ROE of 11 per cent on 40 per cent deemed common equity for both the Canadian Mainline and the Alberta System. The NEB has reaffirmed its ROE formula and the AUC has established a generic ROE that is largely aligned with the NEB formula. Through rate applications and negotiated settlements, TransCanada has been able to improve the common equity components of its Canadian wholly owned pipeline capital structures, but there is no assurance that this success can be repeated.

Most recently, TransCanada has continued to address concerns about financial returns on the Alberta System in the AUC's 2009 Generic Cost of Capital Proceeding. In November 2008, TransCanada filed an application requesting an ROE of 11 per cent on 40 per cent deemed common equity for the Alberta System. TQM filed an application with the NEB in December 2007 requesting a fair return on capital, consisting of an ROE of 11 per cent on 40 per cent deemed common equity. The outcome of these proceedings may influence the regulators' view of fair financial returns on equity associated with TransCanada's other Canadian wholly owned pipelines.

Throughput Risk

As transportation contracts expire, TransCanada's U.S. natural gas pipelines are expected to become more exposed to the risk of reduced throughput and their revenues more likely to experience increased variability. Throughput risk is created by supply and market competition, gas basin pricing, economic activity, weather variability, natural gas pipeline competition and pricing of alternative fuels.

Execution and Capital Cost Risk

Capital costs related to the construction of Keystone are subject to a capital cost risk- and reward-sharing mechanism with its customers. This mechanism allows Keystone to adjust its tolls by a factor based on the percentage change in the capital cost of the project. Tolls for the portion of Keystone to Wood River, Patoka and Cushing will be adjusted by a factor equal to 50 per cent of the percentage change in capital cost. Tolls on the expansion to the U.S. Gulf Coast will be adjusted by a factor equal to 75 per cent of the percentage change in capital cost.

Refer to the "Risk Management and Financial Instruments" section of this MD&A for information on managing risks in the Pipelines business.

PIPELINES – OUTLOOK

TransCanada assumes that its operations in 2009 will be materially consistent with those in 2008 except for the impact of those factors discussed in this section.

Although demand for natural gas and crude oil has declined and is expected to further decline in North America in 2009 due to the current economic downturn, the Company expects demand to increase in the long term. TransCanada's Pipelines business will continue to focus on the delivery of natural gas to growing markets, connecting new supply, progressing development of new infrastructure to connect natural gas from the north and unconventional supplies such as shale gas, coalbed methane and LNG, and construction and expansion of Keystone.

TransCanada expects producers will continue to explore and develop new fields in Western Canada, particularly in northeastern B.C. and the west and central foothills regions of Alberta. There is also expected to be significant exploration and development activity aimed at unconventional resources such as coalbed methane and shale gas.

In 2008, TransCanada filed an application with the NEB to establish federal jurisdiction for the Alberta System. If the application is approved, the Alberta System will switch from AUC regulation to NEB regulation, allowing it to construct and operate pipeline extensions into other provinces and allowing it to provide direct integrated Alberta System natural gas transmission service to gas production locations outside of Alberta. Extensions of the Alberta System beyond Alberta's borders are currently prohibited under provincial regulation. An NEB jurisdiction decision is expected in first guarter 2009.

Most of TransCanada's current expansion plans in Canadian natural gas transmission are focused on the Alberta System. TransCanada recently concluded a binding open season process for natural gas transmission service for the Montney shale gas region located in northeastern B.C. Five shippers have committed to firm gas transportation contracts on the Groundbirch pipeline that will serve the Montney region. Volumes associated with these commitments will reach 1.1 Bcf/d by 2014. The Groundbirch pipeline is expected to commence service in fourth quarter 2010, subject to receipt of necessary approvals.

In addition, TransCanada is finalizing details associated with a binding open season and pipeline extension project to service the Horn River shale gas region located in northeastern B.C. Five shippers have committed to firm gas transportation contracts for a total volume of 378 mmcf/d by second quarter 2012. Subject to concluding a successful binding open season, the Horn River project is expected to commence operation in second quarter 2011, subject to receipt of necessary approvals.

Both the Groundbirch and Horn River projects are proposed as extensions to the Alberta System, which will provide B.C. producers with direct integrated gas transmission service from receipt points in B.C. These pipeline projects will increase netbacks to producers and increase the throughput on the Alberta System and on its downstream pipelines that serve markets located throughout North America, as well as increase usage of the Nova Inventory Transfer commercial hub that is used by buyers and sellers of natural gas throughout North America.

In addition to extensions into B.C., new facilities are required to expand the integrated Alberta System in response to changes in the distribution of supply and in markets across the Alberta System.

In the U.S., TransCanada expects unconventional production will continue to be developed from shale gas reservoirs in east Texas, northwest Louisiana, Arkansas, and southwest Oklahoma. Supplies from coalbed methane and tight gas sands in the Rocky Mountain region are also expected to grow. Additionally, in the medium to long term, some level of incremental supply is anticipated from LNG imports into the U.S., particularly in the summer months. The resulting growth in supply will provide additional commercial opportunities for TransCanada. In particular, the southwest leg of ANR is expected to continue to remain fully subscribed for the foreseeable future, and new transport routes are being developed to move the additional Rocky Mountain and shale gas production to midwestern and eastern U.S. markets, including interconnections with ANR. As mid-continent supplies develop, the southeast leg of ANR has capacity to transport additional volumes of Rocky Mountain and mid-continent shale production, as well as LNG.

Producers continue to develop new oil supply in Western Canada. There are several new oil sands projects under construction that will begin production in 2009 and 2010. By 2015, oil sands production is expected to double from 1.2 million Bbl/d in 2008 and total Western Canada oil supply is projected to grow over the same period to approximately 3.5 million Bbl/d from 2.4 million Bbl/d. The primary market for new oil production extends from the U.S. Midwest to the U.S. Gulf Coast and contains a large number of refineries that are well equipped to handle Canadian light and heavy crude oil blends. Incremental western Canadian crude oil production is expected to replace declining U.S. imports of crude oil from other countries.

This increase in WCSB crude oil exports requires new pipeline capacity, including Keystone and further expansions to the U.S. Gulf Coast. TransCanada will continue to pursue additional opportunities to move crude oil from Alberta to U.S. markets.

TransCanada will continue to focus on operational excellence and on collaborative efforts with all stakeholders to achieve negotiated settlements and service options that will increase the value of the Company's business to customers and shareholders.

Earnings

The Company expects continued growth on its Alberta System. The Company also anticipates a modest level of investment in its other existing Canadian natural gas pipelines, resulting in an expected continued net decline in the average investment base due to annual depreciation. A net decline in the average investment base has the effect of reducing year-over-year earnings from these assets. Under the current regulatory model, earnings from Canadian pipelines are not affected by short-term fluctuations in the commodity price of natural gas, changes in throughput volumes or changes in contract levels.

Reduced firm transportation contract volumes due to customer defaults, lower supply available for export from the WCSB and expiry of long-term contracts could have a negative impact on short-term earnings from TransCanada's U.S. natural gas pipelines, unless the available capacity can be recontracted. The ability to recontract available capacity is influenced by prevailing market conditions and competitive factors, including competing natural gas pipelines and supply from other natural gas sources in markets served by TransCanada's U.S. pipelines. Earnings from Pipelines' foreign operations are also impacted by changes in foreign currency exchange rates.

Capital Expenditures

Total capital spending for all pipelines in 2008 was \$1.8 billion. Capital spending for the wholly owned pipelines in 2009 is expected to be approximately \$1.1 billion. In addition, capital spending for TransCanada's share of constructing Keystone is expected to be approximately \$3.6 billion in 2009.

NATURAL GAS THROUGHPUT VOLUMES (Bcf)			
	2008	2007	2006
Canadian Mainline ⁽¹⁾	3,467	3,183	2,955
Alberta System ⁽²⁾	3,800	4,020	4,051
ANR ⁽³⁾	1,655	1,210	n/a
GTN System	783	827	790
Foothills	1,292	1,441	1,403
North Baja	104	90	95
Great Lakes	784	829	816
Northern Border	731	800	799
Iroquois	376	394	384
TQM	170	207	158
Ventures LP	165	178	179
Gas Pacifico	73	71	52
Portland	50	58	52
Tamazunchale ⁽⁴⁾	53	29	n/a
Tuscarora	30	28	28
TransGas	26	24	22

⁽¹⁾ Canadian Mainline physical receipts originating at the Alberta border and in Saskatchewan in 2008 were 1,898 Bcf (2007 – 2,090 Bcf; 2006 – 2,207 Bcf).

⁽²⁾ Field receipt volumes for the Alberta System in 2008 were 3,843 Bcf (2007 - 4,047 Bcf; 2006 - 4,160 Bcf).

⁽³⁾ ANR's results include delivery volumes from the date of acquisition of February 22, 2007.

⁽⁴⁾ Tamazunchale's results include volumes since December 1, 2006.



BEAR CREEK An 80 MW natural gas-fired cogeneration plant, Bear Creek is located near Grande Prairie, Alberta.

MACKAY RIVER A 165 MW natural gas-fired cogeneration plant, MacKay River is located near Fort McMurray, Alberta.

REDWATER A 40 MW natural gas-fired cogeneration plant, Redwater is located near Redwater, Alberta.

SUNDANCE A&B TransCanada has the rights to 100 per cent of the generating capacity of the 560 MW Sundance A coal-fired power generating facility under a PPA, which expires in 2017. TransCanada also has the rights to 50 per cent of the generating capacity of the 706 MW Sundance B facility under a PPA that expires in 2020. The Sundance facilities are located in south-central Alberta.

SHEERNESS TransCanada has the rights to 756 MW of generating capacity from the Sheerness coal-fired plant under a PPA, which expires in 2020. The Sheerness plant is located in southeastern Alberta.

CARSELAND An 80 MW natural gas-fired cogeneration plant, Carseland is located near Carseland, Alberta.

CANCARB A 27 MW facility fuelled by waste heat from TransCanada's adjacent thermal carbon black (a natural gas by-product) facility, Cancarb is located in Medicine Hat, Alberta.

BRUCE POWER Bruce Power is a nuclear generating facility located northwest of Toronto, Ontario. TransCanada owns 48.9 per cent of Bruce A, which has four 750 MW reactors, two of which are currently being refurbished and are expected to restart in 2010. TransCanada owns 31.6 per cent of Bruce B, which has four operating reactors with a combined capacity of approximately 3,200 MW.

HALTON HILLS A 683 MW natural gas-fired power plant, Halton Hills is under construction near the town of Halton Hills, Ontario, and is expected to be in service in third quarter 2010.

PORTLANDS ENERGY A 550 MW high-efficiency, combined-cycle natural gas generation power plant, Portlands Energy is under construction near the downtown area of Toronto, Ontario. The plant is 50 per cent owned by TransCanada and is expected to be commissioned in its combined-cycle mode in first quarter 2009.

BÉCANCOUR A 550 MW natural gas-fired cogeneration power plant, Bécancour is located near Trois-Rivières, Québec.

CARTIER WIND The 740 MW Cartier Wind farm consists of six wind power projects located in Québec. Cartier Wind is 62 per cent owned by TransCanada. Three of the projects, Baie-des-Sables, Anse-á-Valleau and Carleton have generating capacities of 110 MW, 101 MW and 109 MW, respectively. Planning and construction of the remaining three projects will continue, subject to future approvals.

GRANDVIEW A 90 MW natural gas-fired cogeneration power plant, Grandview is located in Saint John, New Brunswick.

KIBBY WIND The 132 MW Kibby Wind power project is under construction and will include 44 turbines located in Kibby and Skinner Townships in Maine. Construction began in July 2008 and commissioning of the first phase is expected to begin in fourth quarter 2009.

TC HYDRO With a total generating capacity of 583 MW, TC Hydro comprises 13 hydroelectric facilities, including stations and associated dams and reservoirs, on the Connecticut and Deerfield rivers in New Hampshire, Vermont and Massachusetts.

OSP A 560 MW natural gas-fired, combined-cycle facility, OSP is located in Burrillville, Rhode Island.

RAVENSWOOD In August 2008, TransCanada acquired the 2,480 MW multiple unit generating facility in Queens, New York employing dual-fuel capable steam turbine, combined cycle and combustion turbine technology.

COOLIDGE A 575 MW simple-cycle, natural gas-fired peaking power generation station, Coolidge is under development in Coolidge, Arizona. Detailed engineering, geotechnical and regulatory work began in 2008 and commissioning of the facility is expected in 2011.

EDSON An underground natural gas storage facility, Edson is connected to the Alberta System near Edson, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 725 mmcf/d of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.

CROSSALTA An underground natural gas storage facility, CrossAlta is connected to the Alberta System and is located near Crossfield, Alberta. TransCanada owns 60 per cent of CrossAlta, which has a working natural gas capacity of 54 Bcf with a maximum capability of delivering 480 mmcf/d.

ENERGY – HIGHLIGHTS

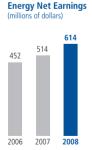
- Energy's net earnings were \$614 million in 2008, an increase of \$100 million from \$514 million in 2007. Energy's comparable earnings were \$641 million in 2008, an increase of \$182 million from \$459 million in 2007.
- In August 2008, TransCanada acquired the 2,480 MW Ravenswood facility in Queens, New York for US\$2.9 billion, subject to certain post-closing adjustments.
- Approximately 2,700 MW of additional generation capacity was under construction at December 31, 2008, with an anticipated capital cost of \$5 billion.
- Since 1999, the nominal generating capacity of TransCanada's Energy business has increased by approximately 7,800 MW, representing an investment of approximately \$7 billion to the end of 2008, with an additional 2,700 MW currently under development and construction.

ENERGY RESULTS

Year ended December 31 (millions of dollars)

	2008	2007	2006
Western Power	426	308	297
Eastern Power	338	255	187
Bruce Power	201	167	235
Natural Gas Storage	135	136	93
General, administrative, support costs and other	(168)	(158)	(144)
Operating income	932	708	668
Financial charges	(23)	(22)	(23)
Interest income and other	6	10	5
Income taxes	(274)	(237)	(221)
Comparable Earnings ⁽¹⁾	641	459	429
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 adjustments	-	34	23
Net Earnings	614	514	452

⁽¹⁾ Refer to the "Non-GAAP Measures" section of this MD&A for further discussion of comparable earnings.



Energy's net earnings in 2008 of \$614 million increased \$100 million compared to \$514 million in 2007. Comparable earnings of \$641 million in 2008 increased \$182 million compared to 2007 and excluded a \$27 million writedown of costs previously capitalized for Broadwater. The increases in comparable and net earnings were due to higher operating income in Western Power, Eastern Power and Bruce Power. Comparable earnings of \$459 million for 2007 excluded net unrealized gains of \$7 million resulting from changes in fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts, a \$14 million gain on sale of land and \$34 million of favourable income tax adjustments.

Energy's net earnings in 2007 were \$514 million compared to \$452 million in 2006. Comparable earnings were \$459 million in 2007, an increase of \$30 million from 2006. The increase was due

to higher operating income in Eastern Power, Natural Gas Storage and Western Power, partially offset by a reduced contribution from Bruce Power. Comparable earnings excluded net unrealized gains of \$7 million resulting from natural gas storage fair value changes, a \$14 million gain on sale of land, \$34 million of favourable income tax adjustments in 2007 as well as a \$23 million favourable impact in 2006 from future income taxes as a result of reductions in Canadian federal and provincial corporate income tax rates.

	MW	Fuel Type
Western Power		
Sheerness	756	Соа
Coolidge ⁽¹⁾	575	Natural ga
Sundance A	560	Coa
Sundance B ⁽²⁾	353	Coa
MacKay River	165	Natural ga
Carseland	80	Natural ga
Bear Creek	80	Natural ga
Redwater	40	Natural ga
Cancarb	27	Natural ga
	2,636	
Eastern Power		
Ravenswood ⁽³⁾	2,480	Natural gas/oi
Halton Hills ⁽¹⁾	683	Natural ga
TC Hydro	583	Hydro
OSP	560	Natural ga
Bécancour	550	Natural ga
Cartier Wind ⁽⁴⁾	458	Wind
Portlands Energy ⁽⁵⁾	275	Natural ga
Kibby Wind ⁽¹⁾	132	Wind
Grandview	90	Natural ga
	5,811	
Bruce Power ⁽⁶⁾	2,480	Nuclea
Total nominal generating capacity ⁽¹⁾	10,927	

⁽¹⁾ Halton Hills and Kibby Wind are currently under construction. Coolidge is currently under development.

(2) Represents TransCanada's 50 per cent share of the Sundance B power plant output.

⁽³⁾ Acquired in third quarter 2008.

⁽⁴⁾ Represents TransCanada's 62 per cent share of the total 740 MW project. Three of six wind farms were placed in service, one in November 2008, one in November 2007 and the other in November 2006, with a combined generating capacity of 320 MW.

⁽⁵⁾ Represents TransCanada's 50 per cent share of this 550 MW facility, which is currently under construction.

⁽⁶⁾ Represents TransCanada's 48.9 per cent proportionate interest in Bruce A and 31.6 per cent proportionate interest in Bruce B.

ENERGY – FINANCIAL ANALYSIS

Western Power

As at December 31, 2008, Western Power owns or has the rights to approximately 2,600 MW of power supply in Alberta and the western U.S. from its three long-term power purchase arrangements (PPA), six natural gas-fired cogeneration facilities and a peaking facility under development in Arizona. The power supply portfolio of Western Power in Alberta comprises approximately 1,700 MW of low-cost, base-load coal-fired generation supply through the three long-term PPAs and approximately 400 MW of natural gas-fired cogeneration assets. This supply portfolio includes

some of the lowest cost, most competitive generation in the Alberta market area. The Sheerness and Sundance B PPAs have remaining terms of 12 years, while the Sundance A PPA has a remaining term of nine years. In 2008, the Salt River Project Agricultural Improvement and Power District (Salt River Project), a utility based in Phoenix, Arizona, entered into a 20-year PPA to secure 100 per cent of the output from TransCanada's planned Coolidge generating station. The simple-cycle natural gas-fired peaking power facility to be located in Coolidge, Arizona is expected to be commissioned in 2011 and have a nominal generating capacity of 575 MW.

Western Power relies on its two integrated functions, marketing and plant operations, to generate earnings. The marketing function, based in Calgary, Alberta, purchases and resells electricity sourced from the PPAs, markets uncommitted volumes from the cogeneration facilities, and purchases and resells power and natural gas to maximize the value of the cogeneration facilities. The marketing function is integral to optimizing Energy's return from its portfolio of power supply and to managing risks associated with uncontracted volumes. A portion of Energy's power is sold into the spot market for operational reasons and the amount of supply volumes eventually sold into the spot market is dependent upon the ability to transact in forward sales markets at acceptable contract terms. This approach to portfolio management helps to minimize costs in situations where TransCanada would otherwise have to purchase electricity in the open market to fulfil its contractual sales obligations. To reduce exposure to spot market prices on uncontracted volumes, Western Power had, as at December 31, 2008, fixed-price power sales contracts to sell approximately 8,800 gigawatt hours (GWh) in 2009 and 5,500 GWh in 2010.

Plant operations in Alberta consist of five natural gas-fired cogeneration power plants with an approximate combined output capacity of 400 MW ranging from 27 MW to 165 MW per facility. A portion of the expected output is sold under long-term contracts and the remaining output is subject to fluctuations in the price of power and natural gas. Market heat rate is an economic measure for natural gas-fired power plants and is determined by dividing the average price of power per megawatt hour (MWh) by the average price of natural gas per GJ for a given period. To the extent power is not sold under long-term contracts and plant fuel gas has not been purchased under long-term contracts, the profitability of a natural gas-fired generating facility rises in proportion to an increase in the market heat rate and declines in proportion to a decrease in the market heat rate. Market heat rates in Alberta increased in 2008 by approximately six per cent as a result of an increase in average power prices, partially offset by an increase in spot market natural gas prices. Market heat rates averaged approximately 12.05 GJ/MWh in 2008 compared to approximately 11.40 GJ/MWh in 2007.

Western Power's plants operated with an average plant availability of approximately 87 per cent in 2008 compared to 90 per cent in 2007. The decrease was primarily due to an extended outage at the Cancarb power plant.

Western Power Results			
Year ended December 31 (millions of dollars)			
	2008	2007	2006
Revenues			
Power	1,140	1,045	1,185
Other ⁽¹⁾	130	89	169
	1,270	1,134	1,354
Commodity purchases resold			
Power	(575)	(608)	(767)
Other ⁽²⁾	(64)	(65)	(135)
	(639)	(673)	(902)
Plant operating costs and other	(180)	(135)	(135)
Depreciation	(25)	(18)	(20)
Operating income	426	308	297

⁽¹⁾ Other revenue includes sales of natural gas, sulphur and thermal carbon black.

⁽²⁾ Other commodity purchases resold includes the cost of natural gas sold.

Western Power Sales Volumes			
Year ended December 31 (GWh)			
	2008	2007	2006
Supply			
Generation	2,322	2,154	2,259
Purchased			
Sundance A & B and Sheerness PPAs	12,368	12,199	12,712
Other purchases	807	1,433	1,905
	15,497	15,786	16,876
Contracted vs. Spot			
Contracted	11,284	11,998	12,750
Spot	4,213	3,788	4,126
	15,497	15,786	16,876

Operating income was \$426 million in 2008, an increase of \$118 million from \$308 million in 2007. The increase was primarily due to increased margins from a combination of higher overall realized power prices and market heat rates on uncontracted volumes of power sold, as well as a \$23 million increase from sales of sulphur at significantly higher prices in 2008. In 2008, the Company sold the remainder of its sulphur stock pile, which it has been selling in modest quantities on a break-even basis since 2005.

Revenues increased in 2008 primarily due to the higher overall power sales prices. Commodity purchases resold decreased in 2008 compared to 2007 primarily due to a decrease in volumes purchased and the expiry of certain retail contracts. Plant operating costs and other, which includes fuel gas consumed in generation, increased in 2008 as a result of higher volumes of gas purchased at higher prices. Purchased power volumes in 2008 decreased primarily due to the expiry of certain retail contracts, partially offset by increased utilization from the Alberta PPAs. Approximately 27 per cent of power sales volumes were sold in the spot market in 2008 compared to 24 per cent in 2007.

Operating income was \$308 million in 2007, an increase of \$11 million from \$297 million in 2006. The increase was primarily due to lower PPA costs, partially offset by slightly lower overall realized power prices. Revenues decreased in 2007 compared to 2006 due mainly to the lower overall power sales prices realized in 2007 as well as lower volumes purchased and generated. Commodity purchases resold decreased in 2007 compared to 2006 primarily due to lower PPA costs, a decrease in volumes purchased and the expiry of certain retail contracts. Purchased power volumes in 2007 decreased compared to 2006 mainly as a result of an increase in outage hours at the Sundance A facility and the expiry of certain retail contracts. Approximately 24 per cent of power sales volumes were sold into the spot market in 2007, which was consistent with 2006.

Eastern Power

Eastern Power owns approximately 5,800 MW of power generation capacity, including facilities under construction or in the development phase. Eastern Power's current operating power generation assets are Ravenswood, TC Hydro, OSP, Bécancour, the Cartier Wind farms and Grandview. Ravenswood, acquired in August 2008, is a 2,480 MW gas and oil-fired generating facility consisting of multiple units employing steam turbine, combined-cycle and combustion turbine technology. Ravenswood, located in Queens, has the capacity to serve approximately 21 per cent of the overall peak load in New York City. The TC Hydro assets include 13 hydroelectric stations housing a total of 39 hydroelectric generating units in New Hampshire, Vermont and Massachusetts.

OSP, a natural gas-fired combined-cycle facility, is the largest power plant in Rhode Island. Bécancour, a natural gas-fired cogeneration plant located near Trois Rivières, Québec, was placed into service in September 2006. The entire power output is supplied to Hydro-Québec under a 20 year power purchase contract. Steam from this facility is sold to an industrial customer for use in commercial processes. Cartier has a combined generating capacity of 320 MW and consists of three wind farms, Carleton, Anse-á-Valleau, and Baie-des-Sables, which were placed into service in November 2008, November 2007 and November 2006, respectively. Output from these three wind farms is supplied to Hydro-Québec under 20 year power purchase contracts. Grandview is a natural gas-fired cogeneration facility on the site of the Irving Oil Refinery (Irving) in Saint John, New Brunswick. Under a 20 year tolling arrangement which will expire in 2025, Irving supplies fuel for the plant and contracts for 100 per cent of the plant's heat and electricity output.

Eastern Power conducts its business primarily in the deregulated New England and New York power markets and in Eastern Canada. In the New England market, TransCanada has established a marketing operation through its wholly owned subsidiary, TransCanada Power Marketing Ltd. (TCPM). TCPM is located in Westborough, Massachusetts, and effective January 1, 2009, also markets the output from the Ravenswood facility. To reduce exposure to spot market prices on uncontracted volumes, Eastern Power had, as at December 31, 2008, fixed price sales contracts to sell forward approximately 13,000 GWh in 2009 and 15,000 GWh in 2010, although certain contracted volumes are dependant on customer usage levels. Actual amounts contracted in future periods will depend on market liquidity and other factors. Fixed price sales contracts in 2009 exclude approximately 4,300 GWh of generation from the Bécancour power plant as a result of a suspension of electricity generation that began in January 2008 and continues through December 2009. The suspension of the Bécancour power facility is discussed further in the "Energy – Opportunities and Developments" section of this MD&A.

TCPM focuses on selling power under short- and long-term contracts to wholesale, commercial and industrial customers while managing a portfolio of power supplies sourced from both its own generation and wholesale power purchases. In 2008, TCPM continued to expand its marketing presence and customer base in the New England market.

The Forward Capacity Market (FCM) in the New England power pool is intended to promote investment in new and existing power resources needed to meet growing consumer demand and maintain a reliable power system. Under the FCM, Independent System Operator New England (ISO-NE) projects the needs of the power system three years in advance, following which it holds an annual auction to purchase power resources to satisfy future needs. Prior to the auction period, certain transition payments are made to capacity suppliers in New England that were in existence at June 2006.

ISO-NE has undertaken two Forward Capacity Auctions (FCA) under the FCM framework for procurement of installed capacity; FCA1 for the 2010-2011 period and FCA2 for the 2011-2012 period. All of Eastern Power's existing and planned power assets in the New England market were entered into both FCA1 and FCA2. Both auctions resulted in significant amounts of qualifying capacity resulting in decreased prices. The clearing prices in these auctions were US\$4.25 and US\$3.12 per kilowatt-month, respectively. Future auction results will be affected by actual demand growth and the pace of progress in the development of new qualifying resources that bid into these auctions, as well as other factors.

The New York Independent System Operator (NYISO) relies on a locational capacity market intended to promote investment in new and existing power resources needed to meet growing consumer demand and maintain a reliable power system. Currently, a series of voluntary forward auctions and a mandatory spot demand curve price setting process is used to determine the price that is paid to capacity suppliers. There are separate demand curves for each of the three capacity zones: Long Island, New York City and the rest of the state. Ravenswood's capacity is located in the New York City capacity zone. Energy and capacity prices for Ravenswood are affected by circumstances that have an impact on supply and demand within this zone, certain NYISO market rules impacting both buyers and suppliers of capacity in this zone, and certain reliability criteria set out by the NYISO and the New York State Reliability Council. There is currently surplus capacity within this zone, however, TransCanada expects capacity will tighten after 2009 as a result of the expected retirement of a power station owned by the New York Power Authority.

Eastern Power Results ⁽¹⁾			
Year ended December 31 (millions of dollars)			
	2008	2007	2006
Revenues			
Power	1,254	1,481	789
Other ⁽²⁾	350	239	292
	1,604	1,720	1,081
Commodity purchases resold			
Power	(519)	(755)	(379)
Other ⁽³⁾	(324)	(208)	(257)
	(843)	(963)	(636)
Plant operating costs and other	(342)	(454)	(226)
Depreciation	(81)	(48)	(32)
Operating income	338	255	187

⁽¹⁾ Includes Carleton, Ravenswood, Anse-à-Valleau, Baie-des-Sables and Bécancour effective November 2008, August 2008, November 2007, November 2006 and September 2006, respectively.

⁽²⁾ Other revenue includes sales of natural gas.

⁽³⁾ Other commodity purchases resold includes the cost of natural gas sold.

Eastern Power Sales Volumes ⁽¹⁾			
Year ended December 31 (GWh)			
	2008	2007	2006
Supply			
Generation	5,043	8,095	4,700
Purchased	6,183	6,986	3,091
	11,226	15,081	7,791
Contracted vs. Spot			
Contracted	10,990	14,505	7,374
Spot	236	576	417
	11,226	15,081	7,791

⁽¹⁾ Includes Carleton, Ravenswood, Anse-à-Valleau and Baie-des-Sables effective November 2008, August 2008, November 2007 and November 2006, respectively. Bécancour is included in Eastern Power effective September 2006 through December 2007.

Operating income was \$338 million in 2008, \$83 million higher than the \$255 million earned in 2007. The increase was primarily due to increased water flows from the TC Hydro generation assets and higher realized prices on sales to commercial and industrial customers in New England, incremental income from the first full year of operations from the Anse-à-Valleau wind farm and the start-up of the Carleton wind farm in November 2008. On December 31, 2008, Ravenswood fulfilled its obligation under a tolling agreement with Hess Corporation that was in place at the time of acquisition. In 2009, TCPM will manage the marketing output of the Ravenswood plant in a manner consistent with its other U.S. northeast portfolio of assets. The agreement to temporarily suspend generation at the Bécancour facility beginning January 2008 resulted in decreases to power revenues, plant operating costs and other, generation volumes and contracted sales in 2008. The temporary suspension agreement has not materially affected Eastern Power's

operating income due to capacity payments received pursuant to the agreement with Hydro-Québec. The agreement to suspend generation at the Bécancour facility was extended for one year to December 31, 2009.

Eastern Power's power revenues were \$1,254 million in 2008, a decrease of \$227 million from \$1,481 million in 2007. This was primarily due to the temporary suspension of generation at the Bécancour facility and decreased sales to commercial and industrial customers in the New England market, partially offset by higher realized prices in New England, increased water flows through the TC Hydro generation assets, and incremental revenue from Ravenswood. Other revenue and other commodity purchases resold increased year-over-year as a result of an increase in the quantity of natural gas purchased and resold under OSP's and TCPM's natural gas supply contracts. Power commodity purchases resold and purchased power volumes were lower in 2008 due to the impact of decreased sales volumes to commercial and industrial customers, lower overall cost per GWh on purchased power volumes and increased power generation from the TC Hydro assets, which reduced the requirement to purchase power to fulfill contractual sales obligations. Plant operating costs and other, which includes fuel gas consumed in generation, were lower in 2008 primarily due to the temporary suspension of generation at the Bécancour facility, partially offset by incremental operating costs from Ravenswood.

Operating income was \$255 million in 2007, \$68 million higher than the \$187 million earned in 2006. The increase was primarily due to incremental income from the first full year of operations from the Bécancour facility and the Baie-des-Sables wind farm, as well as the start-up of the Anse-à-Valleau wind farm in November 2007. Also contributing to the increase were payments received under the start-up of the FCM in New England and higher sales volumes to commercial and industrial customers in 2007. Partially offsetting these increases was the impact of reduced water flows from the TC Hydro generation assets in 2007, compared to the above-average water flows experienced in 2006 following higher precipitation in the surrounding area.

Bruce Power

As at December 31, 2008, TransCanada and BPC Generation Infrastructure Trust (BPC), a trust established by the Ontario Municipal Employees Retirement System, each owned a 48.9 per cent interest in Bruce A (2007 – 48.7 per cent). The remaining 2.2 per cent interest in Bruce A is owned by the Power Workers' Union Trust, the Society of Energy Professionals Trust and Bruce Power Employee Investment Trust. The Bruce A partnership subleases Bruce A Units 1 to 4 from the Bruce B partnership. TransCanada continues to own 31.6 per cent of Bruce B, which consists of Units 5 to 8 and the supporting site infrastructure.

The following Bruce Power financial results reflect the operations of six of the eight Bruce Power units:

Bruce Power Results			
Year ended December 31 (millions of dollars)	2008	2007	2006
Bruce Power (100 per cent basis)			
Revenues		4 0 2 0	1 0 6 1
Power Other ⁽¹⁾	2,064	1,920	1,861
Other ⁽¹⁾	96	113	71
	2,160	2,033	1,932
Operating expenses			
Operations and maintenance ⁽²⁾	(1,066)	(1,051)	(912)
Fuel	(139)	(104)	(96)
Supplemental rent ⁽²⁾	(174)	(170)	(170)
Depreciation and amortization	(151)	(151)	(134)
	(1,530)	(1,476)	(1,312)
	630	557	620
TransCanada's proportionate share:			
Bruce A (48.9%)	62	24	91
Bruce B (31.6%)	158	161	137
	220	185	228
Adjustments	(19)	(18)	7
TransCanada's operating income from Bruce Power	201	167	235
Bruce Power – Other Information			
Plant availability			/
Bruce A	82%	78%	81%
Bruce B	87%	89%	91%
Combined Bruce Power	86%	86%	88%
Planned outage days	01	1 7 1	0.1
Bruce A	91	121	81 65
Bruce B Unplanned outage days	100	93	60
Bruce A	27	17	37
Bruce B	65	32	31
Sales volumes (GWh)	00	52	51
Bruce A – 100 per cent	10,580	10,180	10,650
Bruce A – TransCanada's proportionate share	5,159	4,959	5,158
Bruce B – 100 per cent	24,680	25,290	25,820
Bruce B – TransCanada's proportionate share	7,799	7,992	, 8,159
Combined Bruce Power – 100 per cent	35,260	35,470	, 36,470
TransCanada's proportionate share	12,958	12,951	13,317
Results per MWh			,
Bruce A power revenues	\$62	\$59	\$58
Bruce B power revenues	\$57	\$52	\$48
Combined Bruce Power revenues	\$59	\$55	\$51
Combined Bruce Power fuel	\$4	\$3	\$3
Combined Bruce Power total operating expenses ⁽³⁾	\$42	\$41	\$35
Percentage of output sold to spot market	23%	45%	35%

- (1) Other revenue includes Bruce A fuel cost recoveries of \$61 million in 2008 (2007 \$35 million; 2006 \$30 million). Other revenue also includes unrealized losses of \$6 million as a result of changes in fair value of held-for-trading derivatives in 2008 (2007 \$47 million gain; 2006 nil).
- ⁽²⁾ Includes adjustments to eliminate the effects of inter-partnership transactions between Bruce A and Bruce B.
- ⁽³⁾ Net of fuel cost recoveries.

TransCanada's operating income from Bruce Power was \$201 million in 2008 compared to \$167 million in 2007. TransCanada's proportionate share of operating income in Bruce A increased \$38 million to \$62 million in 2008 compared to 2007 primarily due to higher realized prices and higher volumes associated with a decrease in outage days in 2008. TransCanada's proportionate share of operating income in Bruce B decreased \$3 million to \$158 million in 2008 compared to 2007 primarily due to higher operating costs and lower volumes associated with an increase in outage days in 2008, and unrealized gains in 2007 from changes in the fair value of power swaps and forwards. Partially offsetting these decreases were higher realized prices reflecting a higher proportion of volumes sold at higher contract prices.

Combined Bruce Power prices, which are based solely on power revenues, were \$59 per MWh in 2008 compared to \$55 per MWh in 2007, reflecting higher prices on both contracted volumes and uncontracted volumes sold into the spot market. Bruce Power's combined operating expenses (net of fuel cost recoveries) increased to \$42 per MWh in 2008 from \$41 per MWh in 2007 primarily due to higher operating costs in 2008.

The Bruce units ran at a combined average availability of 86 per cent in 2008, which was consistent with the average availability in 2007.

TransCanada's operating income from its combined investment in Bruce Power was \$167 million in 2007 compared to \$235 million in 2006. The decrease of \$68 million was primarily due to lower output and higher operating costs associated with an increase in planned outage days, partially offset by higher overall realized prices.

Adjustments to TransCanada's interest in Bruce Power's income before income taxes were lower in 2008 and 2007 than in 2006 primarily due to lower positive purchase price amortizations related to the expiry of power sales agreements.

The overall plant availability percentage in 2009 is expected to be in the low 90s for the four Bruce B units and the mid-80s for the two operating Bruce A units. An approximate six week maintenance outage of Bruce B Unit 8 is scheduled to begin in mid-April 2009 and an approximate six week maintenance outage of Bruce B Unit 6 is scheduled to begin in early October 2009. An approximate six week maintenance outage of Bruce A Unit 4 is scheduled to start in early March 2009 and an approximate one-month outage of Bruce A Unit 3 is expected to commence in mid-March 2009.

Bruce A

Income from Bruce A is affected by overall plant availability, which in turn is affected by planned and unplanned maintenance. As a result of a contract with the Ontario Power Authority (OPA), all of the output from Bruce A is effectively sold at a fixed price per MWh, adjusted for inflation annually on April 1. In addition, fuel costs are recovered from the OPA. In accordance with a 2007 contract amendment, effective April 1, 2008, the fixed price for output from Bruce A was \$63.00 per MWh, an increase of \$2.11 per MWh, subject to inflation adjustments from October 31, 2005.

Bruce A Fixed Price

	per MWh
April 1, 2008 – March 31, 2009	\$63.00
April 1, 2007 – March 31, 2008	\$59.69
April 1, 2006 – March 31, 2007	\$58.63

Support payments received pursuant to the OPA contract are equal to the difference between the fixed prices under the OPA contract and spot market prices and are capped at \$575 million for the period ending on the commercial in-service date of the later of the restarted Unit 1 and Unit 2. As at December 31, 2008, Bruce A had received \$368 million towards this cap. Post-refurbishment prices will also be adjusted for capital cost variances associated with the refurbishment and restart projects.

Bruce B

Income from Bruce B is directly affected by fluctuations in wholesale spot market prices for electricity and overall plant availability, which in turn is affected by planned and unplanned maintenance.

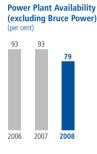
As part of Bruce Power's contract with the OPA, sales from the Bruce B Units 5 to 8 are subject to a floor price adjusted annually for inflation on April 1.

Bruce B Floor Price

	per MWh
April 1, 2008 – March 31, 2009	\$47.66
April 1, 2007 – March 31, 2008	\$46.82
April 1, 2006 – March 31, 2007	\$45.99

Payments received pursuant to the Bruce B floor price mechanism may be subject to a recapture payment dependent on annual spot prices over the term of the contract. Bruce B net earnings to date have not included any amounts received pursuant to this floor mechanism. To further reduce its exposure to spot market prices, as at December 31, 2008, Bruce B had entered into fixed price sales contracts to sell forward approximately 12,460 GWh for 2009 and 7,100 GWh for 2010.

Plant Availability



Weighted average power plant availability for all plants, excluding Bruce Power, was 79 per cent in 2008 compared to 93 per cent in 2007 and 2006. Plant availability represents the percentage of time in a year that the plant is available to generate power whether actually running or not. Western Power's plant availability was affected negatively throughout 2008 and in late 2007 by an outage at the Cancarb power plant. Eastern Power achieved plant availability of 78 per cent in 2008, 18 per cent lower than 2007 as a result of outages experienced on Units 10 and 30 at Ravenswood throughout fourth quarter 2008 and a longer than expected outage at OSP in late 2008. Additionally, Bécancour, which had an availability of 97 per cent in 2007, is not included in Eastern Power's 2008 availability measurement as a result of a temporary suspension of power generation from the plant throughout 2008.

Weighted Average Plant Availability

Year ended December 31			
	2008	2007	2006
Western Power	87%	90%	88%
Eastern Power	78%	96%	95%
Bruce Power	86 %	86%	88%
All plants, excluding Bruce Power	79%	93%	93%
All plants	83%	91%	91%

Natural Gas Storage

TransCanada owns or has rights to 120 Bcf of natural gas storage capacity in Alberta, including a 60 per cent ownership interest in CrossAlta, an independently operated storage facility. TransCanada also has contracts for long-term, Alberta-based storage capacity from a third party, which expire in 2030, subject to early termination rights in 2015.

Marken and L	C	C1	C
Naturai	Gas	Storage	Capacity

	Working Gas Storage Capacity (Bcf)	Maximum Injection/ Withdrawal Capacity (mmcf/d)
Edson	50	725
CrossAlta ⁽¹⁾	32	288
Third-party storage	38	630
	120	1,643

⁽¹⁾ Represents TransCanada's 60 per cent ownership interest in CrossAlta, a 54 Bcf, 480 mmcf/d facility.

TransCanada believes the market fundamentals for natural gas storage remain unchanged. The Company's gas storage capability helps balance seasonal and short-term supply and demand, and adds flexibility to the delivery of natural gas to Alberta and the rest of North America. The increasing seasonal imbalance in North American natural gas supply and demand has increased natural gas price volatility and the demand for storage services. Alberta-based storage will continue to serve market needs and could play an important role should additional gas supplies be connected to North American markets. Energy's natural gas storage business operates independently from TransCanada's regulated natural gas transmission business and from ANR's regulated storage business, which is included in TransCanada's Pipelines segment.

TransCanada manages the exposure of its non-regulated natural gas storage assets to seasonal natural gas price spreads by economically hedging storage capacity with a portfolio of third-party storage capacity contracts and proprietary natural gas purchases and sales.

TransCanada offers a broad range of injection and withdrawal storage alternatives tailored to customer needs in short-term to multi-year contracts. Market volatility frequently creates arbitrage opportunities and TransCanada's storage operations offer solutions to capture value from these short-term price movements. Earnings from third-party storage capacity contracts are recognized over the term of the contract. At December 31, 2008, TransCanada had contracted approximately 70 per cent of the total 120 Bcf of working gas storage capacity in 2009 and 57 per cent of storage capacity in 2010.

Proprietary natural gas storage transactions are comprised of a forward purchase of natural gas to be injected into storage and a simultaneous forward sale of natural gas for withdrawal at a later period, typically during the winter withdrawal season. By matching purchase and sales volumes on a back-to-back basis, TransCanada locks in future positive margins, thereby effectively eliminating its exposure to natural gas seasonal price spreads.

These forward natural gas contracts provide highly effective economic hedges but do not meet the specific criteria for hedge accounting and, therefore, are recorded at their fair values based on the forward market prices for the contracted month of delivery. Changes in the fair value of these contracts are recorded in Revenues. Effective April 2007, TransCanada adopted an accounting policy to record proprietary natural gas inventory held in storage at its fair value using the one-month forward price for natural gas. Changes in the fair value of inventory are recorded in Revenues. Changes in the fair value of proprietary natural gas inventory in storage and natural gas forward purchase and sales contracts are excluded in determining comparable earnings as they are not representative of amounts that will be realized on settlement.

Natural Gas Storage operating income was \$135 million in 2008, a decrease of \$11 million compared to 2007. The decrease was primarily due to lower average storage values realized by CrossAlta, partially offset by higher earnings from the sale of proprietary natural gas at Edson in 2008. There were no net unrealized gains or losses in 2008 from changes in the fair value of proprietary natural gas forward purchase and sales contracts compared to net unrealized gains of \$10 million in 2007.

Natural Gas Storage operating income was \$146 million in 2007, an increase of \$53 million compared to 2006. The increase was primarily due to income earned from the first full year of operations from the Edson facility.

ENERGY – OPPORTUNITIES AND DEVELOPMENTS

Ravenswood In August 2008, TransCanada acquired the multiple-unit Ravenswood generating facility located in Queens, New York, which employs dual-fuel capable steam turbine, combined-cycle and combustion turbine technology. During 2008, Ravenswood operated under a tolling arrangement that existed at the date of acquisition and expired on December 31, 2008. Under the tolling arrangement, all energy generated from the facility was provided to Hess Corporation for a fixed operating fee. In January 2009, Ravenswood commenced earning revenues from the sale of energy generated from the facility into the New York market. TransCanada's marketing operation located in Westborough, Massachusetts manages the marketing of output from Ravenswood.

The integration into TransCanada's operations of the Ravenswood generating station, acquired in August 2008, is now complete. Shortly after closing the acquisition, TransCanada experienced a forced outage event affecting one of the larger multiple generating units. The unit is currently undergoing repair and it is expected that the event will be insured both for physical damage and business interruption. Other refurbishment work is being undertaken at the station while the repair work is being completed and as a result, unit availability is expected to improve in the future.

Bruce Power Under a long-term agreement reached in 2005 between Bruce Power and the OPA, Bruce A has committed to refurbish and restart the currently idle Units 1 and 2, extend the operating life of Unit 3 with a full refurbishment and replace the steam generators on Unit 4. Bruce Power and the OPA amended the Bruce A refurbishment agreement in 2007 to allow for a full refurbishment of Unit 4, which will extend the expected operating life of the unit. Under the 2007 amendment, the OPA had the option to elect, prior to April 1, 2008, to proceed with a three-unit refurbishment and restart program instead of the revised four-unit program. The OPA chose to not exercise this option and instead elected to proceed with the four-unit refurbishment and restart program.

In fourth quarter 2008, Bruce Power completed a review of the operating life estimates for Units 3 and 4. Unit 3 is now expected to remain in commercial service until 2011, which provides the benefit of nearly two additional years of power generation before the unit commences an expected 36 month refurbishment. After the refurbishment, the operating life of Unit 3 is expected to be extended to 2038 from 2037. In addition, Unit 4 is now expected to remain in commercial service until 2016, providing nearly seven years of generation before the unit commences a similar refurbishment period, after which, the estimated operating life of Unit 4 is expected to 2042 from 2036.

The capital cost for the refurbishment and restart of Bruce A Units 1 and 2 is expected to be approximately \$3.4 billion, based on a comprehensive review in January 2008 of the estimated costs to complete the project, which is an increase from the original cost estimate of \$2.75 billion. TransCanada's share is expected to be approximately \$1.7 billion, compared to an original estimate of \$1.4 billion. The project cost increases are subject to the capital cost risk- and reward-sharing mechanism under TransCanada's agreement with the OPA. Bruce A Units 1 and 2 are expected to produce an additional 1,500 MW of power when completed in 2010.

As at December 31, 2008, Bruce A had incurred \$2.6 billion in costs with respect to the refurbishment and restart of Units 1 and 2 and approximately \$200 million for the refurbishment of Units 3 and 4.

Portlands Energy Construction continued in 2008 on Portlands Energy. The facility was operational in single-cycle mode in the summer of 2008 and is expected to be fully commissioned in its combined-cycle mode in first quarter 2009. Portlands Energy will provide power under a 20-year Accelerated Clean Energy Supply contract with the OPA. The expected capital cost is \$730 million, of which TransCanada's portion is 50 per cent.

Coolidge In May 2008, the Phoenix, Arizona-based utility, Salt River Project, signed a 20-year power purchase contract to secure 100 per cent of the output from the simple-cycle natural gas-fired peaking power facility currently

under development. In December 2008, the Arizona Corporation Commission granted a Certificate of Environmental Compatibility approving construction of the facility. Construction is expected to begin in the summer of 2009 and the facility is expected to be commissioned in 2011.

Halton Hills Construction of Halton Hills continued in 2008. The project includes the construction and operation of a natural gas-fired power plant near the town of Halton Hills, Ontario. TransCanada expects to invest approximately \$670 million in the project, which is anticipated to be in service in third quarter 2010. Power from the facility will be sold to the OPA under a 20-year Clean Energy Supply contract.

Cartier Wind The Carleton wind farm commenced commercial operation in November 2008, providing up to 109 MW of power to the Hydro-Québec grid. Carleton is the third phase of the six-phase, multi-year Cartier Wind project, located in the Gaspé region of Québec. The first two phases, Baie-des-Sables and Anse-á-Valleau, went into service in November of 2006 and 2007, respectively, generating up to 110 MW and 101 MW of power, respectively. The remaining phases of Cartier Wind are expected to be constructed through 2012, subject to the necessary approvals. Capacity is expected to total 740 MW when all six phases are complete. TransCanada has a 62 per cent ownership interest in these wind farms.

Kibby Wind In July 2008, the State of Maine's Land Use Regulation Commission approved the final development plan submitted by TransCanada to build, own and operate a wind farm, located in the Kibby and Skinner townships in Maine. Construction of the facilities at a cost of approximately US\$320 million began in July 2008 and commissioning of the first phase is expected to begin in fourth quarter 2009.

Bécancour TransCanada entered into an agreement with Hydro-Québec in November 2007 to temporarily suspend all electricity generation from the Bécancour power plant during 2008. In 2008, the agreement was extended through to December 2009. In 2009, TransCanada will continue to receive payments under the agreement similar to those that would have been received under the normal course of operation.

Power Transmission Line Projects TransCanada is pursuing proposals to build, own and operate power transmission lines, including the Zephyr and Chinook transmission line projects. The projects are each proposed 500 kilovolt (kV) high voltage direct current (HVDC) transmission lines originating in Wyoming and Montana, respectively, and terminating in Nevada. If constructed, each project would cost approximately US\$3 billion and be capable of delivering 3,000 MW of power. In December 2008, TransCanada filed applications for both projects requesting approval from the FERC to charge negotiated rates and to proceed with an open season in the spring of 2009, with 50 per cent of the capacity of each line already pre-subscribed for a period of 25 years. In February 2009, the FERC approved both applications. Pending successful completion of the open seasons, regulatory work could commence later in 2009, followed by construction commencing in 2012 and a potential in-service date of late 2014.

TransCanada is pursuing a proposal to build NorthernLights, a 500 kV HVDC electric transmission line running from central Alberta to a terminal in southern Alberta and interconnecting with the Pacific Northwest. NorthernLights is expected to cost approximately \$2 billion and provide up to 3,000 MW of power.

Broadwater LNG In March 2008, the FERC authorized the construction and operation of Broadwater, subject to conditions. In April 2008, the New York Department of State determined that construction and operation of the project would not be consistent with the State's coastal zone policies. As a result of this unfavourable decision, TransCanada wrote down \$27 million after tax (\$41 million pre-tax) of costs for Broadwater that had been capitalized to March 31, 2008. TransCanada has appealed the determination of the New York Department of State to the U.S. Department of Commerce and a decision is expected in early 2009.

ENERGY – BUSINESS RISKS

Fluctuating Power and Natural Gas Market Prices

TransCanada operates in competitive power and natural gas markets in North America. Volatility in power and natural gas prices is caused by market forces such as fluctuating supply and demand, which are greatly affected by weather events. Energy's earnings from the sale of uncontracted volumes are subject to price volatility. Although Energy commits a significant portion of its supply to medium- to long-term sales contracts, it retains an amount of unsold supply in order to provide flexibility in managing the Company's portfolio of wholly owned assets.

Uncontracted Volumes

Energy has uncontracted power sales volumes in Western Power and Eastern Power and through its investment in Bruce Power. In addition, with the acquisition of Ravenswood, at December 31, 2008, Eastern Power significantly increased its level of uncontracted sales volumes, which are subject to price volatility. Sale of uncontracted power volumes into the spot market is subject to market price volatility, which directly impacts earnings. Bruce B has a significant amount of uncontracted volumes subject to a floor price mechanism that are sold into the wholesale power spot market under contract price terms with the OPA, while 100 per cent of the Bruce A output is sold into the Ontario wholesale power spot market under fixed contract price terms with the OPA. The natural gas storage business is subject to fluctuating natural gas seasonal spreads generally determined by the differential in natural gas prices in the traditional summer injection and winter withdrawal seasons. As a result, the Company hedges capacity with a portfolio of contractual commitments containing varying terms.

Liquidity Risk

A decrease in the number and credit quality of counterparties with which to transact may increase the Company's exposure to spot prices by reducing its ability to lock in forward sale prices at acceptable contract terms.

Plant Availability

Maintaining plant availability is essential to the continued success of the Energy business. Plant operating risk is mitigated through a commitment to TransCanada's operational excellence strategy, which is to provide low-cost, reliable operating performance at each of the Company's facilities. Unexpected plant outages and the duration of outages could result in lower plant output and sales revenue, reduced margins and increased maintenance costs. At certain times, unplanned outages may require power or natural gas purchases at market prices to ensure TransCanada meets its contractual obligations.

Weather

Extreme temperature and weather events in North America and the Gulf of Mexico often create price volatility and demand for power and natural gas. These same events may also restrict the availability of power and natural gas. Seasonal changes in temperature can also affect the efficiency and output capability of natural gas-fired power plants. Variability in wind speeds may impact the earnings of the Cartier Wind assets.

Hydrology

TransCanada's power operations are subject to hydrology risk arising from the ownership of hydroelectric power generation facilities in the northeastern U.S. Weather changes, weather events, local river management and potential dam failures at these plants or upstream facilities pose potential risks to the Company.

Execution and Capital Cost

Energy's new construction programs in Ontario, Québec, Maine and Arizona, including its investment in Bruce Power, are subject to execution and capital cost risks. At Bruce Power, Bruce A's four unit refurbishment and restart project is also subject to a capital cost risk- and reward-sharing mechanism with the OPA.

Asset Commissioning

Although all of TransCanada's newly constructed assets go through rigorous acceptance testing prior to being placed in service, there is a risk that these assets may have lower than expected availability or performance, especially in their first year of operations.

Regulation of Power Markets

TransCanada operates in both regulated and deregulated power markets. As electricity markets evolve across North America, there is the potential for regulatory bodies to implement new rules that could negatively affect TransCanada as a generator and marketer of electricity. These may be in the form of market rule changes, price caps, emission controls, unfair cost allocations to generators and attempts by others to take out-of-market actions to build excess generation that negatively affects the price for capacity or energy, or both. In addition, TransCanada's development projects rely on an orderly permitting process and any disruption to that process can have negative effects on project schedule and cost. TransCanada continues to monitor regulatory issues and regulatory reform and participate in and lead discussions around these topics.

Refer to the "Risk Management and Financial Instruments" section of this MD&A for information on additional risks and managing risks in the Energy business.

ENERGY – OUTLOOK

TransCanada assumes that its operations in 2009 will be materially consistent with those in 2008 and includes the positive impact of a full year of earnings from Ravenswood, incremental earnings from Portlands Energy, which is expected to be commissioned in first quarter 2009, and a decrease in planned outages at Bruce Power. These positive impacts are expected to be partially offset by a return to more normal hydrology levels at TC Hydro from the record levels experienced in 2008. In addition, the current economic climate is negatively affecting demand, liquidity and prices in commodity markets in which TransCanada operates.

Although TransCanada has sold forward significant output from its power plants and Alberta PPAs, as well as capacity from its natural gas storage facilities, operating income in 2009 can be affected by changes in the spot market price of power, market heat rates, hydrology, forward capacity payments, natural gas storage spreads and unplanned outages. Operating income from Energy's U.S. operations is affected by changes in the U.S./Canadian dollar exchange rates.

Other factors such as plant availability, regulatory changes, weather, currency movements, and overall stability of the energy industry can also affect 2009 operating income. Refer to the "Energy – Business Risks" section of this MD&A for a complete discussion of these factors.

Following the expiry of the Ravenswood tolling arrangement with Hess Corporation on December 31, 2008, TransCanada will manage the ongoing marketing of the Ravenswood plant output in the same manner as it does with other generation assets in the U.S. Northeast. Dependent on market liquidity and other factors, a significant portion of the electricity generated by the Ravenswood facility in 2009 and beyond may be sold at spot prices. As noted in the "Energy – Business Risk" section of this MD&A, spot prices for electricity are subject to change depending on underlying energy commodity prices, available supply, demand and other factors.

Capital Expenditures

Energy's total capital expenditures in 2008 were \$4.3 billion, including the acquisition of Ravenswood for \$3.1 billion. Energy's overall capital spending in 2009 is expected to be approximately \$1.4 billion, including cash calls for the Bruce A refurbishment and restart project and continued construction at Coolidge, Cartier Wind, Kibby Wind and Halton Hills.

CORPORATE

CORPORATE RESULTS			
Year ended December 31 (millions of dollars)			
	2008	2007	2006
Indirect financial charges and non-controlling interests	291	248	136
Interest income and other	(9)	(83)	(31)
Income taxes	(180)	(120)	(72)
Comparable Expenses ⁽¹⁾	102	45	33
Income tax reassessments and adjustments	(26)	(68)	(72)
Net Expenses/(Earnings), after income taxes	76	(23)	(39)

⁽¹⁾ Refer to the" Non-GAAP Measures" section of this MD&A for further discussion of comparable earnings.

Corporate reflects net expenses not allocated to specific business segments, including:

- Indirect Financial Charges and Non-Controlling Interests Direct financial charges are reported in their respective business segments and are associated primarily with debt and preferred securities related to the Company's wholly owned natural gas pipelines. Indirect financial charges, including the related foreign exchange impacts, reside mainly in Corporate. These costs are influenced directly by the amount of debt the Company maintains, the degree to which the Company is affected by fluctuations in interest and foreign exchange rates and the amount of interest capitalized for projects under construction.
- *Interest Income and Other* Interest Income and Other includes interest earned on invested cash balances and income tax refunds. Also included are foreign exchange gains and losses related to translation of foreign-denominated working capital and derivatives used to manage the Company's exposure to U.S. dollar net income.
- *Income Taxes* Income tax recoveries includes income taxes calculated on Corporate's net expenses as well as income tax refunds, reassessments and adjustments that have not been excluded for comparable earnings purposes.

CORPORATE – FINANCIAL RESULTS

Net expenses in Corporate were \$76 million in 2008 compared to net earnings of \$23 million and \$39 million in 2007 and 2006, respectively.

Corporate's net expenses in 2008 included favourable income tax reassessments and adjustments of \$26 million compared to \$68 million in 2007. Excluding these income tax adjustments, Corporate's comparable expenses increased \$57 million in 2008 compared to 2007. The increase in comparable expenses was primarily due to net unrealized losses of \$39 million after tax from changes in the fair value of derivatives, which are used to manage the Company's exposure to rising interest rates but do not qualify as hedges for accounting purposes. The fair value of these derivatives was negatively impacted as interest rates dropped to historic lows late in fourth quarter 2008. In addition, higher financial charges resulting from financing the Company's 2008 capital program, including the Ravenswood acquisition, and higher losses from the change in fair value of derivatives used to manage the Company's exposure to foreign exchange rate fluctuations were partially offset by increased capitalization of interest to finance a larger capital spending program. The losses from the foreign exchange derivatives were partially offset by the positive impact of a stronger U.S. dollar reported in the Pipelines and Energy businesses.

Corporate's net earnings in 2007 and 2006 included favourable income tax reassessments and adjustments of \$68 million and \$72 million, respectively. Excluding these income tax adjustments, Corporate's comparable expenses increased \$12 million in 2007 compared to 2006. Net unrealized gains from the change in fair value of derivatives used

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 <i>(millions of dollars)</i>			
	2008	2007	2006
Funds generated from operations ⁽¹⁾ (Increase)/decrease in operating working capital	3,021 (181)	2,621 215	2,378 (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.

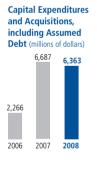
Funds Generated from Operations

Funds Generated from Operations (millions of dollars) 2,378 2,621 2,378 2,621 2,006 2007 2008 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.



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)

	,	Payments Due by Period					
	Total	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.

TransCanada's commitments under the Alberta PPAs are considered to be operating leases and a portion of these PPAs have been subleased to third parties under similar terms and conditions. Future payments under these PPAs have been excluded from the above table, as these payments are dependent upon plant availability, among other factors. The amount of power purchased under the PPAs in 2008 was \$471 million (2007 – \$440 million; 2006 – \$499 million).

At December 31, 2008, scheduled principal repayments and interest payments related to long-term debt and the Company's proportionate share of the long-term debt of joint ventures were as follows:

PRINCIPAL REPAYMENTS

Year ended December 31 (millions of dollars)

		Payments Due by Period					
		Less than	1 - 3	3 - 5	More than		
	Total	one year	years	years	5 years		
Long-term debt ⁽¹⁾	16,154	786	1,545	2,550	11,273		
Junior subordinated notes Long-term debt of joint	1,213	-	-	-	1,213		
ventures	841	194	242	134	271		
Total principal repayments	18,208	980	1,787	2,684	12,757		

⁽¹⁾ Includes Junior Subordinated Notes.

INTEREST PAYMENTS

Year ended December 31 (millions of dollars)

		Payments Due by Period			
	Total	Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Interest payments on long-term debt	14,508	1,072	1,995	1,794	9,647
Interest payments on junior subordinated notes	662	78	156	156	272
Interest payments on long-term debt of joint ventures	328	61	76	56	135
Total interest payments	15,498	1,211	2,227	2,006	10,054

At December 31, 2008, the Company's approximate future purchase obligations were as follows:

PURCHASE OBLIGATIONS⁽¹⁾

Year ended December 31 (millions of dollars)

rear ended December 31 (millions	or dollars)				
			Payments Due	by Period	
		Less than	1 - 3	3 - 5	More than
	Total	one year	years	years	5 years
Pipelines					
Transportation by others ⁽²⁾	931	260	396	199	76
Capital expenditures ⁽³⁾⁽⁴⁾	2,317	2,092	155	70	-
Other	6	3	2	1	-
Energy					
Commodity purchases ⁽⁵⁾	6,711	945	1,394	1,284	3,088
Capital expenditures ⁽³⁾⁽⁶⁾	1,049	509	456	61	23
Other ⁽⁷⁾	1,133	88	151	124	770
Corporate					
Information technology and					
other	99	29	41	22	7
Total purchase obligations	12,246	3,926	2,595	1,761	3,964

⁽¹⁾ The amounts in this table exclude funding contributions to pension plans and funding to the APG.

⁽²⁾ Rates are based on known 2009 levels. Beyond 2009, demand rates are subject to change. The contract obligations in the table are based on known or contracted demand volumes only and exclude commodity charges incurred when volumes flow.

⁽³⁾ Amounts are estimates and are subject to variability based on timing of construction and project enhancements. The Company expects to fund capital projects with cash from operations and, if necessary, new debt and equity.

- ⁽⁴⁾ Primarily consists of capital expenditures related to TransCanada's share of the construction costs of Keystone, North Central Corridor and other pipeline projects.
- ⁽⁵⁾ Commodity purchases include fixed and variable components. The variable components are estimates and are subject to variability in plant production, market prices and regulatory tariffs.
- ⁽⁶⁾ Primarily consists of capital expenditures related to TransCanada's share of the construction costs of Coolidge, Bruce Power, the remaining Cartier Wind projects, Halton Hills and Portlands Energy.
- ⁽⁷⁾ Includes estimates of certain amounts that are subject to change depending on plant fired hours, the consumer price index, actual plant maintenance costs, plant salaries, and changes in regulated rates for transportation.

TransCanada and its affiliates have long-term natural gas transportation and natural gas purchase arrangements as well as other purchase obligations, all of which are transacted at market prices and in the normal course of business.

In 2009, TransCanada expects to make funding contributions to the Company's pension and other post-retirement benefit plans in the amount of approximately \$140 million and \$27 million, respectively. This represents an increase from total funding contributions of \$90 million in 2008 and is attributable primarily to significantly reduced investment performance and plan experience being different than expectations. TransCanada's proportionate share of funding contributions expected to be made by joint ventures to their respective pension and other post-retirement benefit plans in 2009 is approximately \$37 million and \$4 million, respectively, compared to actual total contributions of \$42 million in 2008.

The next actuarial valuation for the Company's pension and other post-retirement benefit plans is expected to be carried out as at January 1, 2010. Primarily as a result of the significantly lower performance of the pension plan assets in 2008, it is expected that funding requirements for these plans could continue at the anticipated 2009 level for the next

several years to amortize solvency deficiencies in addition to normal costs. The Company's net benefit cost is expected to remain at 2008 levels. However, the net benefit cost and the amount of funding contributions received will be dependent on various factors, including future investment returns achieved on plan assets, the level of interest rates, changes to plan design and actuarial assumptions, actual plan experience versus projections and amendments to pension plan regulations and legislation. Increases in the level of required plan funding are not expected to have a material impact on the Company's liquidity.

Bruce Power

Bruce A has signed commitments to third-party suppliers related to refurbishing and restarting Units 1 and 2 and refurbishing Units 3 and 4 to extend their operating life. TransCanada's share of these signed commitments, which extend over the three-year period ending December 31, 2011, are as follows:

Year ended December 31 (millions of dollars)

2009 2010 2011	204 49
010 011	2
	255

Aboriginal Pipeline Group

Under its agreement with the APG, TransCanada agreed to finance the APG's one-third share of the MGP project's predevelopment costs. These costs are currently forecast to be between \$150 million and \$200 million, on a cumulative basis, depending on the pace of project development. As at December 31, 2008, the Company had advanced \$140 million of this total. This agreement is discussed further in the "Pipelines – Opportunities and Developments" section of this MD&A.

Contingencies

In April 2008, the Ontario Court of Appeal dismissed an appeal filed by the Canadian Alliance of Pipeline Landowners' Associations (CAPLA). CAPLA filed the appeal as a result of a decision by the Ontario Superior Court in November 2006 to dismiss CAPLA's class action lawsuit against TransCanada and Enbridge Inc. for damages alleged to have arisen from the creation of a control zone within 30 metres of a pipeline pursuant to Section 112 of the *National Energy Board Act*. The Ontario Court of Appeal's decision is final and binding as CAPLA did not seek any further appeal within the time frame allowed.

TransCanada is subject to laws and regulations governing environmental quality and pollution control. At December 31, 2008, the Company had recorded liabilities of approximately \$86 million representing the Company's estimate of the amount it expects to expend to remediate certain sites. However, additional liabilities may be incurred as more assessments occur and remediation efforts continue.

TransCanada and its subsidiaries are subject to various legal proceedings and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated financial position or results of operations.

Guarantees

TransCanada, Cameco Corporation and BPC have severally guaranteed one-third of certain contingent financial obligations of Bruce B related to power sales agreements, operator licenses, a lease agreement and contractor services. The guarantees have terms ranging from one year ending in 2010 to perpetuity. In addition, TransCanada and BPC have severally guaranteed one-half of certain contingent financial obligations related to an agreement with the OPA to refurbish and restart Bruce A power generation units. The guarantees were provided as part of the reorganization of Bruce Power in 2005 and have terms ending in 2019. TransCanada's share of the potential exposure under these Bruce A and Bruce B guarantees was estimated at December 31, 2008 to range from \$711 million to a maximum of \$750 million. The fair value of these guarantees is estimated to be \$17 million.

The Company and its partners in certain jointly owned entities have severally as well as jointly and severally guaranteed the financial performance of these entities related primarily to construction projects, redelivery of natural gas, PPA payments and the payment of liabilities. TransCanada's share of the potential exposure under these guarantees was estimated at December 31, 2008 to range from \$688 million to a maximum of \$1.4 billion. For certain of these entities, any payments made by TransCanada under these guarantees in excess of its ownership interest are to be reimbursed by its partners. Deferred Amounts includes \$9 million for the fair value of these joint and several guarantees.

TransCanada has guaranteed a subsidiary's equity undertaking to support the payment, under certain conditions, of principal and interest on US\$43 million of the public debt obligations of TransGas. The Company has a 46.5 per cent interest in TransGas. Under the terms of a shareholder agreement, TransCanada and another major multinational company may be required to severally fund more than their proportionate share of debt obligations of TransGas in the event that the minority shareholders fail to contribute. Any payments made by TransCanada under this agreement would convert into share capital of TransGas. The Company's potential exposure is contingent on the impact any change of law would have on the ability of TransGas to service the debt. There has been no change in applicable law since the issuance of debt in 1995 and, thus, no exposure for TransCanada. The debt matures in 2010. The Company has made no provision related to this guarantee.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

Risk Management Overview

TransCanada has exposure to market risk, counterparty credit risk, and liquidity risk. TransCanada engages in risk management activities with the primary objective being to protect earnings, cash flow and, ultimately, shareholder value.

Risk management strategies, policies and limits are designed to ensure TransCanada's risks and related exposures are in line with the Company's business objectives and risk tolerance. Risks are managed within limits ultimately established by the Company's Board of Directors, implemented by senior management and monitored by risk management and internal audit personnel. The Board of Directors' Audit Committee oversees how management monitors compliance with risk management policies and procedures, and oversees management's review of the adequacy of the risk management framework. Internal audit personnel assist the Audit Committee in its oversight role by performing regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Board of Directors also has a Governance Committee that assists in overseeing the risk management activities of TransCanada. The Governance Committee monitors, reviews with management and makes recommendations related to TransCanada's risk management programs and policies on an ongoing basis.

Market Risk

The Company constructs and invests in large infrastructure projects, purchases and sells commodities, issues short-term and long-term debt, including amounts in foreign currencies, and invests in foreign operations. These activities expose the Company to market risk from changes in commodity prices, foreign exchange rates and interest rates, which affect the Company's earnings and the value of the financial instruments it holds.

The Company uses derivatives as part of its overall risk management policy to manage exposure to market risk that results from these activities. Derivative contracts used to manage market risk generally consist of the following:

• Forwards and futures contracts – contractual agreements to purchase or sell a specific financial instrument or commodity at a specified price and date in the future. TransCanada enters into foreign exchange and commodity forwards and futures to mitigate the impact of volatility in foreign exchange rates and commodity prices.

- Swaps contractual agreements between two parties to exchange streams of payments over time according to specified terms. The Company enters into interest rate, cross-currency and commodity swaps to mitigate the impact of changes in interest rates, foreign exchange rates and commodity prices.
- Options contractual agreements to convey the right, but not the obligation, of the purchaser to buy or sell a specific amount of a financial instrument or commodity at a fixed price, either at a fixed date or at any time within a specified period. The Company enters into option agreements to mitigate the impact of changes in interest rates, foreign exchange rates and commodity prices.

Commodity Price Risk

The Company is exposed to commodity price movements as part of its normal business operations, particularly in relation to the prices of electricity, natural gas and oil products. A number of strategies are used to mitigate these exposures, including the following:

- Subject to the Company's overall risk management policies, the Company commits a significant portion of its expected power supply to fixed-price medium-term or long-term sales contracts, while reserving an amount of unsold supply to mitigate price risk in its asset portfolio.
- The Company purchases a portion of the natural gas and oil products required for its power plants or enters into contracts that base the sales price of electricity on the cost of natural gas, effectively locking in a margin. A significant portion of the electricity needed to fulfill the Company's power sales commitments is purchased with contracts or fulfilled through power generation, thereby reducing the Company's exposure to fluctuating commodity prices.
- The Company enters into offsetting or back-to-back positions and derivative financial instruments to manage price risk exposure in power and natural gas commodities created by certain fixed and variable pricing arrangements for different pricing indices and delivery points.

TransCanada manages its exposure to seasonal natural gas price spreads in its natural gas storage business by economically hedging storage capacity with a portfolio of third-party storage capacity contracts and proprietary natural gas purchases and sales. TransCanada simultaneously enters into a forward purchase of natural gas for injection into storage and an offsetting forward sale of natural gas for withdrawal at a later period, thereby locking in future positive margins and effectively eliminating exposure to price movements of natural gas. Fair value adjustments recorded each period on proprietary natural gas storage inventory and these forward contracts may not be representative of the amounts that will be realized on settlement.

Natural Gas Inventory Price Risk

At December 31, 2008, \$76 million (2007 – \$190 million) of proprietary natural gas inventory was included in Inventories. TransCanada measures its proprietary natural gas inventory held in storage at the one-month forward price for natural gas less selling costs. The Company did not have any proprietary natural gas inventory held in storage prior to April 2007. In 2008, the net change in fair value of proprietary natural gas held in inventory was a net unrealized loss of \$7 million (2007 – nil), which was recorded as a decrease to Revenue and Inventory. In 2008, the net change in fair value of natural gas forward purchases and sales contracts was a net unrealized gain of \$7 million (2007 – \$10 million) which was included in Revenues.

Foreign Exchange and Interest Rate Risk

Foreign exchange and interest rate risk is created by fluctuations in the fair value or cash flow of financial instruments due to changes in foreign exchange rates and/or market interest rates.

A portion of TransCanada's earnings from its Pipelines and Energy operations is generated in U.S. dollars and is subject to currency fluctuations. The performance of the Canadian dollar relative to the U.S. dollar can affect TransCanada's earnings. This foreign exchange impact is offset by certain related debt and financing costs being denominated in U.S. dollars and by the Company's hedging activities. Due to its increased U.S. operations, TransCanada has a greater exposure to U.S. currency fluctuations than in prior years.

The Company uses foreign currency and interest rate derivatives to manage the foreign exchange and interest rate risks related to its debt and other U.S. dollar-denominated transactions, and to manage the interest rate exposure of the Canadian Mainline, Alberta System and Foothills operations. Certain of the realized gains and losses on these derivatives are shared with shippers on predetermined terms. These gains and losses are deferred as regulatory assets and liabilities until they are recovered from or paid to the shippers in accordance with the terms of the shipping agreements.

TransCanada has floating interest rate debt, which subjects it to interest rate cash flow risk. The Company uses a combination of forwards, interest rate swaps and options to manage its exposure to this risk.

Net Investment in Self-Sustaining Foreign Operations

The Company hedges its net investment in self-sustaining foreign operations (on an after-tax basis) with U.S. dollardenominated debt, forward foreign exchange contracts, cross-currency interest rate swaps and foreign exchange options. At December 31, 2008, the Company had designated as a net investment hedge U.S. dollar-denominated debt with a carrying value of \$7.2 billion (US\$5.9 billion) (2007 – \$4.7 billion (US\$4.7 billion)) and a fair value of \$5.9 billion (US\$4.8 billion) (2007 – \$4.8 billion (US\$4.8 billion)). In January 2009, the Company issued an additional US\$2.0 billion of long-term debt and designated it as a hedge of the net U.S. dollar investment in foreign operations. At December 31, 2008, \$254 million was included in Deferred Amounts for the fair value of the forwards, swaps and options used to hedge the Company's net U.S. dollar investment in foreign operations.

The fair values and notional or principal amount for the derivatives designated as a net investment hedge were as follows:

	200	08	2007		
Asset/(Liability)	Notional o Principa		Notional Princip		
December 31 (millions of dollars)	Fair Value	Amount	Fair Value	Amount	
U.S. dollar cross-currency swaps (maturing 2009 to 2014) U.S. dollar forward foreign exchange contracts	(218)	U.S. 1,650	77	U.S. 350	
(maturing 2009)	(42)	U.S. 2,152	(4)	U.S. 150	
U.S. dollar options (maturing 2009)	6	U.S. 300	3	U.S. 600	
	(254)	U.S. 4,102	76	U.S. 1,100	

Counterparty Credit Risk

Counterparty credit risk represents the financial loss the Company would experience if a counterparty to a financial instrument failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company.

Counterparty credit risk is managed through established credit management techniques, including conducting financial and other assessments to establish and monitor a counterparty's creditworthiness, setting exposure limits, monitoring exposures against these limits, using master netting arrangements and obtaining financial assurances where warranted. In general, financial assurances include guarantees, letters of credit and cash. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis. The Company believes these measures minimize its counterparty credit risk but there is no certainty that these processes will protect it against all losses.

TransCanada has significant credit and performance exposures to financial institutions as they provide committed credit lines and cash deposit facilities, critical liquidity in the foreign exchange derivative, interest rate derivative and energy wholesale markets, and letters of credit to mitigate TransCanada's exposure to non-credit worthy counterparties.

During the deterioration of global financial markets in 2008, TransCanada continued to closely monitor and reassess the creditworthiness of its counterparties, including financial institutions. This has resulted in TransCanada reducing or mitigating its exposure to certain counterparties where it is deemed warranted and permitted under contractual terms. As part of its ongoing operations, TransCanada must balance its market risk and counterparty credit risk when making business decisions.

Certain subsidiaries of Calpine filed for bankruptcy protection in both Canada and the U.S. in 2005. Gas Transmission Northwest Corporation (GTNC) and Portland Natural Gas Transmission System (PNGTS) reached agreements with Calpine for allowed unsecured claims in the Calpine bankruptcy. In February 2008, GTNC and PNGTS received initial distributions of 9.4 million common shares and 6.1 million common shares of Calpine, respectively, which represented approximately 85 per cent of their agreed-upon claims. In 2008, these shares were subsequently sold into the open market and resulted in total pre-tax gains of \$279 million. Claims by NOVA Gas Transmission Limited and Foothills Pipe Lines (South B.C.) Ltd. for \$32 million and \$44 million, respectively, were received in cash in January 2008 and will be passed on to shippers on these systems. At December 31, 2008, \$22 million remained in regulatory liabilities for these claims.

Liquidity Risk

Liquidity risk is the risk that TransCanada will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that, under both normal and stressed conditions, it always has sufficient cash and credit facilities to meet its obligations when due without incurring unacceptable losses or damage to the Company's reputation.

Management forecasts cash flows for a period of 12 months to identify financing requirements. These requirements are then managed through a combination of committed and demand credit facilities and access to capital markets. The Company's liquidity and cash flow management is also discussed in the "Liquidity and Capital Resources" and "Contractual Obligations" sections of this MD&A.

Fair Values

The fair value of financial instruments included in Cash and Cash Equivalents, Accounts Receivable, Other Assets, Notes Payable, Accounts Payable, Accrued Interest and Deferred Amounts approximates their carrying amounts due to the nature of the item and/or the short time to maturity. The fair value of foreign exchange and interest rate derivatives has been calculated using year-end market rates. The fair value of power, natural gas and oil products derivatives has been calculated using quoted market prices where available. In the absence of quoted market prices, third-party broker quotes are used. Credit risk has been taken into consideration when calculating fair values.

Valuation techniques that refer to observable market data or estimated market prices may also be used to calculate fair value. These include comparisons with similar instruments that have observable market prices, option pricing models and other valuation techniques commonly used by market participants. Fair values determined using valuation models require the use of assumptions about the amount and timing of estimated future cash flows and discount rates. In making these assumptions, the Company looks primarily to readily observable external market input factors such as interest rate yield curves, currency rates and price and rate volatilities, as applicable.

The fair value of the Company's Long-Term Debt was estimated based on quoted market prices for the same or similar debt instruments and, when such information was not available, was estimated by discounting future payments of interest and principal at estimated interest rates that were made available to the Company.

Non-Derivative Financial Instruments Summary

The carrying and fair values of non-derivative financial instruments were as follows:

	2008		2007	
	Carrying		Carrying	
December 31 (millions of dollars)	Amount	Fair Value	Amount	Fair Value
Financial Assets ⁽¹⁾				
Cash and cash equivalents	1,308	1,308	504	504
Accounts receivable and other assets ⁽²⁾⁽³⁾	1,404	1,404	1,231	1,231
Available-for-sale assets ⁽²⁾	27	27	17	17
	2,739	2,739	1,752	1,752
Financial Liabilities ⁽¹⁾⁽³⁾				
Notes payable	1,702	1,702	421	421
Accounts payable and deferred amounts ⁽⁴⁾	1,372	1,372	1,193	1,193
Accrued interest	359	359	261	261
Long-term debt and junior subordinated notes	17,367	16,152	13,908	15,334
Long-term debt of joint ventures	1,076	1,052	903	937
Other long-term liabilities of joint ventures ⁽⁴⁾	-	-	60	60
	21,876	20,637	16,746	18,206

⁽¹⁾ Consolidated Net Income in 2008 and 2007 included unrealized gains or losses of nil for the fair value adjustments to each of these financial instruments.

(2) At December 31, 2008, the Consolidated Balance Sheet included financial assets of \$1,257 million (2007 – \$1,018 million) in Accounts Receivable and \$174 million (2007 – \$230 million) in Other Assets.

⁽³⁾ Recorded at amortized cost, except for certain Long-Term Debt which is adjusted to fair value.

⁽⁴⁾ At December 31, 2008, the Consolidated Balance Sheet included financial liabilities of \$1,350 million (2007 – \$1,175 million) in Accounts Payable and \$22 million (2007 – \$78 million) in Deferred Amounts.

Derivative Financial Instruments Summary

Information for the Company's derivative financial instruments is as follows:

			2008		
December 31					
(all amounts in millions unless otherwise		Natural	Oil	Foreign	
indicated)	Power	Gas	Products	Exchange	Interest
Derivative Financial Instruments Held					
for Trading					
Fair Values ⁽¹⁾					
Assets	\$132	\$144	\$10	\$41	\$57
Liabilities	\$(82)	\$(150)	\$(10)	\$(55)	\$(117)
Notional Values					
Volumes ⁽²⁾					
Purchases	4,035	172	410	-	-
Sales	5,491	162	252	-	-
Canadian dollars	-	-	-	-	1,016
U.S. dollars	-	-	-	U.S. 479	U.S. 1,575
Japanese yen (in billions)	-	-	-	JPY 4.3	-
Cross-currency	-	-	-	227/U.S. 157	-
Net unrealized gains/(losses) in the year ⁽³⁾	\$24	\$(23)	\$1	\$(9)	\$(61)
Net realized gains/(losses) in the year ⁽³⁾	\$23	\$(2)	\$1	\$6	\$13
Maturity dates	2009-2014	2009-2011	2009	2009-2012	2009-2018
Derivative Financial Instruments in					
Hedging Relationships ⁽⁴⁾⁽⁵⁾					
Fair Values ⁽¹⁾					
Assets	\$115	\$-	\$-	\$2	\$8
Liabilities	\$(160)	\$(18)	\$-	\$(24)	\$(122)
Notional Values					
Volumes ⁽²⁾					
Purchases	8,926	9	-	-	-
Sales	13,113	-	-	-	-
Canadian dollars	-	-	-	-	50
U.S. dollars	-	-	-	U.S. 15	U.S. 1,475
Cross-currency	-	-	-	136/U.S. 100	-
Net realized (losses)/gains in the year ⁽³⁾	\$(56)	\$15	\$-	\$-	\$(10)
Maturity dates	2009-2014	2009-2011	-	2009-2013	2009-2019

⁽¹⁾ Fair value is equal to the carrying value of these derivatives.

⁽²⁾ Volumes for power, natural gas and oil products derivatives are in gigawatt hours, billion cubic feet and thousands of barrels, respectively.

⁽³⁾ All power, natural gas and oil products realized and unrealized gains and losses are included in Revenues. All interest rate and foreign exchange realized and unrealized gains and losses are included in Financial Charges and Interest Income and Other, respectively. Realized gains and losses are included in Net Income upon settlement of the financial instrument.

(4) All hedging relationships are designated as cash flow hedges except for interest-rate derivative financial instruments designated as fair value hedges with a fair value of \$8 million. In 2008, the Company did not record any amounts in Net Income related to ineffectiveness for fair value hedges.

⁽⁵⁾ In 2008, Net Income included losses of \$6 million for the changes in fair value of power and natural gas cash flow hedges that were ineffective in offsetting the change in fair value of their related underlying positions. In 2008, there were no gains or losses included in Net Income for discontinued cash flow hedges. The anticipated timing of settlement of the derivative contracts assumes no changes in commodity prices, interest rates and foreign exchange rates from December 31, 2008. Actual settlements will vary based on changes in these factors. The anticipated timing of settlement of these contracts is as follows:

(millions of dollars)	Total	2009	2010 and 2011	2012 and 2013	2014 and Thereafter
Derivative financial instruments held for trading Derivative financial instruments in hedging	(30)	38	(46)	(14)	(8)
relationships	(199)	(68)	(65)	(43)	(23)
	(229)	(30)	(111)	(57)	(31)

Derivative Financial Instruments Summary

Information for the Company's derivative financial instruments is as follows:

	2007			
December 31		Natural	Foreign	
(all amounts in millions unless otherwise indicated)	Power	Gas	Exchange	Interest
Derivative Financial Instruments Held for Trading				
Fair Values ⁽¹⁾				
Assets	\$55	\$43	\$11	\$23
Liabilities	\$(44)	\$(19)	\$(79)	\$(18)
Notional Values				
Volumes ⁽²⁾				
Purchases	3,774	47	-	-
Sales	4,469	64	-	-
Canadian dollars	-	-	-	615
U.S. dollars	_	_	U.S. 484	U.S. 550
Japanese yen (in billions)	_	_	JPY 9.7	-
Cross-currency	_	_	227/U.S. 157	-
Net unrealized gains/(losses) in the year ⁽³⁾	\$16	\$(10)	\$8	\$(5)
Net realized (losses)/gains in the year ⁽³⁾	\$(8)	\$47	\$39	\$5
Maturity dates	2008-2016	2008-2010	2008-2012	2008-2016
Derivative Financial Instruments in Hedging				
Relationships ⁽⁴⁾⁽⁵⁾				
Fair Values ⁽¹⁾				
Assets	\$135	\$19	\$-	\$2
Liabilities	\$(104)	\$(7)	\$(62)	\$(16)
Notional Values				
Volumes ⁽²⁾				
Purchases	7,362	28	-	-
Sales	16,367	4	-	-
Canadian dollars	_	_	-	150
U.S. dollars	_	_	U.S. 113	U.S. 875
Cross-currency	-	-	136/U.S. 100	-
Net realized (losses)/gains in the year ⁽³⁾	\$(29)	\$18	\$-	\$3
Maturity dates	2008-2013	2008-2010	2008-2013	2008-2013

- ⁽¹⁾ Fair value is equal to the carrying value of these derivatives.
- ⁽²⁾ Volumes for power and natural gas derivatives are in gigawatt hours and billion cubic feet, respectively.
- (3) All power and natural gas realized and unrealized gains and losses are included in Revenues. All interest rate and foreign exchange realized and unrealized gains and losses are included in Financial Charges and Interest Income and Other, respectively. Realized gains and losses are included in Net Income upon settlement of the financial instrument.
- (4) All hedging relationships are designated as cash flow hedges except for interest rate derivative financial instruments designated as fair value hedges with a fair value of \$2 million. In 2007, the Company did not record any amounts in Net Income related to ineffectiveness for fair value hedges.
- ⁽⁵⁾ In 2007, Net Income included gains of \$7 million for the changes in fair value of power and natural gas cash flow hedges that were ineffective in offsetting the change in fair value of their related underlying positions. In 2007, Net Income included a loss of \$4 million for the changes in fair value of an interest-rate cash flow hedge that was reclassified as a result of discontinuance of cash flow hedge accounting when the anticipated transaction was not likely to occur by the end of the originally specified time period.

Balance Sheet Presentation of Derivative Financial Instruments

The fair value of the derivative financial instruments in the Company's Balance Sheet was as follows:

December 31 (millions of dollars)	2008	2007
Current		
Other current assets	318	160
Accounts payable	(298)	(144)
Long-term		
Other assets	191	204
Deferred amounts	(694)	(205)

OTHER RISKS

Development Projects and Acquisitions

TransCanada continues to focus on growing its Pipelines and Energy operations through greenfield development projects and acquisitions. TransCanada capitalizes costs incurred on certain of its projects during the development period prior to construction when the project meets specific criteria and is expected to proceed through to completion. The related capital costs of a project that does not proceed through to completion would be expensed at the time it is discontinued. There is a risk with respect to TransCanada's acquisition of assets and operations that certain commercial opportunities and operational synergies may not materialize as expected and would subsequently be subject to an impairment writedown.

Health, Safety and Environment Risk Management

Health, safety and environment (HS&E) is a priority in all of TransCanada's operations and is guided by the Company's HS&E Commitment Statement. The Commitment Statement outlines guiding principles for a safe and healthy environment for TransCanada's employees, contractors and the public, and that strive to protect the environment. All employees are held responsible and accountable for HS&E performance. The Company is committed to being an industry leader in conducting its business so that it meets or exceeds all applicable laws and regulations, and minimizes risk to people and the environment. The Company is committed to tracking and improving its HS&E performance, and to promoting safety on and off the job in the belief that all occupational injuries and illnesses are preventable. TransCanada endeavours to do business with companies and contractors that share its perspective on HS&E performance and to influence them to improve their collective performance. TransCanada is committed to respecting the diverse environments and cultures in which it operates and to supporting open communication with the public, policy makers, scientists and public interest groups with whom it shares stewardship of the world it inhabits.

TransCanada is committed to ensuring compliance with its internal policies and regulated requirements. The HS&E Committee of TransCanada's Board of Directors monitors compliance with the Company's HS&E corporate policy

through regular reporting. TransCanada's HS&E management system is modeled on the International Organization of Standardization's (ISO) standard for environmental management systems, ISO 14001, and focuses resources on the areas of significant risk to the organization's HS&E business activities. Management is informed regularly of all important HS&E operational issues and initiatives through formal reporting processes. TransCanada's HS&E management system and performance are assessed by an independent outside firm every three years. The most recent assessment occurred in November 2006. The HS&E management system also is subject to ongoing internal review to ensure that it remains effective as circumstances change.

In 2008, employee and contractor health and safety performance continued to be a top priority. TransCanada's assets were highly reliable and there were no incidents that were material to TransCanada's operations.

The safety and integrity of the Company's pipelines is a top priority. The Company expects to spend approximately \$185 million in 2009 for pipeline integrity on its wholly owned pipelines, which is higher than the amount spent in 2008 primarily due to increased levels of in-line pipeline inspection on all systems. Under the approved regulatory models in Canada, pipeline integrity expenditures on NEB- and AUC-regulated pipelines are treated on a flow-through basis and, as a result, have no impact on TransCanada's earnings. Expenditures on the GTN System are also recovered through a cost recovery mechanism in its rates. Pipeline safety in 2008 continued to be very good, as TransCanada experienced only one small-diameter pipeline failure in a remote part of east central Alberta. The break resulted in minimal impact with no injuries or property damage. Spending associated with public safety on the Energy assets is focused primarily on the Company's hydro dams and associated equipment, and is consistent with previous years.

Environment

TransCanada's facilities are subject to various federal, provincial, state and local statutes and regulations, including requirements to establish compliance and remediation obligations. Compliance obligations can result in significant costs associated with installing and maintaining pollution controls, fines and penalties resulting from any failure to comply, and potential limitations on operations. Remediation obligations can result in significant costs associated with the investigation and remediation of contaminated properties, some of which have been designated as Superfund sites by the U.S. Environmental Protection Agency under the *Comprehensive Environmental Response, Compensation and Liability Act*, and with damage claims arising out of the contamination of properties or impact on natural resources. It is not possible for the Company to estimate exactly the amount and timing of all future expenditures related to environmental matters due to:

- uncertainties in estimating pollution control and clean-up costs, including sites where only preliminary site investigation or agreements have been completed;
- the potential discovery of new sites or additional information at existing sites;
- the uncertainty in quantifying liability under environmental laws that impose joint and several liability on all potentially responsible parties;
- the evolving nature of environmental laws and regulations, including the interpretation and enforcement thereof; and
- the potential for litigation on existing or discontinued assets.

Environmental risks from TransCanada's operating facilities typically include: air emissions, such as nitrogen oxides, particulate matter and greenhouse gases; potential impacts on land, including land reclamation or restoration following construction; the use, storage or release of chemicals or hydrocarbons; the generation, handling and disposal of wastes and hazardous wastes; and water impacts such as uncontrolled water discharge. Environmental controls including physical design, programs, procedures and processes are in place to effectively manage these risks. TransCanada has ongoing inspection programs designed to keep all of its facilities in compliance with environmental requirements and the Company is confident that its systems are in material compliance with the applicable requirements.

In 2008, TransCanada conducted environmental risk assessments and remediation work, resulting in total costs of approximately \$7 million and US\$6 million for work conducted on TransCanada's Canadian and U.S. facilities, respectively. TransCanada also conducted various retirement, reclamation and restoration work in 2008, which resulted

in total costs of approximately \$7 million. At December 31, 2008, TransCanada had recorded liabilities of approximately \$86 million for compliance and remediation obligations. The Company believes it has considered all necessary contingencies and established appropriate reserves for environmental liabilities, however, there is the risk that unforeseen matters may arise requiring the Company to set aside additional amounts.

TransCanada is not aware of any material outstanding orders, claims or lawsuits against the Company in relation to the release or discharge of any material into the environment or in connection with environmental protection.

North American climate change policy continues to evolve at regional and national levels. While recent political and economic events may significantly affect the scope and timing of new measures that are put in place, TransCanada anticipates that most of the company's facilities in Canada and the U.S. will be captured under future regional and/or federal climate change regulations to manage industrial greenhouse gas (GHG) emissions.

In 2008, the Company owned assets in three regions affected by climate change policy measures related to industrial emissions. In Alberta, the Specified Gas Emitters Regulation, which came into effect in 2007, requires industrial facilities to reduce GHG emissions intensities by 12 per cent. TransCanada's Alberta-based pipeline and power facilities are subject to this regulation, as are the Sundance and Sheerness coal-fired power facilities with which TransCanada has commercial arrangements. The Company's total cost of compliance incurred by the Alberta-based facilities for the period from July 2007 to December 2007 was approximately \$12 million. Costs for 2008 compliance are estimated to be \$28 million and will be finalized when compliance reports are submitted in March 2009. Compliance costs of the Alberta System are recovered through tolls paid by customers. Recovery of compliance costs for the Company's power generation facilities and interests in Alberta is partially achieved through contracts and the impact of increased operating costs on Alberta power market prices.

The hydrocarbon royalty in Québec is collected by the natural gas distributor on behalf of the Québec government via a green fund contribution charge on gas consumed. In 2008, the cost pertaining to the Bécancour facility arising from the hydrocarbon royalty was less than \$1 million as a result of an agreement between TransCanada and Hydro-Québec to temporarily suspend the facility's power generation. The cost is expected to increase when the plant returns to service in 2010.

B.C.'s carbon tax, which came into effect in mid-2008, applies to carbon dioxide (CO_2) emissions arising from fossil fuel combustion. Compliance costs for fuel combustion at the Company's compressor and meter stations in B.C. are recovered through tolls paid by customers. Costs related to the carbon tax for 2008 were \$1 million. This cost is expected to increase over the next four years as the tax charge per tonne of CO_2 increases by \$5 per tonne annually from the initial tax rate of \$10 per tonne.

TransCanada has assets located in Ontario and Manitoba, where the provincial governments have announced climate change strategies that will impact industrial sources of GHG emissions. The details of these programs and how they will align with the Canadian government's climate change policies are still uncertain.

The Canadian government has expressed interest in pursuing the development of a North American cap and trade system for GHG emissions. In April 2007, the Government of Canada released the Regulatory Framework for Air Emissions (Framework). The Framework outlines short-, medium- and long-term objectives for managing both GHG emissions and air pollutants in Canada. TransCanada expects a number of its facilities will be affected by pending federal climate change regulations that will be put in place to meet the Framework's objectives. It is not known at this time whether the impacts from the pending regulations will be material as the draft regulations have not yet been released. It is uncertain how the Framework will fit within a North American cap and trade system and what the specific requirements for industrial emitters will be.

Climate change is a strategic issue for the new U.S. government administration and federal policy to manage domestic GHG emissions is expected to be a priority. Seven western states and four Canadian provinces are focused on the implementation of a cap and trade program under the Western Climate Initiative (WCI). Northeastern states that are members of the Regional Greenhouse Gas Initiative (RGGI) implemented a CO₂ cap and trade program for electricity

generators effective January 1, 2009. Participants in the Midwestern Greenhouse Gas Reduction Accord, which involves six states and one province, are developing a regional strategy for reducing members' GHG emissions that will include a multi-sector cap and trade mechanism.

The Company anticipates a number of its facilities will be affected by these legislative initiatives. Under the RGGI, both the Ravenswood and OSP facilities will be required to submit allowances by December 31, 2011. It is expected that the costs will be recovered from the market and the net impact to TransCanada will be minimal. Company assets located in regions affected by the WCI and Midwestern Greenhouse Gas Reduction Accord and in California are most likely to be covered by GHG reduction measures put in place, however, the level of impact is uncertain as key policy details remain outstanding.

TransCanada monitors climate change policy developments and, when warranted, participates in policy discussions in jurisdictions where the Company has operations. The Company is also continuing its programs to manage GHG emissions from its facilities and to evaluate new processes and technologies that result in improved efficiencies and lower GHG emission rates.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws. The information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

As at December 31, 2008, an evaluation of the effectiveness of TransCanada's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities and by the SEC was carried out under the supervision and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of TransCanada's disclosure controls and procedures were effective as at December 31, 2008.

Management's Annual Report on Internal Control over Financial Reporting

Internal control over financial reporting is a process designed by or under the supervision of senior management and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP, including a reconciliation to U.S. GAAP.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, no matter how well designed, has inherent limitations and can only provide reasonable assurance with respect to the preparation and fair presentation of published financial statements. Under the supervision and with the participation of the President and Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company acquired Ravenswood in August 2008 and began consolidating the operations of Ravenswood from that date. Management has excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. The net income attributable to this business represented less than one per cent of the Company's consolidated net income for the year ended December 31, 2008, and its aggregate total assets represented approximately nine per cent of the Company's consolidated total assets as at December 31, 2008.

Based on this evaluation, management concluded that internal control over financial reporting is effective as at December 31, 2008, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

In 2008, there was no change in TransCanada's internal control over financial reporting that materially affected or is reasonably likely to materially affect TransCanada's internal control over financial reporting.

CEO and CFO Certifications

TransCanada's President and Chief Executive Officer and Chief Financial Officer have filed with the SEC and the Canadian securities regulators certifications regarding the quality of TransCanada's public disclosures relating to its fiscal 2008 reports filed with the SEC and the Canadian securities regulators.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

To prepare financial statements that conform with Canadian GAAP, TransCanada is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses. The Company uses the most current information available and exercises careful judgment in making these estimates and assumptions. The Company believes the following accounting policies and estimates require it to make assumptions about highly uncertain matters and changes in these estimates could have a material impact to the Company's financial information.

Regulated Accounting

The Company accounts for the impacts of rate regulation in accordance with GAAP. Three criteria must be met to use these accounting principles:

- the rates for regulated services or activities must be subject to approval by a regulator;
- the regulated rates must be designed to recover the cost of providing the services or products; and
- it must be reasonable to assume that rates set at levels to recover the cost can be charged to and will be collected from customers in view of the demand for services or products and the level of direct and indirect competition.

The Company's management believes all three of these criteria have been met with respect to each of the regulated natural gas pipelines accounted for using regulated accounting principles. The most significant impact from the use of these accounting principles is that the timing of recognition of certain expenses and revenues in the regulated businesses may differ from that otherwise expected under GAAP in order to appropriately reflect the economic impact of the regulators' decisions regarding the Company's revenues and tolls.

Effective January 1, 2009, the Company's accounting for its future income taxes recorded on rate-regulated operations will change as discussed in the "Accounting Changes" section of this MD&A.

Financial Instruments and Hedges

Financial Instruments

Effective January 1, 2007, the Company adopted the accounting requirements for the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530 "Comprehensive Income", 3855 "Financial Instruments – Recognition and Measurement", and 3865 "Hedges". Effective December 31, 2007, the Company adopted the accounting requirements for CICA Handbook Sections 3862 "Financial Instruments – Disclosure", 3863 "Financial Instruments – Presentation", and 1535 "Capital Disclosures". Adjustments to the consolidated financial statements for 2007 were made on a prospective basis.

The CICA Handbook requires that all financial instruments initially be included on the balance sheet at their fair value. Subsequent measurement of the financial instruments is based on their classification. Financial assets are classified into the following categories: held for trading, available for sale, held-to-maturity investments and loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities. The Company does not have any held-to-maturity investments.

Held-for-trading derivative financial assets and liabilities consist of swaps, options, forwards and futures. Commodity held-for-trading financial instruments are initially recorded at their fair value and changes to fair value are included in Revenues. Changes in the fair value of interest rate and foreign exchange rate held-for-trading instruments are recorded in Financial Charges and in Interest Income and Other, respectively.

The available-for-sale classification includes non-derivative financial assets that are designated as available for sale or are not included in the other three classifications. These instruments are accounted for initially at their fair value and changes to fair value are recorded through Other Comprehensive Income. Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables" and are measured at amortized cost using the effective interest method, net of any impairment. Other financial liabilities consist of liabilities not classified as held for trading. Items in this financial instrument category are recognized at amortized cost using the effective interest method.

The recognition of gains and losses on the derivatives for the Canadian Mainline, Alberta System and Foothills exposures is determined through the regulatory process. The gains and losses on derivatives accounted for as part of rate-regulated accounting are deferred in regulatory assets or regulatory liabilities.

Hedges

The CICA Handbook specifies the criteria that must be satisfied in order to apply hedge accounting and the accounting for each of the permitted hedging strategies, including: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the hedging relationship ceases to be effective or the hedging or hedged items cease to exist as a result of maturity, expiry, sale, termination, cancellation or exercise.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk. The changes in fair value are recognized in Net Income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging item, which are also recorded in Net Income.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in Other Comprehensive Income, while any ineffective portion is recognized in Net Income in the same financial category as the underlying transaction. When hedge accounting is discontinued, the amounts recognized previously in Accumulated Other Comprehensive Income are reclassified to Net Income during the periods when the variability in cash flows of the hedged item affects Net Income. Gains and losses on derivatives are reclassified immediately to Net Income from Accumulated Other Comprehensive Income when the hedged item is sold or terminated early, or when a hedged anticipated transaction is no longer expected to occur.

The Company also enters into cash flow hedges and fair value hedges for activities subject to rate regulation. The gains and losses arising from the changes in fair value of these hedges can be recovered through the tolls charged by the Company. As a result, these gains and losses are deferred as rate-regulated assets or liabilities on behalf of the ratepayers. When the hedges are settled, the realized gains or losses are collected from or refunded to the ratepayers in subsequent years.

In hedging the foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in Other Comprehensive Income and the ineffective portion is recognized in Net Income. The amounts recognized previously in Accumulated Other Comprehensive Income are reclassified to Net Income in the event the Company settles or otherwise reduces its investment in a foreign operation.

The fair value of financial instruments and hedges is primarily derived from market values adjusted for credit risk, which can fluctuate greatly from period to period. These changes in fair value can result in variability in net income as a result of recording these changes in fair value through earnings. The risks associated with fluctuations to earnings and cash flows for financial instruments and hedges are discussed further in the "Risk Management and Financial Instruments" section of this MD&A.

Depreciation and Amortization Expense

TransCanada's plant, property and equipment are depreciated on a straight-line basis over their estimated useful lives. Pipeline and compression equipment are depreciated at annual rates ranging from one per cent to 25 per cent. Metering and other plant equipment are depreciated at various rates. Major power generation and natural gas storage plant, equipment and structures in the Energy business are depreciated on a straight-line basis over estimated service lives at average annual rates ranging from two per cent to ten per cent. Nuclear power generation assets under capital lease are initially recorded at the present value of minimum lease payments at the inception of the lease and amortized on a straight-line basis over the shorter of their useful life and the remaining lease term. Other equipment is depreciated at various rates. Corporate plant, property and equipment are depreciated on a straight-line basis over estimated useful lives at average annual rates ranging from three per cent to 20 per cent.

Depreciation expense in 2008 was \$1,189 million (2007 – \$1,179 million) and is recorded in Pipelines and Energy. In Pipelines, depreciation rates are approved by regulators when applicable and depreciation expense is recoverable based on the cost of providing the services or products. If regulators permit recovery through rates, a change in the estimate of the useful lives of plant, property and equipment in the Pipelines segment will have no material impact on TransCanada's net income but will directly affect funds generated from operations.

Impairment of Long-Lived Assets and Goodwill

The Company reviews long-lived assets such as property, plant and equipment, and intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the total of the estimated undiscounted future cash flows is less than the carrying value of the assets, an impairment loss is recognized for the excess of the carrying value over the fair value of the assets.

Goodwill is tested in the Pipelines and Energy segments for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. An initial assessment is made by comparing the fair value of the operations, which includes goodwill, to the book values of each reporting unit. If this fair value is less than book value, an impairment is indicated and a second test is performed to measure the amount of the impairment. In the second test, the implied fair value of the goodwill is calculated by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value determined in the initial assessment. If the carrying value of the goodwill exceeds this calculated implied fair value of the goodwill, an impairment charge is recorded.

These valuations are based on management's projections of future cash flows and, therefore, require estimates and assumptions with respect to:

- discount rates;
- commodity prices;
- market supply and demand assumptions;
- growth opportunities;
- output levels;
- competition from other companies; and
- regulatory changes.

Significant changes in these assumptions could affect the Company's need to record an impairment charge.

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. 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 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.

SELECTED QUARTERLY CONSOLIDATED FINANC	IAL DATA ⁽¹⁾				
	2008				
(unaudited)					
(millions of dollars except per share amounts)	Fourth	Third	Second	First	
Revenues	2,332	2,137	2,017	2,133	
Net Income	277	390	324	449	
Share Statistics					
Net income per share – Basic	\$0.47	\$0.67	\$0.58	\$0.83	
Net income per share – Diluted	\$0.46	\$0.67	\$0.58	\$0.83	
Dividend declared per common share	\$0.36	\$0.36	\$0.36	\$0.36	
		200	7		
(unaudited)					
(millions of dollars except per share amounts)	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	

⁽¹⁾ 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.

Significant developments that affected quarterly net earnings in 2008 and 2007 were as follows:

- Fourth quarter 2008, Energy's net earnings included net unrealized gains of \$6 million after tax (\$7 million pre-tax) due to changes in fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts. Corporate's net expenses included net unrealized losses of \$39 million after tax (\$57 million pre-tax) for changes in the fair value of derivatives, which are used to manage the Company's exposure to rising interest rates but do not qualify as hedges for accounting purposes.
- **Third quarter 2008**, Energy's net earnings included contributions from the August 26, 2008 acquisition of Ravenswood. Corporate's net earnings included favourable income tax adjustments of \$26 million from an internal restructuring and realization of losses.
- **Second quarter 2008**, Energy's net earnings included net unrealized gains of \$8 million after tax (\$12 million pre-tax) due to changes in fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts. In addition, Western Power's revenues and operating income increased due to higher overall realized prices and market heat rates in Alberta.
- *First quarter 2008*, Pipelines' net earnings included \$152 million after tax (\$240 million pre-tax) from the Calpine bankruptcy settlements received by GTN and Portland, and proceeds of \$10 million after tax (\$17 million pre-tax) from a lawsuit settlement. Energy's net earnings included a writedown of \$27 million after tax (\$41 million pre-tax) of costs related to Broadwater and net unrealized losses of \$12 million after tax (\$17 million pre-tax) due to changes in the fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts.
- Fourth quarter 2007, net earnings included \$56 million (\$30 million in Energy and \$26 million in Corporate) of favourable income tax adjustments resulting from reductions in Canadian federal income tax rates and other legislative changes, and a \$14 million (\$16 million pre-tax) gain on sale of land previously held for development. Pipelines' net earnings increased as a result of recording incremental earnings related to the rate case settlement reached for the GTN System, effective January 1, 2007. Energy's net earnings included net unrealized gains of \$10 million after tax (\$15 million pre-tax) due to changes in fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts.
- *Third quarter 2007*, net earnings included \$15 million of favourable income tax reassessments and associated interest income relating to prior years.
- **Second quarter 2007**, net earnings included \$16 million (\$4 million in Energy and \$12 million in Corporate) related to positive income tax adjustments resulting from reductions in Canadian federal income tax rates. Pipeline's net earnings increased as a result of a settlement reached on the Canadian Mainline, which was approved by the NEB in May 2007.
- *First quarter 2007*, net earnings included \$15 million related to positive income tax adjustments. In addition, Pipelines' net earnings included contributions from the February 22, 2007, acquisition of ANR and additional ownership interests in Great Lakes. Energy's net earnings included earnings from the Edson natural gas facility, which was placed in service on December 31, 2006.

FOURTH QUARTER 2008 HIGHLIGHTS

CONSOLIDATED RESULTS OF OPERATIONS Reconciliation of Comparable Earnings to Net Income		
(unaudited)		
(millions of dollars except per share amounts)	2008	2007
Pipelines	210	202
Energy		
Comparable earnings ⁽¹⁾	147	104
Specific items (net of tax, where applicable):		
Fair value adjustments of natural gas storage inventory and forward contracts	6	10
Gain on sale of land	-	14
Income tax adjustments	_	30
Net income	153	158
Corporate		
Comparable expenses ⁽¹⁾	(86)	(9)
Specific item:	(00)	(2)
Income tax reassessments and adjustments	-	26
Net (expenses)/income	(86)	17
Net Income	277	377
Net Income Per Share Basic	\$0.47	\$0.70
Diluted	\$0.46	\$0.70
Comparable Earnings ⁽¹⁾	271	297
Specific items (net of tax, where applicable):		237
Fair value adjustments of natural gas storage inventory and forward contracts	6	10
Gain on sale of land	-	14
Income tax reassessments and adjustments	-	56
Net Income	277	377
Commercelle Forminge Der Charre(1)	¢0.40	¢o cc
Comparable Earnings Per Share ⁽¹⁾ Specific items – per share:	\$0.46	\$0.55
Fair value adjustments of natural gas storage inventory and forward contracts	0.01	0.02
Gain on sale of land	_	0.02
Income tax reassessments and adjustments	-	0.10
Net Income Per Share	\$0.47	\$0.70

⁽¹⁾ Refer to the "Non-GAAP Measures" section of this MD&A for further discussion of comparable earnings and comparable earnings per share.

TransCanada's net income in fourth quarter 2008 was \$277 million or \$0.47 per share compared to \$377 million or \$0.70 per share in fourth quarter 2007. Net income decreased primarily due to increased net expenses from Corporate, which included unrealized losses of \$39 million after tax or \$0.07 per share in fourth quarter 2008, for changes in the fair value of derivatives, which are used to manage the Company's exposure to rising interest rates but do not qualify as hedges for

accounting purposes. Corporate's net expenses also increased in fourth guarter 2008 compared to fourth guarter 2007 as a result of higher charges for financing the Company's 2008 capital program, including the Ravenswood acquisition, and higher unrealized gains in 2007 for changes in the fair value of derivatives used to manage the Company's exposure to foreign exchange rate fluctuations. Earnings from the Pipelines business increased in fourth guarter 2008 compared to fourth guarter 2007 primarily due to earnings recognized from a 2008 revenue requirement settlement for the Alberta System and increased earnings for PipeLines LP, partially offset by the inclusion in earnings in fourth guarter 2007 for a rate case settlement for GTN. Earnings from the Energy business were slightly lower in fourth guarter 2008 compared to fourth guarter 2007 as increases in Western Power, Eastern Power and Bruce Power were more than offset by a decrease in earnings from Natural Gas Storage in 2008 and favourable income tax adjustments that were included in fourth guarter 2007. Western Power earnings increased significantly in fourth guarter 2008 compared to fourth guarter 2007 primarily due to increased margins from the Alberta power portfolio. Energy's earnings in fourth guarter 2008 and 2007 included \$6 million after tax (\$7 million pre-tax) and \$10 million after tax (\$15 million pre-tax), respectively, 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. Energy's earnings in fourth quarter 2007 also included a \$14 million after-tax (\$16 million pre-tax) gain on the sale of land. Net income for fourth guarter 2007 included \$56 million (\$30 million in Energy and \$26 million in Corporate) of favourable income tax adjustments as a result of changes in Canadian federal income tax legislation. On a per share basis, the \$0.23 decrease in earnings in fourth guarter 2008 compared to fourth guarter 2007 was also due to an increased number of shares outstanding following the Company's share issuances in 2008.

Comparable earnings in fourth quarter 2008 were \$271 million or \$0.46 per share compared to \$297 million or \$0.55 per share for the same period in 2007. Comparable earnings in fourth quarter 2008 and 2007 excluded the \$6 million and \$10 million, respectively, of net unrealized gains resulting from changes in fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts. Comparable earnings in fourth quarter 2007 also excluded the \$56 million of favourable income tax adjustments and \$14 million gain on the sale of land.

The Pipelines business generated net income and comparable earnings of \$210 million in fourth quarter 2008, an increase of \$8 million compared to net income and comparable earnings of \$202 million in fourth quarter 2007.

Canadian Mainline's net income for fourth quarter 2008 increased \$2 million, compared to the same period in 2007 primarily due to higher performance-based incentives earned, increased OM&A cost savings and a higher ROE, as determined by the NEB, of 8.71 per cent in 2008 compared to 8.46 per cent in 2007. These increases were partially offset by a lower average investment base.

The Alberta System's net income in fourth quarter 2008 was \$48 million compared to \$41 million in fourth quarter 2007. Earnings increased primarily due to the recognition of earnings related to the revenue requirement settlement in fourth quarter 2008. Earnings in 2007 reflected an approved ROE of 8.51 per cent on a deemed common equity of 35 per cent.

ANR's net income in fourth quarter 2008 was \$38 million compared to \$35 million in fourth quarter 2007. The increase in fourth quarter 2008 was primarily due to higher revenues from new growth projects and the positive impact of a stronger U.S. dollar. These increases were partially offset by higher OM&A costs, including Hurricane Ike remediation costs.

GTN's comparable earnings in fourth quarter 2008 decreased \$16 million compared to the same period in 2007. The decrease was primarily due to the positive impact of the rate case settlement included in fourth quarter 2007, partially offset by decreased OM&A expenses.

TransCanada's proportionate share of net income from Other Pipelines was \$29 million for the three months ended December 31, 2008 compared to \$16 million for the same period in 2007. Other Pipelines' earnings increased in fourth quarter 2008 primarily due to lower support costs, higher PipeLines LP and Tamazunchale earnings, and a stronger U.S. dollar, partially offset by lower TransGas, Gas Pacifico/ INNERGY and Portland earnings.

Energy's net income of \$153 million in fourth quarter 2008 decreased \$5 million compared to \$158 million in fourth quarter 2007. Comparable earnings in fourth quarter 2008 of \$147 million increased \$43 million compared to \$104 million for the same period in 2007. Comparable earnings excluded the net unrealized gains of \$6 million after tax and \$10 million after

tax in fourth quarter 2008 and 2007, respectively, resulting from changes in fair value of proprietary natural gas storage inventory and natural gas forward purchase and sale contracts. In addition, comparable earnings in fourth quarter 2007 excluded the \$14 million gain on sale of land and \$30 million of favourable income tax adjustments.

Western Power's operating income of \$106 million in fourth quarter 2008 increased \$48 million compared to \$58 million in fourth quarter 2007 primarily due to increased margins from the Alberta power portfolio, which resulted from higher overall realized power prices and market heat rates on both contracted and uncontracted volumes of power sold in Alberta. The market heat rate is determined by dividing the average price of power per MWh by the average price of natural gas per GJ for a given period.

Eastern Power's operating income of \$73 million in fourth quarter 2008 increased \$7 million compared to \$66 million in fourth quarter 2007. The increase was due to higher realized prices on sales to commercial and industrial customers in New England, the positive impact of the stronger U.S. dollar in fourth quarter 2008 and incremental earnings from the Carleton wind farm, which went into service in November 2008. On December 31, 2008, Ravenswood fulfilled its obligation under a tolling agreement with Hess Corporation that was in place at the time of acquisition. In 2009, TransCanada's marketing operation will manage marketing of the Ravenswood plant output in a manner consistent with its other U.S. Northeast portfolio of assets.

TransCanada's combined operating income of \$50 million from its investment in Bruce Power increased \$7 million in fourth quarter 2008 compared to fourth quarter 2007 primarily due to higher revenues resulting from higher realized prices. TransCanada's proportionate share of operating loss in Bruce A increased \$1 million to \$6 million in fourth quarter 2008 compared to fourth quarter 2007 as a result of lower revenues due to decreased output, partially offset by higher contract prices and lower operating costs. TransCanada's proportionate share of operating income in Bruce B increased \$8 million to \$61 million in fourth quarter 2008 compared to fourth quarter 2008 as well as increased output. The increase in realized prices was due to higher contract prices on a larger proportion of volumes sold under contract in the three months ended December 31, 2008 compared to the same period in 2007.

Natural Gas Storage operating income of \$40 million in fourth quarter 2008 decreased \$17 million compared to \$57 million in fourth quarter 2007. The decrease was due to lower realized seasonal natural gas price spreads at the Edson facility compared to the same period in 2007. Operating income in fourth quarter 2008 included net unrealized gains of \$7 million for changes in the fair value of proprietary natural gas inventory in storage and natural gas forward purchase and sale contracts compared to net unrealized gains of \$15 million for the same period in 2007.

Corporate's net expenses for the three months ended December 31, 2008 were \$86 million compared to net income of \$17 million for the same period in 2007. Excluding the \$26 million of favourable income tax adjustments in fourth quarter 2007, Corporate's comparable expenses increased \$77 million in fourth quarter 2008 compared to fourth quarter 2007. The increase in comparable expenses in fourth quarter 2008 was primarily due to net unrealized losses of \$39 million after tax from changes in the fair value of derivatives, which are used to manage the Company's exposure to rising interest rate rates but do not qualify as hedges for accounting purposes. In addition, higher financial charges resulting from financing the Ravenswood acquisition and higher losses from the change in fair value of derivatives used to manage the Company's exposure to foreign exchange rate fluctuations were partially offset by increased capitalization of interest to finance a larger capital spending program.

SHARE INFORMATION

At February 23, 2009, TransCanada had 619 million issued and outstanding common shares. In addition, there were 8 million outstanding options to purchase common shares, of which 7 million were exercisable as at February 23, 2009.

OTHER INFORMATION

Additional information relating to TransCanada, including the Company's Annual Information Form and other continuous disclosure documents, is available on SEDAR at www.sedar.com under TransCanada Corporation.

Other selected consolidated financial information for 2000 to 2008 is found under the heading "Nine Year Financial Highlights" in the Supplementary Information section of the Company's Annual Report.

GLOSSARY OF TERMS

AFUDC	Allowance for funds used during construction	Carseland	A natural gas-fired cogeneration plant located near Carseland, Alberta
AGIA	Alaska Gasline Inducement Act	Cartier Wind	Six wind farms in Gaspé, Québec, three
Alaska Pipeline Project	A proposed natural gas pipeline extending from a new natural gas treatment plant at Prudhoe Bay, Alaska to Alberta	Chinook	of which have been built A proposed HVDC transmission project that will originate in Montana and terminate in Nevada
Alberta System	A natural gas transmission system in Alberta	CICA	Canadian Institute of Chartered Accountants
American	A natural gas transmission system	CO ₂	Carbon dioxide
Natural Resources (ANR)	extending from producing fields located primarily in Oklahoma, Texas, Louisiana and the Gulf of Mexico to markets	Coolidge	A simple-cycle, natural gas-fired peaking power generation station under development in Coolidge, Arizona
	located primarily in Wisconsin, Michigan, Illinois, Ohio and Indiana, and regulated underground natural gas	CrossAlta	An underground natural gas storage facility near Crossfield, Alberta
	storage facilities in Michigan	DRP	Dividend Reinvestment and Share Purchase Plan
ANR Pipeline	ANR Pipeline Company	Edson	A natural gas storage facility near
APG	Aboriginal Pipeline Group		Edson, Alberta
AUC	Alberta Utilities Commission	FAS	Financial Accounting Standard
B.C.	British Columbia	FCM	Forward Capacity Market
Bbl/d Bcf	Barrels per day Billion cubic feet	FERC	U.S. Federal Energy Regulatory Commission
Bcf/d	Billion cubic feet per day	Foothills	A natural gas transmission system
Bear Creek	A natural gas-fired cogeneration plant near Grande Prairie, Alberta	lootinis	extending from central Alberta to the B.C./U.S. border and to the Saskatchewan/U.S. border
Bécancour	A natural gas-fired cogeneration plant	Framework	Regulatory Framework for Air Emissions
D .	near Trois-Rivières, Québec	GAAP	Generally accepted accounting principles
Bison	A proposed pipeline from the Powder River Basin in Wyoming to the Northern Border system in North Dakota	Gas Pacifico	A natural gas transmission system extending from Loma de la Lata,
BPC	BPC Generation Infrastructure Trust	CHC	Argentina to Concepción, Chile
Broadwater	A proposed offshore LNG project	GHG	Greenhouse gas
	located in the New York waters of Long Island Sound	GJ	Gigajoule
Bruce A	A partnership interest in the nuclear	Grandview	A natural gas-fired cogeneration plant near Saint John, New Brunswick
	power generation facilities of Bruce Power A L.P.	Great Lakes	A natural gas transmission system that connects to the Canadian Mainline and
Bruce B	A partnership interest in the nuclear power generation facilities of Bruce		serves markets in Eastern Canada and the northeastern and midwestern U.S.
	Power L.P	Gas Transmission	GTN System and North Baja, collectively
Bruce Power	Bruce A and Bruce B, collectively	Network (GTN)	Gas Transmission Northwest
Calpine	Calpine Corporation	GTNC	Corporation
Cameco	Cameco Corporation	GTN System	A natural gas transmission system
Canadian Mainline	A natural gas transmission system extending from the Alberta/Saskatchewan border east into Ouébec	Giv System	extending from the B.C./Idaho border to the Oregon/California border, traversing Idaho, Washington and Oregon
Cancarb	A waste-heat fuelled power plant at the	GWh	Gigawatt hours
	Cancarb thermal carbon black facility in Medicine Hat, Alberta	Halton Hills	A natural gas-fired, combined-cycle power plant near Toronto, Ontario
CAPLA	Canadian Alliance of Pipeline	HS&E	Health, Safety and Environment
	Landowners' Associations	HVDC	High voltage direct current

IASB	International Accounting Standards Board	NorthernLights	A proposed HVDC electric transmission line running from central Alberta to a
IFRS	International Financial Reporting Standards		terminal in southern Alberta and interconnecting with the Pacific Northwest
INNERGY	An industrial natural gas marketing	NYISO	New York Independent System Operator
Iroquois	company based in Concepción, Chile A natural gas transmission system that	OM&A	Operating, maintenance and administration
	connects with the Canadian Mainline near Waddington, New York, and	OPA	Ontario Power Authority
	delivers natural gas to the northeastern U.S.	Ocean State Power (OSP)	A natural gas-fired, combined-cycle plant in Burrillville, Rhode Island
ISO	International Organization of Standardization	Palomar	A proposed pipeline extending from the GTN System to the Columbia River
ISO-NE	Independent System Operator		northwest of Portland
Keystone	New England A pipeline under construction that will transport crude oil from Hardisty,	Pathfinder	A proposed pipeline from Meeker, Colorado to the Northern Border system in North Dakota
	Alberta, to U.S. markets at Wood River	PipeLines LP	TC PipeLines, LP
	and Patoka in Illinois, and to Cushing, Oklahoma	PNGTS	Portland Natural Gas Transmission System
Keystone partnerships	TransCanada Keystone Pipeline Limited Partnership and TransCanada Keystone Pipeline, LP, collectively	Portland	A natural gas transmission system that extends from a point near East Hereford, Québec to the
Kibby Wind	A wind power project located in Kibby and Skinner Townships in northwestern		northeastern U.S.
km	Franklin County, Maine Kilometres	Portlands Energy	A combined-cycle natural gas cogeneration plant near downtown
kV	Kilovolt	PPA	Toronto, Ontario Power purchase arrangement
LIBOR	London Interbank Offered Rate	Ravenswood	A natural gas and oil-fired generating
LNG	Liquefied natural gas	Navenswood	facility consisting of multiple units
MacKay River	A natural gas-fired cogeneration plant located near Fort McMurray, Alberta		employing steam turbine, combined cycle and combustion turbine technology located in Queens,
MD&A	Management's Discussion and Analysis		New York
Mackenzie Gas Pipeline (MGP)	A proposed natural gas pipeline to be constructed from a point near Inuvik,	Redwater	A natural gas-fired cogeneration plant located near Redwater, Alberta
	Northwest Territories to the northern border of Alberta	RGGI	Regional Greenhouse Gas Initiative
Mirant	Mirant Corporation and certain of its	ROE	Rate of return on common equity
	subsidiaries	Salt River Project	Salt River Project Agricultural Improvement and Power District
mmcf/d	Million cubic feet per day	SEC	U.S. Securities and Exchange
Moody's	Moody's Investors Service	-	Commission
MW MWh	Megawatt Megawatt hours	Sempra	Sempra Pipelines and Storage
NEB	National Energy Board of Canada	Sheerness	A coal-fired power generating facility located near Hanna, Alberta
Net earnings	Net income from continuing operations	STEP 2008	Storage enhancement project
North Baja	A natural gas transmission system extending from Arizona to the Baja	Sundance A	A coal-fired power generating facility located near Wabamun, Alberta
Northern Border	California, Mexico/California border A natural gas transmission system	Sundance B	A coal-fired power generating facility located near Wabamun, Alberta
	extending from a point near Monchy, Saskatchewan, to the U.S. Midwest	Sunstone	A proposed pipeline from Wyoming to Stanfield, Oregon

Tamazunchale	A natural gas transmission system in Mexico extending from Naranjos, Veracruz to Tamazunchale, San Luis Potosi	Tuscarora	A natural gas transmission system extending from Malin, Oregon to Wadsworth, Nevada
TC Hydro	Hydroelectric generation assets located	U.S.	United States
	in New Hampshire, Vermont and Massachusetts	VaR	Value-at-Risk methodology
TCPL	TransCanada PipeLines Limited	Ventures LP	Natural gas transmission systems in
TCPM	TransCanada Power Marketing Ltd.		Alberta that supply natural gas to the
Trans Québec & Maritimes (TQM)	A natural gas transmission system that connects with the Canadian Mainline and transports natural gas in Québec,		oil sands region of northern Alberta and to a petrochemical complex at Joffre, Alberta
	from Montreal to the Portland system and to Québec City	WCI	Western Climate Initiative
TransCanada or	TransCanada Corporation	WCSB	Western Canada Sedimentary Basin
the Company		Williams	Williams Gas Pipeline Company, LLC
TransGas	A natural gas transmission system, extending from Mariquita in the central region of Colombia to Cali in the southwest region of Colombia	Zephyr	A proposed HVDC transmission project that will originate in Wyoming and terminate in Nevada

Report of Management The consolidated financial statements included in this Annual Report are the responsibility of TransCanada Corporation's (TransCanada or the Company) management and have been approved by the Board of Directors of the Company. These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles (GAAP) in Canada and include amounts that are based on estimates and judgements. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management's Discussion and Analysis in this Annual Report has been prepared by management based on the Company's financial results prepared in accordance with Canadian GAAP. It compares the Company's financial and operating performance in 2008 to that in 2007 and should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, it highlights significant changes between 2007 and 2006.

Management has designed and maintains a system of internal accounting controls, including a program of internal audits. Management believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

Under the supervision of, and with the participation of, the President and Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. TransCanada acquired the Ravenswood Generating Station (Ravenswood) in 2008 and began consolidating the operations of Ravenswood from the date of acquisition. Management has excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. The net income attributable to this business represented less than one per cent of the Company's consolidated net income for the year ended December 31, 2008 and its aggregate total assets represented approximately nine per cent of the Company's consolidated total assets as at December 31, 2008.

Based on their evaluation, management concluded that internal control over financial reporting is effective as of December 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

The Board of Directors has appointed an Audit Committee consisting of independent, non-management directors. The Audit Committee meets with management at least six times a year and meets independently with the internal and external auditors and as a group to review any significant accounting, internal control and auditing matters in accordance with the terms of the Charter of the Audit Committee, which is set out in the Annual Information Form. The Audit Committee reviews the Annual Report, including the consolidated financial statements, before the consolidated financial statements are submitted to the Board of Directors for approval. The internal and independent external auditors are able to access the Audit Committee without the requirement to obtain prior management approval.

The Audit Committee approves the terms of engagement of the independent external auditors and reviews the annual audit plan, the Auditors' Report and the results of the audit. It also recommends to the Board of Directors the firm of external auditors to be appointed by the shareholders.

The shareholders have appointed KPMG LLP as independent external auditors to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Company's consolidated financial position, results of operations and cash flows in accordance with Canadian GAAP. The report of KPMG LLP outlines the scope of its examination and its opinion on the consolidated financial statements.

Harold N. Kvisle President and Chief Executive Officer February 23, 2009

Gregory A. Lohnes Executive Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of TransCanada Corporation

We have audited the consolidated balance sheets of TransCanada Corporation as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, accumulated other comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

KPMG

Chartered Accountants Calgary, Canada

February 23, 2009

TRANSCANADA CORPORATION CONSOLIDATED INCOME

Year ended December 31			
(millions of dollars except per share amounts)	2008	2007	2006
Revenues	8,619	8,828	7,520
Operating Expenses			
Plant operating costs and other	3,062	3,030	2,411
Commodity purchases resold	1,511	1,959	1,707
Depreciation	1,189	1,179	1,059
	5,762	6,168	5,177
	2,857	2,660	2,343
Other Expenses/(Income)			
Financial charges (Note 10)	943	943	825
Financial charges of joint ventures (Note 11)	72	75	92
Interest income and other	(92)	(168)	(179)
Calpine bankruptcy settlements (Note 17)	(279)	-	-
Writedown of Broadwater LNG project costs (Note 7)	41	_	_
	685	850	738
Income from Continuing Operations before Income			
Taxes and Non- Controlling Interests	2,172	1,810	1,605
Income Taxes (Note 18)			
Current	526	432	301
Future	76	58	175
	602	490	476
Non-Controlling Interests (Note 15)	130	97	78
Net Income from Continuing Operations	1,440	1,223	1,051
Net Income from Discontinued Operations (Note 24)	-	_	28
Net Income	1,440	1,223	1,079
Net Income per Share (Note 16)			
Basic			
Continuing operations	\$2.53	\$2.31	\$2.15
Discontinued operations	-	-	0.06
	\$2.53	\$2.31	\$2.21
Diluted			
Continuing operations	\$2.52	\$2.30	\$2.14
Discontinued operations	-	-	0.06
	\$2.52	\$2.30	\$2.20

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA CORPORATION CONSOLIDATED CASH FLOWS

Year ended December 31 (millions of dollars)

(millions of dollars)	2008	2007	2006
Cash Generated from Operations			
Net income	1,440	1,223	1,079
Depreciation	1,189	1,179	1,059
Future income taxes (Note 18)	76	58	175
Non-controlling interests (Note 15)	130	97	78
Employee future benefits funding lower than/(in excess of)	47	10	(21)
expense (Note 21) Writedown of Broadwater LNG project costs (Note 7)	17 41	43	(31)
Other	128	21	18
(Increase)/decrease in operating working capital (Note 22)	3,021 (181)	2,621 215	2,378 (303)
Net cash provided by operations	2,840	2,836	2,075
Investing Activities			
Capital expenditures	(3,134)	(1,651)	(1,572)
Acquisitions, net of cash acquired (Note 9)	(3,229)	(4,223)	(470)
Disposition of assets, net of current income taxes (Note 9)	28	35	23
Deferred amounts and other	(168)	(340)	(97)
Net cash used in investing activities	(6,503)	(6,179)	(2,116)
Financing Activities			
Dividends on common shares (Note 16)	(577)	(546)	(617)
Distributions paid to non-controlling interests	(141)	(88)	(72)
Notes payable issued/(repaid), net (Note 19)	1,293	(46)	(495)
Long-term debt issued, net of issue costs (Note 10)	2,197	2,616	2,107
Reduction of long-term debt	(840)	(1,088)	(729)
Long-term debt of joint ventures issued (Note 11)	173	142	56
Reduction of long-term debt of joint ventures	(120) 2,384	(157)	(70) 39
Common shares issued, net of issue costs (Note 16) Junior subordinated notes issued, net of issue costs	2,304	1,711	29
(Note 12)	_	1,094	_
Preferred securities redeemed	_	(488)	_
Partnership units of subsidiary issued (Note 9)	-	348	_
Net cash provided by financing activities	4,369	3,498	219
Effect of Foreign Exchange Rate Changes on Cash			
and Cash Equivalents	98	(50)	9
Increase in Cash and Cash Equivalents	804	105	187
Cash and Cash Equivalents			
Beginning of year	504	399	212
Cash and Cash Equivalents			
End of year	1,308	504	399

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA CORPORATION CONSOLIDATED BALANCE SHEET

December 31 (millions of dollars)	2008	2007
	2000	2007
ASSETS Current Assets		
Cash and cash equivalents	1,308	504
Accounts receivable	1,280	1,116
Inventories	489	497
Other	523	188
	3,600	2,305
Plant, Property and Equipment (Note 5)	29,189	23,452
Goodwill (Note 6)	4,397	2,633
Other Assets (Note 7)	2,228	1,940
	39,414	30,330
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 19)	1,702	421
Accounts payable	1,876	1,767
Accrued interest	359	261
Current portion of long-term debt (Note 10)	786	556
Current portion of long-term debt of joint ventures (Note 11)	207	30
	4,930	3,035
Deferred Amounts (Note 13)	1,719	1,107
Future Income Taxes (Note 18)	1,223	1,179
Long-Term Debt (Note 10)	15,368	12,377
Long-Term Debt of Joint Ventures (Note 11)	869	873
Junior Subordinated Notes (Note 12)	1,213	975
	25,322	19,546
Non-Controlling Interests (Note 15)	1,194	999
Shareholders' Equity	12,898	9,785
	39,414	30,330

Commitments, Contingencies and Guarantees (Note 23)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board:

A

Harold N. Kvisle Director

Mar L

Kevin E. Benson Director

TRANSCANADA CORPORATION CONSOLIDATED COMPREHENSIVE INCOME

Year ended December 31

(millions of dollars)	2008	2007	2006
Net Income	1,440	1,223	1,079
Change in foreign currency translation gains and losses on investments in foreign operations ⁽¹⁾	571	(350)	6
Change in gains and losses on hedges of investments in foreign operations ⁽²⁾	(589)	79	(6)
Change in gains and losses on derivative instruments designated as cash flow hedges ⁽³⁾	(60)	42	_
Reclassification to net income of gains and losses on derivative instruments designated as cash flow hedges pertaining to prior periods ⁽⁴⁾	(23)	42	_
Change in gains and losses on available-for-sale financial instruments ⁽⁵⁾	2	_	_
Other Comprehensive Income/(Loss)	(99)	(187)	-
Comprehensive Income	1,341	1,036	1,079

⁽¹⁾ Net of income tax recovery of \$104 million in 2008 (2007 – \$101 million expense; 2006 – \$3 million expense).

⁽²⁾ Net of income tax recovery of \$303 million in 2008 (2007 - \$41 million expense; 2006 - \$3 million recovery).

⁽³⁾ Net of income tax recovery of \$41 million in 2008 (2007 - \$27 million expense).

(4) Net of income tax recovery of \$19 million in 2008 (2007 - \$23 million expense).

⁽⁵⁾ Net of income tax expense of nil in 2008.

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA CORPORATION CONSOLIDATED ACCUMULATED OTHER COMPREHENSIVE INCOME

	Currency Translation	Cash Flow Hedges	
(millions of dollars)	Adjustment	and Other	Total
Balance at December 31, 2005	(90)	_	(90)
Change in foreign currency translation gains and losses			
on investments in foreign operations ⁽¹⁾	6	-	6
Change in gains and losses on hedges of investments in			
foreign operations ⁽²⁾	(6)	_	(6)
Balance at December 31, 2006	(90)	-	(90)
Transition adjustment resulting from adopting new			
financial instruments standards ⁽³⁾	-	(96)	(96)
Change in foreign currency translation gains and losses on investments in foreign operations ⁽¹⁾	(350)		(350)
Change in gains and losses on hedges of investments in	(550)	-	(550)
foreign operations ⁽²⁾	79	_	79
Change in gains and losses on derivative instruments			
designated as cash flow hedges ⁽⁴⁾	_	42	42
Reclassification to net income of gains and losses on			
derivative instruments designated as cash flow hedges			
pertaining to prior periods ⁽⁵⁾⁽⁶⁾	-	42	42
Balance at December 31, 2007	(361)	(12)	(373)
Change in foreign currency translation gains and losses			
on investments in foreign operations ⁽¹⁾	571	-	571
Change in gains and losses on hedges of investments in	(500)		(500)
foreign operations ⁽²⁾ Change in gains and losses on derivative instruments	(589)	-	(589)
designated as cash flow hedges ⁽⁴⁾	_	(60)	(60)
Reclassification to net income of gains and losses on		(00)	(00)
derivative instruments designated as cash flow hedges			
pertaining to prior periods ⁽⁵⁾⁽⁶⁾	_	(23)	(23)
Change in gains and losses on available-for-sale financial			
instruments ⁽⁷⁾	_	2	2
Balance at December 31, 2008	(379)	(93)	(472)

⁽¹⁾ Net of income tax recovery of \$104 million in 2008 (2007 - \$101 million expense; 2006 - \$3 million expense).

⁽²⁾ Net of income tax recovery of \$303 million in 2008 (2007 - \$41 million expense; 2006 - \$3 million recovery).

⁽³⁾ Net of income tax recovery of \$44 million in 2007.

(4) Net of income tax recovery of \$41 million in 2008 (2007 - \$27 million expense).

⁽⁵⁾ Net of income tax recovery of \$19 million in 2008 (2007 – \$23 million expense).

⁽⁶⁾ The amount of losses related to cash flow hedges reported in accumulated other comprehensive income that will be reclassified to net income in 2009 is estimated to be \$62 million (\$41 million, net of tax). These estimates assume constant commodity prices, interest rates and foreign exchange rates over time, however, the amounts reclassified will vary based on the actual value of these factors at the date of settlement.

⁽⁷⁾ Net of income tax expense of nil in 2008.

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA CORPORATION CONSOLIDATED SHAREHOLDERS' EQUITY

Image: contributed service of stock options 2008 2007 2006 Common Shares 5 7 </th <th>Year ended December 31</th> <th>2000</th> <th>2007</th> <th>2005</th>	Year ended December 31	2000	2007	2005
Balance at beginning of year6,6624,7944,755Proceeds from shares issued under public offering, net of issue costs (Note 16)2,3631,683-Shares issued under dividend reinvestment plan (Note 16)218157-Proceeds from shares issued on exercise of stock options212839Balance at end of year9,2646,6624,794Contributed SurplusBalance at beginning of year276273272Balance at beginning of year276273272Balance at beginning of year279276273Retained EarningsBalance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at beginning of year3,8273,2202,7242,724Accumulated Other Comprehensive Income, Net of Income Taxes(373)(90)(90)Other comprehensive income/(loss)(99)(187)Balance at end of year(472)(373)(90)-Balance at end of year2,333-90-Balance at heginning of year(373)(90)Balance at end of year(373)(90)Balance at end of year(373)(90)Balance at end of year(373)(90)		2008	2007	2006
Proceeds from shares issued under public offering, net of issue costs (Note 16)2,3631,683-Shares issued under dividend reinvestment plan (Note 16)218157-Proceeds from shares issued on exercise of stock options212839Balance at end of year9,2646,6624,794Contributed SurplusBalance at end of year276273272Issuance of stock options (Note 16)331Balance at end of year279276273273Retained EarningsBalance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,7242,724Accumulated Other Comprehensive Income, Net of Income TaxesBalance at heginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(373)(90)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of				
issue costs (Note 16)2,3631,683-Shares issued under dividend reinvestment plan (Note 16)218157-Proceeds from shares issued on exercise of stock options212839Balance at end of year9,2646,6624,794Contributed SurplusBalance at beginning of year276273272Balance at stock options (Note 16)331Balance at end of year279276273Retained EarningsBalance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at beginning of year3,8273,2202,724Common share dividends(373)(90)(90)Other comprehensive Income, Net of Income Taxes-4-Balance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at beginning of year(373)(90)(90)(90)Other comprehensive income/(loss)(99)(187)-Balance at end of year(472)(373)(90)Income faxes-(96)-Balance at end of year(472)(373)		6,662	4,794	4,755
Shares issued under dividend reinvestment plan (Note 16)218157-Proceeds from shares issued on exercise of stock options212839Balance at end of year9,2646,6624,794Contributed SurplusBalance at beginning of year276273272Issuance of stock options (Note 16)331Balance at end of year279276273Retained Earnings279276273Balance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,7242,724Balance at end of year(373)(90)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(373)(90)(90)(90)(90)Other comprehensive income/(loss)(99)(187)Balance at end of year(472)(373)(90)-Balance at end of year(472)(373)(90)-Balance at end of year(472)(373)(90)-	· · · ·	2.262	1 (0)	
Proceeds from shares issued on exercise of stock options (Note 16)212839Balance at end of year9,2646,6624,794Contributed Surplus Balance at beginning of year276273272Issuance of stock options (Note 16)331Balance at end of year279276273Retained Earnings Balance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at beginning of year3,8273,2202,7242,724Accumulated Other Comprehensive Income, Net of Income Taxes Balance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at beginning of year(373)(90)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(373)(90)(90)(90)Other comprehensive income/(loss)-(96)-Balance at end of year(472)(373)(90)Inancial instruments accounting standards-(-
(Note 16)212839Balance at end of year9,2646,6624,794Contributed SurplusBalance at beginning of year276273272Balance at beginning of year27627331Balance at end of year279276273Retained Earnings8279276273Balance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4Balance at beginning of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income Taxes(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at beginning of year(373)(90)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)(90)Inancial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Inancial instruments accounting standards-(96)-Balance at end of ye		218	157	-
Balance at end of year9,2646,6624,794Contributed SurplusBalance at beginning of year276273272Issuance of stock options (Note 16)331Balance at end of year279276273Retained EarningsBalance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at beginning of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income Taxes(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at beginning of year(373)(90)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)(90)Other comprehensive income/(loss)-(96)-Balance at end of year(472)(373)(90)Isolance at end of year(472)(373)(90)Balance at end of year(472)(373)(90)Balance at end of year		21	28	30
Contributed SurplusBalance at beginning of year276273272Issuance of stock options (Note 16)331Balance at end of year279276273Retained Earnings3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4Balance at beginning of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income Taxes(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(373)(90)(90)(90)Other comprehensive income/(loss)(92)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)(90)Other comprehensive income/(loss)-(96)-Balance at end of year(472)(373)(90)Itancial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Itance at end of year(472)(373)(90)Itance at end of year(472)(373)(90)Itance at end				
Balance at beginning of year276273272Issuance of stock options (Note 16)331Balance at end of year279276273Retained Earnings3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income Taxes(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(373)(90)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)(90)Cother comprehensive income/(loss)-(96)-Balance at end of year(472)(373)(90)	Balance at end of year	9,264	6,662	4,794
Issuance of stock options (Note 16)331Balance at end of year279276273Retained EarningsBalance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of-4-Income Taxes(99)(187)-Transition adjustment resulting from adopting new-(96)-Balance at end of year(373)(90)(90)Other comprehensive Income, Net ofIncome Taxes-(96)Balance at end of year(373)(90)(90)Other comprehensive income/(loss)-(96)-Balance at end of year(472)(373)(90)Itransition adjustment resulting from adopting new-(96)-Balance at end of year(472)(373)(90)	Contributed Surplus			
Balance at end of year279276273Retained EarningsBalance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new-4-financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income Taxes(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Imancial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)	Balance at beginning of year	276	273	272
Retained EarningsBalance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income Taxes(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)(90)Other comprehensive income/(loss)-(96)-Balance at end of year2,269Balance at end of year2,269Balance at end of year(373)(90)(90)(90)Comprehensive income/(loss)(96)-Balance at end of year(472)(373)(90)-Balance at end of year(472)(373)(90)-Balance at end of year(472)(373)(90)Balance at end of year(472)(373)(90)Balance at end of year(472)(373)(90)Balance at end of year(472)(373)(90)Balance at end of year(472)(373)(90)	Issuance of stock options (Note 16)	3	3	1
Balance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income TaxesBalance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Comprehensive income/(loss)-2,634-	Balance at end of year	279	276	273
Balance at beginning of year3,2202,7242,269Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income TaxesBalance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Comprehensive income/(loss)-2,634-	Retained Earnings			
Net income1,4401,2231,079Common share dividends(833)(731)(624)Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income TaxesBalance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Balance at end of year2,634		3,220	2,724	2,269
Transition adjustment resulting from adopting new financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income TaxesBalance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Sance at end of year2,634		1,440	1,223	1,079
financial instruments accounting standards-4-Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income TaxesBalance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)Stance at end of year2,634	Common share dividends	(833)	(731)	(624)
Balance at end of year3,8273,2202,724Accumulated Other Comprehensive Income, Net of Income Taxes444Balance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)3,3552,8472,634	Transition adjustment resulting from adopting new			
Accumulated Other Comprehensive Income, Net of Income TaxesBalance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)3,3552,8472,634	financial instruments accounting standards	-	4	-
Income TaxesBalance at beginning of year(373)(90)(90)Other comprehensive income/(loss)(99)(187)-Transition adjustment resulting from adopting new financial instruments accounting standards-(96)-Balance at end of year(472)(373)(90)3,3552,8472,634	Balance at end of year	3,827	3,220	2,724
Other comprehensive income/(loss)(99)(187)–Transition adjustment resulting from adopting new financial instruments accounting standards–(96)–Balance at end of year(472)(373)(90)3,3552,8472,634				
Transition adjustment resulting from adopting new financial instruments accounting standards–(96)–Balance at end of year(472)(373)(90)3,3552,8472,634	Balance at beginning of year	(373)	(90)	(90)
financial instruments accounting standards–(96)–Balance at end of year(472)(373)(90)3,3552,8472,634	Other comprehensive income/(loss)	(99)	(187)	_
Balance at end of year (472) (373) (90) 3,355 2,847 2,634				
3,355 2,847 2,634	financial instruments accounting standards	-	(96)	
	Balance at end of year	(472)	(373)	(90)
Total Shareholders' Equity 12,898 9,785 7,701		3,355	2,847	2,634
	Total Shareholders' Equity	12,898	9,785	7,701

The accompanying notes to the consolidated financial statements are an integral part of these statements.

TRANSCANADA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF TRANSCANADA'S BUSINESS

TransCanada Corporation (TransCanada or the Company) is a leading North American energy company. TransCanada operates in two business segments, Pipelines and Energy, each of which offers different products and services.

Pipelines

The Pipelines segment consists primarily of the Company's investments in regulated pipelines and regulated natural gas storage facilities. Through its Pipelines segment, TransCanada owns and operates:

- a natural gas transmission system extending from the Alberta/Saskatchewan border east into Québec (Canadian Mainline);
- a natural gas transmission system in Alberta (Alberta System);
- a natural gas transmission system extending from producing fields located primarily in Oklahoma, Texas, Louisiana and the Gulf of Mexico to markets located primarily in Wisconsin, Michigan, Illinois, Ohio and Indiana, and to regulated natural gas storage facilities in Michigan (ANR);
- a natural gas transmission system extending from the British Columbia (B.C.)/Idaho border to the Oregon/California border, traversing Idaho, Washington and Oregon (GTN System);
- a natural gas transmission system extending from central Alberta to the B.C./United States border and to the Saskatchewan/U.S. border (Foothills);
- a natural gas transmission system extending from Arizona to the Baja California, Mexico/California border (North Baja);
- natural gas transmission systems in Alberta that supply natural gas to the oil sands region of northern Alberta and to a petrochemical complex at Joffre, Alberta (Ventures LP);
- a natural gas transmission system in Mexico extending from Naranjos, Veracruz to Tamazunchale, San Luis Potosi (Tamazunchale);
- a 53.6 per cent direct ownership interest in a natural gas transmission system that connects to the Canadian Mainline and serves markets in Eastern Canada and the northeastern and midwestern U.S. (Great Lakes);
- a 50 per cent interest in a natural gas transmission system that connects with the Canadian Mainline and transports natural gas in Québec, from Montreal to the Portland system and to Québec City (TQM); and
- a 61.7 per cent interest in a natural gas transmission system that extends from a point near East Hereford, Québec to the northeastern U.S. (Portland).
- a 32.1 per cent interest in TC PipeLines, LP (PipeLines LP), which owns the following pipelines operated by TransCanada:
 - a 46.4 per cent interest in Great Lakes, in which TransCanada has a combined 68.5 per cent effective ownership interest through PipeLines LP and a direct interest described above;
 - a 50 per cent interest in a natural gas transmission system extending from a point near Monchy, Saskatchewan, to the U.S. Midwest (Northern Border), in which TransCanada has a 16.1 per cent effective ownership interest through PipeLines LP; and
 - 100 per cent of a natural gas transmission system extending from Malin, Oregon to Wadsworth, Nevada (Tuscarora), in which TransCanada has a 32.1 per cent effective ownership interest through PipeLines LP.

TransCanada owns but does not operate:

- a 44.5 per cent interest in a natural gas transmission system that connects with the Canadian Mainline near Waddington, New York, and delivers natural gas to customers in the northeastern U.S. (Iroquois);
- a 46.5 per cent interest in a natural gas transmission system, extending from Mariquita in the central region of Colombia to Cali in the southwest region of Colombia (TransGas); and
- a 30 per cent interest in a natural gas transmission system extending from Loma de la Lata, Argentina to Concepción, Chile (Gas Pacifico), and in an industrial natural gas marketing company based in Concepción (INNERGY).

TransCanada has a 62 per cent interest in a pipeline under construction that will transport crude oil from Hardisty, Alberta, to U.S. markets at Wood River and Patoka in Illinois, and at Cushing, Oklahoma (Keystone).

Energy

The Energy segment consists primarily of the Company's investments in electrical power generation plants and non-regulated natural gas storage facilities. Through its Energy segment, the Company also sells electricity and holds interests in liquefied natural gas (LNG) regasification projects in North America. Through its Energy segment, TransCanada owns and operates:

- natural gas-fired cogeneration plants in Alberta at Carseland, Redwater, Bear Creek and MacKay River;
- a waste-heat fuelled power plant at the Cancarb thermal carbon black facility in Medicine Hat, Alberta (Cancarb);
- a natural gas and oil-fired generating facility in Queens, New York, consisting of multiple units employing steam turbine, combined-cycle and combustion turbine technology (Ravenswood);
- hydroelectric generation assets located in New Hampshire, Vermont and Massachusetts (TC Hydro);
- a natural gas-fired, combined-cycle plant in Burrillville, Rhode Island (Ocean State Power);
- a natural gas-fired cogeneration plant near Trois-Rivières, Québec (Bécancour);
- a natural gas-fired cogeneration plant near Saint John, New Brunswick (Grandview); and
- a natural gas storage facility near Edson, Alberta (Edson).

TransCanada owns but does not operate:

- a 48.9 per cent partnership interest and a 31.6 per cent partnership interest in the nuclear power generation facilities of Bruce Power A L.P. (Bruce A) and Bruce Power L.P. (Bruce B) (collectively Bruce Power), respectively, located near Tiverton, Ontario;
- a 62 per cent interest in the Baie-des-Sables, Anse-à-Valleau and Carleton wind farms, three of six planned wind farms in Gaspé, Québec (Cartier Wind); and
- a 60 per cent interest in an underground natural gas storage facility near Crossfield, Alberta (CrossAlta).

TransCanada also has long-term power purchase arrangements (PPA) in place for:

- 100 per cent of the production of the Sundance A power facilities and, through a partnership, 50 per cent of the production of the Sundance B power facilities near Wabamun, Alberta; and
- 756 megawatts (MW) of the generating capacity from the Sheerness power facility near Hanna, Alberta.

TransCanada has interests in the following projects under construction:

- a 50 per cent interest in a natural gas-fired, combined-cycle cogeneration plant near downtown Toronto, Ontario (Portlands Energy);
- a natural gas-fired, combined-cycle power plant near Toronto (Halton Hills); and
- a wind power project located in Kibby and Skinner Townships in northwestern Franklin County, Maine (Kibby Wind).

NOTE 2 ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared by management in accordance with Canadian GAAP. Amounts are stated in Canadian dollars unless otherwise indicated. Certain comparative figures have been reclassified to conform with the current year's presentation.

In preparing these financial statements, TransCanada is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses as the determination of these items may be dependent on future events. The Company uses the most current information available and exercises careful judgement in making these estimates and assumptions. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of Presentation

The consolidated financial statements include the accounts of TransCanada and its subsidiaries. The Company consolidates its 32.1 per cent ownership interest in PipeLines LP and its 61.7 per cent interest in the Portland Natural Gas Transmission System (Portland) as the Company is able to exercise control over these assets. The other partners' interests are included in Non-Controlling Interests. TransCanada proportionately consolidates its share of the accounts of joint ventures in which the Company is able to exercise joint control. TransCanada uses the equity method of accounting for investments over which the Company is able to exercise significant influence.

Regulation

The Canadian Mainline, Foothills Pipe Lines Ltd. (Foothills) and Trans Québec & Maritimes System (TQM) are subject to the authority of the National Energy Board (NEB) of Canada. The Alberta System is regulated by the Alberta Utilities Commission (AUC). The GTN System and North Baja (collectively, GTN), the ANR Pipeline Company, the ANR Storage Company and the other natural gas pipelines in the U.S. are subject to the authority of the U.S. Federal Energy Regulatory Commission (FERC). These natural gas transmission operations are regulated with respect to construction, operations and the determination of tolls. The timing of recognition of certain revenues and expenses in these regulated businesses may differ from that otherwise expected under GAAP to appropriately reflect the economic impact of the regulators' decisions regarding revenues and tolls. The impact of rate regulation on TransCanada is provided in Note 14 of these financial statements.

Revenue Recognition

Pipelines

In the Pipelines segment, revenues from Canadian operations subject to rate regulation are recognized in accordance with decisions made by the NEB and AUC. Revenues from U.S. operations subject to rate regulation are recorded in accordance with FERC rules and regulations. The Company's natural gas pipeline revenues are generally based on quantity of gas delivered or contracted capacity. Revenues are recognized on firm contracted capacity over the contract period. For interruptible or volumetric-based services, revenues are recorded when physical delivery is made. As the majority of the Company's natural gas pipelines are subject to rate regulation, revenues collected that are subject to rate proceedings may have to be refunded. Revenues from non-regulated operations are recorded when products have been delivered or services have been performed.

Energy

i) Power

Revenues from the Company's Power business are primarily derived from the sale of electricity from energy marketing activities and from the sale of unutilized natural gas fuel, which are recorded in the month of delivery. Revenues also include capacity payments and ancillary services earned as well as the impact of energy derivative contracts, the accounting for which is described in the Financial Instruments section of this note.

ii) Natural Gas Storage

Revenues earned from providing natural gas storage services are recognized in accordance with the terms of the natural gas storage contracts. Revenues earned on the sale of proprietary natural gas are recorded in the month of delivery. Forward contracts for the purchase or sale of natural gas, as well as proprietary natural gas inventory, are recorded at fair value with changes in fair value recorded in Revenues.

Cash and Cash Equivalents

The Company's cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less and are recorded at cost, which approximates fair value.

Inventories

Effective April 1, 2007, the Company adopted the accounting requirements for the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031 "Inventories". Inventories primarily consist of materials and supplies, including spare parts, and are carried at the lower of average cost and net realizable value. The Company values its proprietary natural gas inventory held in storage at fair value, as measured by the one-month forward price for natural gas, less selling costs. To record inventory at fair value, TransCanada has designated its natural gas storage business as a broker/trader business that purchases and sells natural gas on a back-to-back basis. The Company records its net proprietary natural gas storage sales and purchases in Revenues. All changes in the fair value of the proprietary natural gas inventories are reflected in Inventories and Revenues.

Plant, Property and Equipment

Pipelines

Plant, property and equipment of the Pipelines segment are carried at cost. Depreciation is calculated on a straight-line basis. Pipeline and compression equipment are depreciated at annual rates ranging from one per cent to 25 per cent and metering and other plant equipment are depreciated at various rates. The cost of regulated pipelines includes an allowance for funds used during construction (AFUDC) consisting of a debt and an equity component based on the rate of return on rate base approved by regulators. This allowance is reflected as an increase in the cost of the assets on the balance sheet. Interest is capitalized during construction of non-regulated pipelines. The equity component of AFUDC is a non-cash expenditure.

When regulated pipelines retire plant, property and equipment from service, the original book cost is removed from the gross plant amount and recorded as a reduction to accumulated depreciation. Costs incurred to remove a plant from service, net of any salvage proceeds, are also recorded in accumulated depreciation.

Energy

Major power generation and natural gas storage plant, equipment and structures in the Energy segment are recorded at cost and depreciated on a straight-line basis over estimated service lives at average annual rates ranging from two per cent to ten per cent. Nuclear power generation assets under capital lease are recorded initially at the present value of minimum lease payments at the inception of the lease and amortized on a straight-line basis over the shorter of their useful life and the remaining lease term. Other equipment is depreciated at various rates. The cost of major overhauls of equipment is capitalized and depreciated over the estimated service lives. Interest is capitalized on facilities under construction.

Corporate

Corporate plant, property and equipment are recorded at cost and depreciated on a straight-line basis over estimated useful lives at average annual rates ranging from three to 20 per cent.

Impairment of Long-Lived Assets

The Company reviews long-lived assets such as property, plant and equipment, and intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the total of the estimated undiscounted future cash flows is less than the carrying value of the assets, an impairment loss is recognized for the excess of the carrying value over the fair value of the assets.

Acquisitions and Goodwill

The Company accounts for business acquisitions using the purchase method of accounting and, accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the date of acquisition. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An initial assessment is made by comparing the fair value of the operations, which includes goodwill, to the book values of each reporting unit. If this fair value is less than book value, an impairment is indicated and a second test is performed to measure the amount of the impairment. In the second test, the implied fair value of the goodwill is calculated by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value determined in the initial assessment. If the carrying value of the goodwill exceeds the calculated implied fair value of the goodwill, an impairment charge is recorded.

Power Purchase Arrangements

A PPA is a long-term contract for the purchase or sale of power on a predetermined basis. The initial payments for a PPA are deferred and amortized on a straight-line basis over the term of the contract, with remaining terms ranging from nine to 12 years. The PPAs under which TransCanada buys power are accounted for as operating leases. A portion of these PPAs has been subleased to third parties under similar terms and conditions. The subleases are accounted for as operating leases and TransCanada records the margin earned from the subleases as a component of Revenues.

Stock Options

TransCanada's Stock Option Plan permits options to be awarded to certain employees, including officers, to purchase common shares. The contractual life of options granted in 2003 and thereafter and options granted prior to 2003 is seven years and ten years, respectively. The Company uses the Black-Scholes model to determine fair value of the options on their grant date. Options may be exercised at a price determined at the time the option is awarded and vest 33.3 per cent on the anniversary date in each of the three years following the award. Forfeitures of stock options result from their expiration or from the resignation, retirement or termination of the option holder. Stock options become null and void upon forfeiture. The Company records compensation expense over the three-year vesting period, assuming a

15 per cent forfeiture rate, with an offset to Contributed Surplus. This charge is reflected in the results of the Pipelines and Energy segments. Upon exercise of stock options, adjusted for stock options forfeited, amounts originally recorded against Contributed Surplus are reclassified to Common Shares.

Income Taxes

The taxes payable method of accounting for income taxes is used for tollmaking purposes for Canadian regulated natural gas transmission operations, as prescribed by regulators. It is not necessary to provide for future income taxes under the taxes payable method. As permitted by Canadian GAAP at December 31, 2008, this method is also used for accounting purposes, since there is reasonable expectation that future taxes payable will be included in future costs of service and recorded in revenues at that time. The liability method of accounting for income taxes is used for all of the Company's other operations. Under the liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates anticipated to apply to taxable income in the years in which temporary differences are anticipated to be recovered or settled. Changes to these balances are recognized in income in the period during which they occur.

Canadian income taxes are not provided on the unremitted earnings of foreign investments that the Company does not intend to repatriate in the foreseeable future.

Foreign Currency Translation

The Company's foreign operations are self-sustaining and are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at period-end exchange rates and items included in the consolidated statements of income, shareholders' equity, comprehensive income, accumulated other comprehensive income and cash flows are translated at the exchange rates in effect at the time of the translation. Translation adjustments are reflected in Other Comprehensive Income.

Exchange gains or losses on monetary assets and liabilities are recorded in income except for exchange gains or losses on the principal amounts of foreign currency debt related to the Alberta System, Foothills and Canadian Mainline, which are deferred until they are refunded or recovered in tolls, as permitted by regulatory bodies.

Financial Instruments

Effective January 1, 2007, the Company adopted the accounting requirements for CICA Handbook Sections 1530 "Comprehensive Income", 3855 "Financial Instruments – Recognition and Measurement", and 3865 "Hedges". Effective December 31, 2007, the Company adopted the accounting requirements for CICA Handbook Sections 3862 "Financial Instruments – Disclosure", 3863 "Financial Instruments – Presentation", and 1535 "Capital Disclosures". Adjustments to the consolidated financial statements for 2007 were made on a prospective basis.

The CICA Handbook requires that all financial instruments initially be included on the balance sheet at their fair value. Subsequent measurement of the financial instruments is based on their classification. Financial assets are classified into the following categories: held for trading, available for sale, held-to-maturity investments and loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities.

Held-for-trading derivative financial assets and liabilities consist of swaps, options, forwards and futures. A financial asset or liability may be designated as held for trading if it is entered into with the intention of generating a profit. The Company has not designated any non-derivative financial assets or liabilities as held for trading. Commodity held-for-trading financial instruments are initially recorded at their fair value and changes to fair value are included in Revenues. Changes in the fair value of interest rate and foreign exchange rate held-for-trading instruments are recorded in Financial Charges and in Interest Income and Other, respectively.

The available-for-sale classification includes non-derivative financial assets that are designated as available for sale or are not included in the other three classifications. TransCanada's available-for-sale financial instruments include fixed-income securities held for self-insurance. These instruments are accounted for initially at their fair value and changes to fair value are recorded through Other Comprehensive Income. Income from the settlement of available-for-sale financial assets will be included in Interest Income and Other.

The held-to-maturity classification consists of non-derivative financial assets that are accounted for at their amortized cost using the effective interest method. The Company does not have any held-to-maturity financial assets.

Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables" and are measured at amortized cost using the effective interest method, net of any impairment. Loans and receivables include primarily trade accounts receivable and non-interest-bearing third-party loans receivable. Interest and other income earned from these financial assets are recorded in Interest Income and Other. Other financial liabilities consist of liabilities not classified as held for trading. Items in this financial instrument category are recognized at amortized cost using the effective interest method. Interest expense is included in Financial Charges and in Financial Charges of Joint Ventures.

The Company uses derivatives and other financial instruments to manage its exposure to changes in foreign currency exchange rates, interest rates and energy commodity prices. The Company also uses a combination of derivatives and U.S. dollar-denominated debt to manage the foreign currency exposure of its foreign operations.

All derivatives are recorded on the balance sheet at fair value, with the exception of non-financial derivatives that were entered into and continue to be held for the purpose of receipt or delivery in accordance with the Company's expected purchase, sale or usage requirements. Changes in fair value of derivatives that are not designated in a hedging relationship are recorded in Net Income. Derivatives used in hedging relationships are discussed further in the Hedges section of this note.

Derivatives embedded in other financial instruments or contracts (host instrument) are recorded as separate derivatives and are measured at fair value if the economic characteristics of the embedded derivative are not closely related to the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative and the total contract is not held for trading or accounted for at fair value. Changes in the fair value of embedded derivatives that are recorded separately are included in Net Income.

The recognition of gains and losses on the derivatives for the Alberta System, Foothills and Canadian Mainline exposures is determined through the regulatory process. The gains and losses on derivatives accounted for as part of rate-regulated accounting are deferred in regulatory assets or regulatory liabilities.

Transaction costs are defined as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. The Company offsets long-term debt transaction costs against the associated debt and amortizes these costs using the effective interest method for all costs except those related to the Canadian regulated pipelines, which continue to be amortized on a straight-line basis in accordance with the provisions of tolling mechanisms.

The Company records the fair values of material joint and several guarantees. The fair value of these guarantees is estimated by discounting the cash flows that would be incurred by the Company if letters of credit were used in place of the guarantees. Guarantees are recorded as an increase to an investment account, Property, Plant and Equipment or a charge to Net Income, and a corresponding liability is recorded in Deferred Amounts.

Hedges

The CICA Handbook specifies the criteria that must be satisfied in order to apply hedge accounting and the accounting for each of the permitted hedging strategies, including: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the hedging relationship ceases to be effective or the hedging or hedged items cease to exist as a result of maturity, expiry, sale, termination, cancellation or exercise.

Documentation must be prepared at the inception of the hedging arrangement in order to qualify for hedge accounting treatment. In addition, the Company must perform an assessment of effectiveness at inception of the contract and at each reporting date.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk. The changes in fair value are recognized in Net Income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging item, which are also recorded in Net Income. Changes in the fair value of foreign exchange and interest rate fair value hedges are recorded in Interest Income and Other and Financial Charges, respectively. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to Net Income over the remaining term of the original hedging relationship.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in Other Comprehensive Income, while any ineffective portion is recognized in Net Income in the same financial category as the underlying transaction. When hedge accounting is discontinued, the amounts recognized previously in Accumulated Other Comprehensive Income are reclassified to Net Income during the periods when the variability in cash flows of the hedged item affects Net Income. Gains and losses on derivatives are reclassified immediately to Net Income from Accumulated Other Comprehensive Income when the hedged item is sold or terminated early, or when a hedged anticipated transaction is no longer expected to occur.

The Company also enters into cash flow hedges and fair value hedges for activities subject to rate regulation. The gains and losses arising from the changes in fair value of these hedges can be recovered through the tolls charged by the Company. As a result, these gains and losses are deferred as rate-regulated assets or liabilities on behalf of the ratepayers. When the hedges are settled, the realized gains or losses are collected from or refunded to the ratepayers in subsequent years.

In hedging the foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in Other Comprehensive Income and the ineffective portion is recognized in Net

Income. The amounts recognized previously in Accumulated Other Comprehensive Income are reclassified to Net Income in the event the Company settles or otherwise reduces its investment in a foreign operation.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred, when a legal obligation to do so exists and a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset and the liability is accreted at the end of each period through charges to operating expenses.

It is not possible to determine the scope and timing of asset retirements related to regulated natural gas pipelines and, therefore, it is not possible to make a reasonable estimate of the fair value of the associated liability. As a result, the Company has not recorded an amount for asset retirement obligations related to regulated natural gas pipelines, with the exception of certain abandoned facilities. Management believes it is reasonable to assume that all retirement costs associated with its regulated pipelines will be recovered through tolls in future periods.

Similarly, it is not possible to determine the scope and timing of asset retirements related to hydroelectric power plants and, therefore, it is not possible to make a reasonable estimate of the fair value of the associated liability. As a result, the Company has not recorded an amount for asset retirement obligations related to hydroelectric power plants. With respect to the nuclear assets leased by Bruce Power, the Company has not recorded an amount for asset retirement obligations, as Bruce Power leases the assets and the lessor is responsible for decommissioning liabilities under the lease agreement.

Environmental Liabilities

The Company records liabilities on an undiscounted basis for environmental remediation efforts that are likely to occur and where the cost can be reasonably estimated. The estimates, including associated legal costs, are based on available information using existing technology and enacted laws and regulations. The estimates are subject to revision in future periods based on actual costs incurred or new circumstances. Any amounts expected to be recovered from other parties, including insurers, are recorded as an asset separate from the associated liability.

Employee Benefit and Other Plans

The Company sponsors defined benefit pension plans (DB Plans), defined contributions plans (DC Plans), a Savings Plan and other post-employment plans. Contributions made by the Company to the DC Plans and Savings Plan are expensed as incurred. The cost of the DB Plans and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated based on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

The DB Plans' assets are measured at fair value. The expected return on the DB Plans' assets is determined using market-related values based on a five-year moving average value for all of the DB Plan's assets. Past service costs are amortized over the expected average remaining service life of the employees. Adjustments arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of net actuarial gains or losses over 10 per cent of the greater of the benefit obligation and the market-related value of the DB Plans' assets, if any, is amortized over the average remaining service period of the active employees. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement.

The Company has medium-term incentive plans, which are payable in cash to eligible employees. The expense related to these incentive plans is accounted for on an accrual basis. Under these plans, units vest when certain conditions are met, including the employees' continued employment during a specified period and achievement of specified corporate performance targets.

Certain of the Company's joint ventures sponsor DB Plans. The Company records its proportionate share of expenses, funding contributions and accrued benefit assets and liabilities related to these plans.

NOTE 3 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 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 also U.S. Securities and Exchange Commission (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.

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.

NOTE 4 SEGMENTED INFORMATION

NET INCOME⁽¹⁾

Year ended December 31, 2008 (millions of dollars)	Pipelines	Energy	Corporate	Total
Revenues	4,650	3,969	-	8,619
Plant operating costs and other	(1,732)	(1,326)	(4)	(3,062)
Commodity purchases resold	-	(1,511)	-	(1,511)
Depreciation	(989)	(200)	-	(1,189)
	1,929	932	(4)	2,857
Financial charges	(674)	-	(269)	(943)
Financial charges of joint ventures	(49)	(23)	-	(72)
Interest income and other	73	6	13	92
Calpine bankruptcy settlements	279	-	-	279
Writedown of Broadwater LNG project costs	-	(41)	-	(41)
Income taxes	(548)	(260)	206	(602)
Non-controlling interests	(108)	-	(22)	(130)
Net Income	902	614	(76)	1,440
Year ended December 31, 2007 (millions of dollars)				
Revenues	4,712	4,116	_	8,828
Plant operating costs and other	(1,670)	(1,353)	(7)	(3,030)
Commodity purchases resold	(72)	(1,887)	-	(1,959)
Depreciation	(1,021)	(158)	-	(1,179)
	1,949	718	(7)	2,660
Financial charges	(718)	1	(226)	(943)
Financial charges of joint ventures	(52)	(23)	-	(75)
Interest income and other	52	10	90	152
Gain on sale of assets	-	16	-	16
Income taxes	(470)	(208)	188	(490)
Non-controlling interests	(75)	-	(22)	(97)
Net Income	686	514	23	1,223
Year ended December 31, 2006 (millions of dollars)				
Revenues	3,990	3,530	_	7,520
Plant operating costs and other	(1,380)	(1,024)	(7)	(2,411)
Commodity purchases resold	-	(1,707)	-	(1,707)
Depreciation	(927)	(131)	(1)	(1,059)
	1,683	668	(8)	2,343
Financial charges	(711)	-	(114)	(825)
Financial charges of joint ventures	(69)	(23)	-	(92)
Interest income and other	100	5	51	156
Gain on sale of assets	23	-	_	23
Income taxes	(410)	(198)	132	(476)
Non-controlling interests	(56)	-	(22)	(78)
Net income from continuing operations	560	452	39	1,051
Net income from discontinued operations				28
Net Income				1,079

⁽¹⁾ Certain expenses such as indirect financial charges and related income taxes are not allocated to business segments when determining their net income.

TOTAL ASSETS

December 31 (millions of dollars)	2008	2007
Pipelines	25,020	22,024
Energy	12,006	7,037
Corporate	2,388	1,269
	39,414	30,330

GEOGRAPHIC INFORMATION

Year ended December 31 (millions of dollars)	2008	2007	2006
Revenues ⁽¹⁾			
Canada – domestic	4,599	5,019	4,956
Canada – export	1,125	1,006	972
United States and other	2,895	2,803	1,592
	8,619	8,828	7,520

 $^{\left(1\right) }$ Revenues are attributed based on the country where the product or service originated.

December 31 (millions of dollars)	2008	2007
Plant, Property and Equipment		
Canada	18,041	16,741
United States	10,973	6,564
Mexico	175	147
	29,189	23,452

CAPITAL EXPENDITURES

Year ended December 31 (millions of dollars)	2008	2007	2006
Pipelines	1,854	564	560
Energy	1,266	1,079	976
Corporate	14	8	36
	3,134	1,651	1,572

NOTE 5 PLANT, PROPERTY AND EQUIPMENT

		2008			2007	
December 31 (millions of dollars)	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Pipelines ⁽¹⁾						
Canadian Mainline						
Pipeline	8,740	4,269	4,471	8,889	4,149	4,740
Compression	3,373	1,399	1,974	3,371	1,303	2,068
Metering and other	344	140	204	345	140	205
	12,457	5,808	6,649	12,605	5,592	7,013
Under construction	16		16	28	-	28
	12,473	5,808	6,665	12,633	5,592	7,041
Alberta System	5.540	2 6 2 7	2 004	5 350	2 50 4	2 754
Pipeline	5,518	2,637	2,881	5,258	2,504	2,754
Compression	1,552	914	638	1,522	842	680
Metering and other	846	317	529	831	297	534
	7,916	3,868	4,048	7,611	3,643	3,968
Under construction	354	-	354	120	-	120
	8,270	3,868	4,402	7,731	3,643	4,088
ANR	976	69	907	772	25	747
Pipeline	976 579	69	907 518	424	25 32	/4/ 392
Compression						
Metering and other	686	50	636	483	6	477
Linder construction	2,241	180	2,061	1,679	63	1,616
Under construction	31		31	69	-	69
	2,272	180	2,092	1,748	63	1,685
GTN					49.4	4 9 4 7
Pipeline	1,482	215	1,267	1,181	134	1,047
Compression	562 134	63 23	499 111	436 81	39 3	397 78
Metering and other	-					
	2,178	301	1,877	1,698	176	1,522
Under construction	30	-	30	31	-	31
	2,208	301	1,907	1,729	176	1,553
Great Lakes	1,875	744	1,131	1,509	552	957
Foothills	1,655	873	782	1,647	819	828
Northern Border	1,530	682	848	1,232	528	704
Keystone – under construction	1,361	-	1,361	158	-	158
Other ⁽²⁾	2,078	566	1,512	1,705	439	1,266
	8,499	2,865	5,634	6,251	2,338	3,913
	33,722	13,022	20,700	30,092	11,812	18,280
Energy						
Nuclear ⁽³⁾	1,604	364	1,240	1,479	286	1,193
Natural gas/oil – Ravenswood ⁽⁴⁾	1,977	22	1,955	n/a ⁽⁵⁾	n/a	n/a
Natural gas – Other ⁽⁶⁾	1,702	504	1,198	1,570	383	1,187
Hydro	628	48	580	503	28	475
Wind	391	18	373	288	6	282
Natural gas storage	374	46	328	358	33	325
Other	156	82	74	137	78	59
	6,832	1,084	5,748	4,335	814	3,521
Under construction ⁽⁷⁾	2,687	-	2,687	1,606	-	1,606
	9,519	1,084	8,435	5,941	814	5,127
Corporate	74	20	54	60	15	45
corporate						

⁽¹⁾ In 2008, the Company capitalized \$27 million (2007 – \$14 million) relating to AFUDC.

⁽²⁾ Pipelines – Other primarily includes assets of Iroquois, Portland, TQM, Tuscarora and Tamazunchale.

⁽³⁾ Includes assets under capital lease relating to Bruce Power.

⁽⁴⁾ TransCanada acquired Ravenswood on August 26, 2008.

⁽⁵⁾ Not applicable, as there are no comparative amounts for prior years.

- (6) Certain owned power generation facilities with long-term PPAs are accounted for as assets under operating leases. The net book value of these facilities was \$77 million at December 31, 2008 (2007 – \$78 million). Revenues of \$14 million were recognized in 2008 (2007 – \$16 million) through the sale of electricity under the related PPAs.
- ⁽⁷⁾ Energy assets under construction primarily include expenditures for the Bruce A refurbishment and restart, and for construction of Halton Hills, Portland Energy, Kibby Wind and Coolidge.

NOTE 6 GOODWILL

The Company has recorded the following goodwill on its acquisitions in the U.S.:

(millions of dollars)	Pipelines	Energy	Total
Balance at January 1, 2007	281	-	281
Acquisition of ANR	2,235	-	2,235
Acquisition of additional interests in Great Lakes	573	-	573
Acquisition of additional interest in Tuscarora	3	-	3
Foreign exchange and adjustments	(459)	-	(459)
Balance at December 31, 2007	2,633	-	2,633
Acquisition of Ravenswood	-	949	949
Foreign exchange and adjustments	749	66	815
Balance at December 31, 2008	3,382	1,015	4,397

NOTE 7 OTHER ASSETS

December 31 (millions of dollars)	2008	2007
PPAs ⁽¹⁾	651	709
Prepaid operating lease ⁽²⁾	369	n/a
Pension and other benefit plans (Note 21)	234	234
Regulatory assets (Note 14)	201	336
Fair value of derivative contracts (Note 17)	191	204
Loans and advances ⁽³⁾ (Note 23)	140	137
Deferred project development costs ⁽⁴⁾	116	40
Equity investments ⁽⁵⁾	85	63
Other	241	217
	2,228	1,940

⁽¹⁾ The following amounts related to the PPAs are included in the consolidated financial statements:

		2008			2007	
December 31 (millions of dollars)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
PPAs	915	264	651	915	206	709

Amortization expense for the PPAs was \$58 million for the year ended December 31, 2008 (2007 - \$58 million; 2006 - \$58 million). The expected annual amortization expense in each of the next five years is: 2009 - \$58 million; 2010 - \$58 million; 2011 - \$57 million; 2012 - \$57 million; and 2013 - \$57 million.

⁽²⁾ The balance at December 31, 2008 represents the long-term portion of a prepaid operating lease from the acquisition of Ravenswood. The expected annual operating lease expense in each of the next five years is US\$10 million.

- (3) The balance at December 31, 2008 represents a \$140-million loan (2007 \$137 million) to the Aboriginal Pipeline Group (APG) to finance the APG for its one-third share of project development costs related to the Mackenzie Gas Pipeline project. The ability to recover this investment remains dependent upon the successful outcome of the project.
- ⁽⁴⁾ The balance at December 31, 2008 includes \$74 million (2007 nil) related to the proposed expansion of the Keystone pipeline project and \$42 million related to the Bison pipeline project. The balance of \$40 million at December 31, 2007 related to the Broadwater LNG project and, in 2008, TransCanada wrote down \$41 million of capitalized costs related to this project after the New York Department of State rejected a proposal to construct this facility.
- ⁽⁵⁾ The balance primarily relates to the Company's 46.5 per cent ownership interest in TransGas.

NOTE 8 JOINT VENTURE INVESTMENTS

		TransCanada's Proportionate Share					
	Ownership — Interest as at December 31,	Income/(Loss) Before Income Taxes Year ended December 31			Net Assets December 31		
(millions of dollars)	2008	2008	2007	2006	2008	2007	
Pipelines							
Northern Border ⁽¹⁾		59	67	52	479	415	
Iroquois	44.5%	32	25	25	239	163	
TQM	50.0%	12	11	11	69	74	
Keystone	61.9%(2)	(7)	n/a	n/a	906	207	
Great Lakes ⁽³⁾		-	13	69	-	_	
Other	Various	15	13	6	70	48	
Energy							
Bruce A	48.9%	46	8	75	2,012	1,640	
Bruce B	31.6%	136	140	140	429	325	
CrossAlta	60.0%	44	59	64	56	38	
Cartier Wind	62.0%(4)	12	10	2	365	275	
TC Turbines	50.0%	9	5	5	31	29	
Portlands Energy	50.0%	-	-	-	334	269	
ASTC Power Partnership	50.0% ⁽⁵⁾	-	-	-	70	76	
		358	351	449	5,060	3,559	

⁽¹⁾ PipeLines LP acquired an additional 20 per cent general partnership interest in Northern Border in April 2006, increasing its general partnership interest to 50 per cent. Through TransCanada's 32.1 per cent ownership interest in PipeLines LP, Northern Border became a jointly controlled entity and TransCanada commenced proportionately consolidating its investment in Northern Border on a prospective basis. The Company's effective ownership of Northern Border, net of non-controlling interests, was 16.1 per cent at December 31, 2008 and 2007.

⁽²⁾ In December 2007, ConocoPhillips exercised its option to become a 50 per cent partner with TransCanada in Keystone. As a result, TransCanada transferred \$207 million of net assets and ConocoPhillips contributed \$207 million of cash to each become a 50 per cent joint venture partner in Keystone. In 2008, TransCanada agreed to increase its equity ownership in the Keystone partnerships to 79.99 per cent. ConocoPhillips' equity ownership will be reduced concurrently to 20.01 per cent. TransCanada's increase in ownership is expected to occur as the Company funds 100 per cent of the construction expenditures until the participants' project capital contributions are aligned with the revised ownership interests. At December 31, 2008, TransCanada's equity ownership in the Keystone partnerships was 61.9 per cent (December 31, 2007 – 50.0 per cent), however, strategic, operational and financial decisions are made jointly with ConocoPhillips.

(3) In February 2007, TransCanada acquired an additional 3.6 per cent interest in Great Lakes, bringing its direct ownership interest to 53.6 per cent, and PipeLines LP acquired a 46.4 per cent interest in Great Lakes, giving TransCanada an indirect 14.9 per cent interest in Great Lakes. As a result of these transactions, the Company's effective ownership interest in Great Lakes, net of non-controlling interests, was 68.5 per cent at December 31, 2008 and 2007. TransCanada commenced consolidating its investment in Great Lakes on a prospective basis effective February 22, 2007.

⁽⁴⁾ TransCanada proportionately consolidates its 62 per cent interest in the Cartier Wind assets. The first three phases of the six-phase Cartier Wind project, Baie-des-Sables, Anse-à-Valleau and Carleton, began operating in November 2006, 2007 and 2008, respectively.

⁽⁵⁾ The Company has a 50 per cent ownership interest in ASTC Power Partnership, an Alberta partnership which holds the Sundance B PPA. The underlying power volumes related to this ownership interest are effectively transferred to TransCanada.

Summarized Financial Information of Joint Ventures

Year ended December 31 (millions of dollars)	2008	2007	2006
Income			
Revenues	1,264	1,305	1,382
Plant operating costs and other	(683)	(736)	(686)
Depreciation	(154)	(150)	(163)
Financial charges and other	(69)	(68)	(84)
Proportionate share of joint venture income before income taxes	358	351	449
Year ended December 31 (millions of dollars)	2008	2007	2006
	2000	2007	
Cash Flows	1.067	420	645
Operating activities	(2,031)	(761)	(641)
Investing activities Financing activities ⁽¹⁾	952	409	(31)
5			. ,
Effect of foreign exchange rate changes on cash and cash equivalents	23	(8)	9
Proportionate share of increase/(decrease) in cash and cash equivalents of			
joint ventures	11	60	(18)

(1) Financing activities included cash outflows resulting from distributions paid to TransCanada of \$287 million in 2008 (2007 – \$361 million; 2006 – \$470 million) and cash inflows resulting from capital contributions paid by TransCanada of \$1,067 million in 2008 (2007 – \$771 million; 2006 – \$452 million).

December 31 (millions of dollars)	2008	2007
Balance Sheet		
Cash and cash equivalents	181	170
Other current assets	159	343
Plant, property and equipment	6,341	4,283
Other assets/(deferred amounts), net	45	(69)
Current liabilities	(793)	(293)
Long-term debt	(871)	(873)
Future income taxes	(2)	(2)
Proportionate share of net assets of joint ventures	5,060	3,559

NOTE 9 ACQUISITIONS AND DISPOSITIONS

Acquisitions

Pipelines

Keystone

In 2008, TransCanada agreed to increase its equity ownership in the Keystone partnerships up to 79.99 per cent from 50 per cent, with ConocoPhillips' equity ownership being reduced concurrently to 20.01 per cent. The increase in ownership is expected to occur as TransCanada funds 100 per cent of the construction expenditures until the participants' project capital contributions are aligned with the revised ownership interests. In accordance with the agreement, TransCanada funded \$362 million of cash calls, resulting in the 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. TransCanada continues to proportionately consolidate the Keystone partnerships.

During 2008, Keystone purchased pipeline facilities located in Saskatchewan and Manitoba from the Canadian Mainline for use in the construction of the Keystone oil pipeline. The sale was completed in three phases for total proceeds of \$65 million, with no gain recognized on the sale.

ANR and Great Lakes

On February 22, 2007, TransCanada acquired from El Paso Corporation 100 per cent of American Natural Resources Company and ANR Storage Company (collectively, ANR) and an additional 3.6 per cent interest in Great Lakes Gas Transmission Limited Partnership (Great Lakes) for a total of US\$3.4 billion, including US\$491 million of assumed long-term debt. The acquisitions were accounted for using the purchase method of accounting. TransCanada began consolidating ANR and Great Lakes in the Pipelines segment after the acquisition date. The purchase price was allocated as follows:

Purchase Price Allocation

(millions of US dollars)	ANR	Great Lakes	Total
Current assets	250	4	254
Plant, property and equipment	1,617	35	1,652
Other non-current assets	83	-	83
Goodwill	1,945	32	1,977
Current liabilities	(179)	(3)	(182)
Long-term debt	(475)	(16)	(491)
Other non-current liabilities	(357)	(19)	(376)
	2,884	33	2,917

TC PipeLines, LP Acquisition of Interest in Great Lakes

On February 22, 2007, PipeLines LP acquired from El Paso Corporation a 46.4 per cent interest in Great Lakes for US\$942 million, including US\$209 million of assumed long-term debt. The acquisition was accounted for using the purchase method of accounting. TransCanada began consolidating Great Lakes in the Pipelines segment after the acquisition date. As of February 2007, TransCanada's effective ownership interest in Great Lakes was 68.5 per cent, comprising its direct ownership interest and its indirect ownership interest through PipeLines LP. The purchase price was allocated as follows:

Purchase Price Allocation

(millions of US dollars)	
Current assets	42
Plant, property and equipment	465
Other non-current assets	1
Goodwill	457
Current liabilities	(23)
Long-term debt	(209)
	733

The allocation of the purchase price for these transactions was made using the fair value of the net assets at the date of acquisition. Tolls charged by ANR and Great Lakes are subject to rate regulation based on historical costs. As a result, the regulated net assets, other than ANR's gas held for sale, were determined to have a fair value equal to their rate-regulated value.

Factors that contributed to goodwill included the opportunity to expand in the U.S. market and to gain a stronger competitive position in the North American gas transmission business. Goodwill related to TransCanada's ANR and Great Lakes transactions is not amortizable for tax purposes. Goodwill related to PipeLines LP's Great Lakes transaction is amortizable for tax purposes.

TC PipeLines, LP Private Placement Offering

In February 2007, PipeLines LP completed a private placement offering of 17,356,086 common units at a price of US\$34.57 per unit. TransCanada acquired 50 per cent of the units for US\$300 million. TransCanada also invested an additional US\$12 million to maintain its general partnership interest in PipeLines LP. As a result of these additional investments, TransCanada's ownership in PipeLines LP increased to 32.1 per cent on February 22, 2007. The total private placement, together with TransCanada's additional investment, resulted in gross proceeds to PipeLines LP of US\$612 million, which were used to partially finance its acquisition of a 46.4 per cent ownership interest in Great Lakes.

Tuscarora

In December 2007, PipeLines LP exercised its option to purchase Sierra Pacific Resources' remaining one per cent interest in Tuscarora Gas Transmission Company (Tuscarora) for US\$2 million. In addition, PipeLines LP purchased TransCanada's one per cent interest in Tuscarora for US\$2 million. Beginning December 2007, PipeLines LP owned 100 per cent of Tuscarora, resulting in TransCanada's effective ownership of 32.1 per cent, net of non-controlling interests.

In December 2006, PipeLines LP acquired an additional 49 per cent controlling general partner interest in Tuscarora for US\$100 million in addition to indirectly assuming US\$37 million of debt. The purchase price was allocated US\$79 million to Goodwill, US\$37 million to Long-Term Debt, and the balance primarily to Plant, Property and Equipment. Factors that contributed to goodwill included opportunities for expansion and a stronger competitive position. The goodwill recognized on this transaction is amortizable for tax purposes. PipeLines LP began consolidating its investment in Tuscarora in December 2006.

Northern Border

In April 2006, PipeLines LP acquired an additional 20 per cent general partnership interest in Northern Border Pipeline Company (Northern Border) for US\$307 million, in addition to indirectly assuming US\$122 million of debt. The purchase price was allocated US\$114 million to Goodwill, US\$122 million to Long-Term Debt and the balance primarily to Plant, Property and Equipment. Factors that contributed to goodwill included opportunities for expansion and a stronger competitive position. The goodwill recognized on this transaction is amortizable for tax purposes. As of April 2006, PipeLines LP owned 50 per cent of Northern Border, giving TransCanada effective ownership of 16.1 per cent, net of non-controlling interests.

Energy

Ravenswood

On August 26, 2008, TransCanada acquired from National Grid plc 100 per cent of the 2,480 MW Ravenswood power facility for US\$2.9 billion, subject to certain post-closing adjustments. The acquisition was accounted for using the purchase method of accounting. TransCanada began consolidating Ravenswood in the Energy segment subsequent to the acquisition date. The preliminary allocation of the purchase price at December 31, 2008 was as follows:

Purchase Price Allocation

(millions of US dollars)	
Current assets	149
Plant, property and equipment	1,666
Other non-current assets	305
Goodwill	835
Current liabilities	(19)
Other non-current liabilities	(20)
	2,916

A preliminary allocation of the purchase price, subject to certain post-closing adjustments, has been made using fair values of the net assets at the date of acquisition. Factors that contributed to goodwill included the opportunity to expand the Energy segment further in the U.S. market and to gain a stronger competitive position in the North American power generation business. The goodwill recognized on this transaction is amortizable for tax purposes.

Dispositions

Pipelines

Northern Border Partners, L.P. Interest

In April 2006, TransCanada sold its 17.5 per cent general partner interest in Northern Border Partners, L.P., generating net proceeds of \$33 million (US\$30 million) and recognizing an after-tax gain of \$13 million. The net gain was recorded in the Pipelines segment and the Company recorded a \$10 million income tax charge on the transaction, including \$12 million of current income tax expense.

Energy

Ontario Land Sale

In November 2007, TransCanada's Energy segment sold land in Ontario that had previously been held for development, generating net proceeds of \$37 million and recognizing an after-tax gain of \$14 million on the sale.

NOTE 10 LONG-TERM DEBT

		2008		2007	
Outstanding loan amounts (millions of dollars unless otherwise indicated)	Maturity Dates	Outstanding December 31	Interest Rate ⁽¹⁾	Outstanding December 31	Interest Rate ⁽¹⁾
TRANSCANADA PIPELINES LIMITED Debentures					
Canadian dollars U.S. dollars (2008 and 2007 – US\$600) ⁽²⁾ Medium-Term Notes	2009 to 2020 2012 to 2021	1,251 734	10.8% 9.5%	1,351 594	10.9% 9.5%
Canadian dollars ⁽³⁾ Senior Unsecured Notes	2009 to 2031	3,653	5.3%	3,413	6.1%
U.S. dollars (2008 – US\$4,723; 2007 – US\$3,223) ⁽⁴⁾	2009 to 2038	5,751	6.3%	3,161	6.0%
		11,389		8,519	
NOVA GAS TRANSMISSION LTD. Debentures and Notes					
Canadian dollars U.S. dollars (2008 and 2007 – US\$375) Medium-Term Notes	2010 to 2024 2012 to 2023	439 457	11.5% 8.2%	501 368	11.6% 8.2%
Canadian dollars U.S. dollars (2008 and 2007 – US\$33)	2025 to 2030 2026	502 39	7.4% 7.5%	607 32	7.2% 7.5%
		1,437		1,508	
TRANSCANADA PIPELINE USA LTD.					
Bank Loan U.S. dollars (2008 – US\$700; 2007 – US\$860)	2012	857	2.4%	850	5.7%
ANR PIPELINE COMPANY Senior Unsecured Notes	2010 +- 2025	544	0.49/	425	0.1%
U.S. dollars (2008 and 2007 – US\$444)	2010 to 2025	541	9.1%	435	9.1%
GAS TRANSMISSION NORTHWEST CORPORATION Senior Unsecured Notes					
U.S. Dollars (2008 and 2007 – US\$400)	2010 to 2035	488	5.4%	399	5.4%
TC PIPELINES, LP Unsecured Loan					
U.S. dollars (2008 – US\$475; 2007 – US\$507)	2011	580	2.7%	499	6.2%
GREAT LAKES GAS TRANSMISSION LIMITED PARTNERSHIP Senior Unsecured Notes					
U.S. dollars (2008 – US\$430; 2007 – US\$440)	2011 to 2030	526	7.8%	434	7.8%
TUSCARORA GAS TRANSMISSION COMPANY Senior Unsecured Notes					
U.S. dollars (2008 – US\$64; 2007 – US\$69)	2010 to 2012	78	7.4%	67	7.4%
PORTLAND NATURAL GAS TRANSMISSION SYSTEM Senior Secured Notes					
U.S. dollars (2008 – US\$196; 2007 – US\$211) ⁽⁵⁾	2018	236	6.1%	205	6.1%
OTHER Senior Notes					
U.S. dollars (2008 – US\$18; 2007 – US\$17)	2011	22	7.3%	17	7.3%
Less: Current Portion of Long-Term Debt		16,154 786		12,933 556	
		15,368		12,377	

- (1) Interest rates are the effective interest rates except for those pertaining to long-term debt issued for the Company's regulated operations, in which case the weighted average interest rate is presented as required by the regulators. Weighted average and effective interest rates are stated as at the respective outstanding dates.
- ⁽²⁾ Includes fair value adjustments for interest rate swap agreements on US\$50 million of debt at December 31, 2008 and 2007.
- (3) Includes fair value adjustments for interest rate swap agreements on \$50 million of debt at December 31, 2008 (2007 \$150 million).
- ⁽⁴⁾ Includes fair value adjustments for interest rate swap agreements on US\$150 million of debt at December 31, 2008 and 2007.
- ⁽⁵⁾ Senior Secured Notes are secured by shipper transportation contracts, existing and new guarantees, letters of credit and collateral requirements.

Principal Repayments

Principal repayments on the long-term debt of the Company for the next five years are approximately as follows: 2009 - \$786 million; 2010 - \$531 million; 2011 - \$1,014 million; 2012 - \$1,370 million; and 2013 - \$1,180 million.

Debt Shelf Programs – TransCanada PipeLines Limited

In January 2009, the Company filed a debt shelf prospectus in the U.S. gualifying for issuance US\$3.0 billion of debt securities.

In March 2007, the Company filed debt shelf prospectuses in Canada and the U.S. qualifying for issuance \$1.5 billion of Medium-Term Notes and US\$1.5 billion of debt securities, respectively. Subsequent to the February 2009 debt issue discussed below, the Company had \$300 million of remaining capacity available under the Canadian shelf prospectus.

In September 2007, the Company replaced the March 2007 U.S. debt shelf prospectus with a US\$2.5 billion U.S. debt shelf prospectus. At December 31, 2008, the Company had fully utilized its capacity under the September 2007 U.S. shelf prospectus.

TransCanada PipeLines Limited

On February 17, 2009, TransCanada 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. These notes were issued under the \$1.5 billion debt shelf prospectus filed in Canada in March 2007.

On January 9, 2009, TransCanada issued US\$750 million and US\$1.25 billion of Senior Unsecured Notes maturing in January 2019 and January 2039, respectively, and bearing interest at 7.125 per cent and 7.625 per cent, respectively. These notes were issued under the 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 under the March 2007 Canadian debt shelf prospectus.

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. These notes were issued under the September 2007 U.S. debt shelf prospectus.

In October 2007, TransCanada issued US\$1.0 billion of Senior Unsecured Notes under the U.S. debt shelf filed in September 2007.

NOVA Gas Transmission Ltd.

Debentures issued by NOVA Gas Transmission Ltd. (NGTL) in the amount of \$225 million have retraction provisions that entitle the holders to require redemption of up to eight per cent of the then outstanding principal plus accrued and unpaid interest on specified repayment dates. No redemptions were made to December 31, 2008.

TransCanada PipeLine USA Ltd.

In February 2007, TransCanada PipeLine USA Ltd. established a US\$1.0 billion committed, unsecured, syndicated credit facility, consisting of a US\$700-million five-year term loan and a US\$300-million five-year, extendible revolving facility. There was an outstanding balance of US\$700 million and US\$860 million on the credit facility at December 31, 2008 and 2007, respectively. In 2008, the maturity date of the revolving portion of the facility was extended to February 2013.

TC PipeLines, LP

In February 2007, PipeLines LP increased its syndicated revolving credit and term loan facility in connection with its acquisition of a 46.4 per cent interest in Great Lakes. 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 senior term loan amount terminated upon closing of the Great Lakes acquisition. During 2008, an additional US\$13 million (2007 – US\$18 million) of the senior term loan was terminated due to principal repayments. There was an outstanding balance of US\$475 million and US\$507 million on the credit facility at December 31, 2008 and 2007, respectively.

Sensitivity

A one per cent change in interest rates would have the following effect assuming all other variables were to remain constant:

(millions of dollars)	Increase	Decrease
Effect on fair value of fixed interest rate debt	(895)	1,014
Effect on interest expense of variable interest rate debt	2	(2)

Financial Charges

Year ended December 31 (millions of dollars)	2008	2007	2006
Interest on long-term debt	970	948	846
Interest on junior subordinated notes	68	43	n/a
Interest on short-term debt	32	48	23
Capitalized interest	(141)	(68)	(60)
Amortization and other financial charges ⁽¹⁾	14	(28)	16
	943	943	825

⁽¹⁾ Amortization and other financial charges in 2008 and 2007 included amortization of transaction costs and debt discounts calculated using the effective interest method.

The Company made interest payments of \$833 million in 2008 (2007 - \$966 million; 2006 - \$771 million).

NOTE 11 LONG-TERM DEBT OF JOINT VENTURES

		2008		2007	
Outstanding loan amounts (millions of dollars)	Maturity Dates	Outstanding December 31 ⁽¹⁾	Interest Rate ⁽²⁾	Outstanding December 31 ⁽¹⁾	Interest Rate ⁽²⁾
NORTHERN BORDER PIPELINE COMPANY					
Senior Unsecured Notes (2008 – US\$225; 2007 – US\$232)	2009 to 2021	275	7.7%	229	7.7%
Bank Facility					
(2008 – US\$96; 2007 – US\$83)	2012	116	3.4%	82	5.3%
IROQUOIS GAS TRANSMISSION SYSTEM, L.P. Senior Unsecured Notes					
(2008 – US\$160; 2007 – US\$165) Bank Loan	2010 to 2027	195	7.6%	162	7.5%
(2007 – US\$7)		-		7	7.4%
BRUCE POWER L.P. AND BRUCE POWER A L.P.					
Capital Lease Obligations	2018	235	7.5%	243	7.5%
Term Loan	2031	95	7.1%	n/a	
TRANS QUÉBEC & MARITIMES PIPELINE INC.					
Bonds	2009 to 2010	137	6.0%	137	6.0%
Term Loan	2011	18	1.9%	28	4.6%
OTHER	2009 to 2010	5	5.5%	15	4.5%
		1,076		903	
Less: Current Portion of Long-Term Debt of Joint Ventures		207		30	
Some ventales			-		
		869	_	873	

⁽¹⁾ Amounts outstanding represent TransCanada's proportionate share.

(2) Interest rates are the effective interest rates except those pertaining to long-term debt issued for TQM's regulated operations, in which case the weighted average interest rate is presented as required by the regulators. Weighted average and effective interest rates are stated as at the respective outstanding dates. At December 31, 2008, the effective interest rate resulting from swap agreements was 4.1 per cent on the Northern Border bank facility (2007 – nil). At December 31, 2007, the effective interest rate resulting from swap agreements was 7.5 per cent on the Iroquois bank loan.

The long-term debt of joint ventures is non-recourse to TransCanada, except that TransCanada has provided certain pro-rata guarantees related to the capital lease obligations of Bruce Power. The security provided with respect to the debt of each joint venture is limited to the rights and assets of the joint venture and does not extend to the rights and assets of TransCanada, except to the extent of TransCanada's investment. TQM's bonds are secured by a first interest in all TQM real and immoveable property and rights, a floating charge on all residual property and assets, and a specific interest on bonds of TQM Finance Inc. and on rights under all licenses and permits relating to the TQM pipeline system and natural gas transportation agreements.

Subject to meeting certain requirements, the Bruce Power capital lease agreements provide for renewals commencing January 1, 2019. The first renewal is for a period of one year and each of 12 renewals thereafter is for a period of two years.

The Company's proportionate share of principal repayments for the next five years resulting from maturities and sinking fund obligations of the non-recourse joint venture debt is approximately as follows: 2009 - \$194 million; 2010 - \$212 million; 2011 - \$30 million; 2012 - \$126 million; and 2013 - \$8 million.

The Company's proportionate share of principal payments for the next five years resulting from the capital lease obligations of Bruce Power is approximately as follows: 2009 – \$13 million; 2010 – \$13 million; 2011 – \$15 million; 2012 – \$18 million; and 2013 – \$20 million.

In September 2008, Bruce A entered into a \$193 million unsecured term loan, maturing December 2031 and bearing interest at 7.12 per cent.

In April 2007, Northern Border established a US\$250-million five-year unsecured bank facility. A portion of the bank facility was drawn to refinance US\$150 million of the Senior Unsecured Notes that matured on May 1, 2007.

Sensitivity

Deferrals and amortization

A one per cent change in interest rates would have the following effects assuming all other variables were to remain constant:

(millions of dollars)		Increase	Decrease
Effect on fair value of fixed interest rate debt		(39)	44
Effect on interest expense of variable interest rate debt		1	(1)
Financial Charges of Joint Ventures			
Year ended December 31 (millions of dollars)	2008	2007	2006
Interest on long-term debt	45	50	67
Interest on capital lease obligations	18	18	19
Short-term interest and other financial charges	7	4	3

2

72

3

75

3

92

The Company's proportionate share of the interest payments of joint ventures was \$50 million in 2008 (2007 – \$45 million; 2006 – \$73 million).

The Company's proportionate share of interest payments from the capital lease obligations of Bruce Power was \$18 million in 2008 (2007 – \$18 million; 2006 – \$20 million).

NOTE 12 JUNIOR SUBORDINATED NOTES

		2008		2007	7	
Outstanding loan amount (millions of dollars)	Maturity Dates	Outstanding December 31	Effective Interest Rate	Outstanding December 31	Effective Interest Rate	
TRANSCANADA PIPELINES LIMITED U.S. dollars (2008 and 2007 – US\$1,000)	2017	1,213	6.5%	975	6.5%	

In April 2007, TransCanada PipeLines Limited (TCPL) 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 rate, reset quarterly to the three-month London Interbank Offered Rate (LIBOR) plus 221 basis points. The Company has the option to defer payment of interest for periods of up to ten years without giving rise to a default and without permitting acceleration of payment under the terms of the Junior Subordinated Notes. The Company would be prohibited from paying dividends during any deferral period. The Junior Subordinated Notes are subordinated in right of payment to existing and future senior indebtedness and are effectively subordinated to all indebtedness and obligations of TCPL. The Junior Subordinated Notes are callable at the Company's option at any time on or after May 15, 2017 at 100 per cent of the principal amount of the Junior Subordinated Notes plus accrued and unpaid interest to the date of redemption. The Junior Subordinated Notes are callable earlier, in whole or in part, upon the occurrence of certain events and at the Company's option at an amount equal to the greater of 100 per cent of the principal amount of the Junior Subordinated Notes plus accrued and unpaid interest to the date of redemption and an amount determined by a specified formula in accordance with the terms of the Junior Subordinated Notes. The Junior Subordinated Notes were issued under the U.S. debt shelf prospectus filed in March 2007.

Sensitivity

A one per cent change in interest rates would have the following effects assuming all other variables were to remain constant:

(millions of dollars)	Increase	Decrease
Effect on fair value of Junior Subordinated Notes	(45)	49

NOTE 13 DEFERRED AMOUNTS

December 31 (millions of dollars)	2008	2007
Fair value of derivative contracts (Note 17)	694	205
Regulatory liabilities (Note 14)	551	525
Employee benefit plans (Note 21)	219	196
Asset retirement obligations (Note 20)	114	88
Other	141	93
	1,719	1,107

NOTE 14 REGULATED BUSINESSES

TransCanada's regulated businesses include Canadian and U.S. natural gas pipelines. Regulatory assets and liabilities represent future revenues that are expected to be recovered from or refunded to customers. They arise from certain costs and revenues generated in the current period or in prior periods that may be collected from or refunded to shippers if, through the rate-setting process, it is found that revenues were overor under-collected. Regulatory assets and liabilities are only recognized when approved by the applicable regulatory authorities. In addition to GAAP financial reporting, TransCanada's regulated pipelines file financial reports using accounting regulations required by their respective regulators.

Canadian Regulated Operations

Canadian natural gas transmission services are supplied under gas transportation tariffs that provide for cost recovery, including return of and return on capital as approved by the applicable regulatory authorities.

Rates charged by TransCanada's wholly owned and partially owned Canadian regulated pipelines are set typically through a process that involves filing an application with the regulators for a change in rates. Regulated rates are underpinned by the total annual revenue requirement, which comprises specified annual return on capital, including debt and equity, and all necessary operating expenses, taxes and depreciation.

TransCanada's Canadian regulated pipelines have generally been subject to a cost-of-service model wherein forecasted costs, including a return on capital, equal the revenues for the upcoming year. To the extent that actual costs and revenues are more or less than the forecasted costs and revenues, the regulators generally allow the difference to be deferred to a future period and recovered or refunded in rates at that time. Costs for which the regulator does not allow the difference between actual and forecast to be deferred are included in the determination of net income in the year they are incurred.

The Canadian Mainline, Foothills and TQM pipelines are regulated by the NEB under the *National Energy Board Act (Canada)*. The Alberta System is regulated by the AUC primarily under the provisions of the *Gas Utilities Act (Alberta)* and the *Pipeline Act (Alberta)*. The AUC regulates the construction and operation of facilities, and the terms and conditions of services, including rates for the Alberta System. The NEB regulates the construction and operation of facilities, and the terms and conditions of services, including rates, for the Company's other Canadian regulated natural gas transmission systems. The Alberta System has filed an application with the NEB to change its regulatory jurisdiction from the AUC to the NEB. The NEB's decision is expected in first quarter 2009.

Canadian Mainline

The Canadian Mainline currently operates under a five-year tolls settlement, which is effective January 1, 2007, to December 31, 2011. Canadian Mainline's cost of capital for establishing tolls under the settlement reflects a rate of return on common equity (ROE) as determined by the NEB's ROE formula, on a deemed common equity ratio of 40 per cent. The allowed ROE in 2008 for Canadian Mainline was 8.71 per cent (2007 – 8.46 per cent). The remaining capital structure consists of short- and long-term debt following the agreed-upon redemption of US\$460 million of Preferred Securities in 2007.

The settlement also establishes the Canadian Mainline's fixed operations, maintenance and administrative (OM&A) costs for each year of the five years. Any variance between actual OM&A costs and those agreed to in the settlement accrue to TransCanada from 2007 to 2009. Variances in OM&A costs will be shared equally between TransCanada and its customers in 2010 and 2011. All other cost elements of the revenue requirement are treated on a flow-through basis. There are also performance-based incentive arrangements that provide mutual benefits to both TransCanada and its customers.

Alberta System

In March 2008, NOVA Gas Transmission Ltd. (NGTL) reached a revenue requirement settlement with interested stakeholders for 2008 and 2009 on the Alberta System. In December 2008, the AUC approved the 2008-2009 Revenue Requirement Settlement Application, which is effective for the full two-year period.

As part of the settlement, fixed costs were established for certain operating costs, ROE and income taxes. Any variances between actual costs and those agreed to in the settlement accrue to TransCanada, subject to ROE and income tax adjustment mechanisms. All other costs of the revenue requirement are treated on a flow-through basis.

Other Canadian Pipelines

The NEB approves pipeline tolls on an annual cost of service basis for Foothills and TQM. The NEB allows each pipeline to charge a schedule of tolls based on the estimated cost of service. This schedule of tolls is used for the current year until a new toll filing is made for the following year. Differences between the estimated cost of service and the actual cost of service are calculated and reflected in the subsequent year's tolls.

The ROE for Foothills, which is based on the NEB-allowed ROE formula, was 8.71 per cent in 2008 (2007 – 8.46 per cent) on a deemed equity component of 36 per cent.

In September 2008, the NEB approved TQM's application for a three-year partial negotiated settlement with interested parties concerning all cost of service matters, with the exception of cost of capital and associated income taxes, for the years 2007 to 2009. In December 2007, TQM filed a cost of capital application with the NEB for the years 2007 and 2008, which requests approval of an 11 per cent return on deemed common equity of 40 per cent. An NEB hearing on the application concluded in October 2008 and a decision from the NEB is expected in early 2009. TQM currently is subject to the NEB ROE formula on deemed common equity of 30 per cent. TQM tolls remain in effect on an interim basis pending a decision on the application. Any adjustments to the interim tolls will be recorded in accordance with the decision.

U.S. Regulated Operations

TransCanada's wholly owned and partially owned U.S. pipelines are 'natural gas companies' operating under the provisions of the *Natural Gas Act of 1938*, the *Natural Gas Policy Act of 1978* and the *Energy Policy Act of 2005*, and are subject to the jurisdiction of the FERC. The *Natural Gas Act of 1938* grants the FERC authority over the construction and operation of pipelines and related facilities. The FERC also has authority to regulate rates for natural gas transportation in interstate commerce.

ANR

ANR's operations are regulated primarily by the FERC. ANR's natural gas storage and transportation services regulated by the FERC also operate under approved tariff rates. ANR Pipeline's rates were established pursuant to a settlement approved by a FERC order issued in February 1998 and became effective in November 1997. These tariffs include maximum and minimum rate levels for services and permit ANR to discount or negotiate rates on a non-discriminatory basis. ANR Storage Company's rates were established pursuant to a settlement approved by the FERC in April 1990 and became effective in June 1990. None of ANR's FERC-regulated operations are required to file for new rates at any time in the future, nor are any of the operations prohibited from filing a case for new rates.

GTN

GTN is regulated by the FERC. Both of GTN's natural gas pipeline systems, the GTN System and North Baja, operate in accordance with FERC-approved tariffs that establish maximum and minimum rates for various services. The pipelines are permitted to discount or negotiate these rates on a non-discriminatory basis. The GTN System and its customers reached a rate case settlement in November 2007 that was approved by the FERC in January 2008. GTN's financial results in 2007 reflected the terms of the settlement. In 2008, the GTN System refunded to customers amounts collected above the settlement rates for the period from January 1, 2007 through October 31, 2007. Under the settlement, a five-year moratorium was established during which the GTN System and the settling parties are prohibited from taking certain actions under the *Natural Gas Act of 1938*, including any filings. The GTN System is also required to file a rate case within seven years. Rates for capacity on North Baja were established in 2002 in the FERC's initial order certifying construction and operations of North Baja.

Great Lakes

Great Lakes' rates and tariffs are regulated by the FERC. In 2000, Great Lakes negotiated an overall rate settlement with its customers that established the rates currently in effect. The settlement expired October 31, 2005, with no requirement to file for new rates at any time, nor is Great Lakes prohibited from filing such a rate case. Great Lakes' services are provided pursuant to its FERC-approved tariff, which includes, among other factors, maximum and minimum rate levels for services and permits Great Lakes to negotiate or discount rates on a non-discriminatory basis.

Portland

In April 2008, Portland filed a general rate case under the *Natural Gas Act of 1938*, in accordance with the terms of its previous settlement approved by the FERC in 2003. The proposed tariffs, which included a rate increase of approximately six per cent, became effective September 1, 2008, subject to refund, in accordance with a FERC order dated May 1, 2008. The rate case hearing is scheduled to begin in July 2009.

Northern Border

Northern Border and its customers reached a settlement in September 2006 that was approved by the FERC in November 2006. The settlement established maximum long-term mileage-based rates and charges for transportation on Northern Border's system. The settlement provided for seasonal rates, which vary on a monthly basis, for short-term transportation services. It also included a three-year moratorium on filing rate cases and on participants filing challenges to rates, and required that Northern Border file a general rate case within six years. Northern Border is required to provide services under negotiated and discounted rates on a non-discriminatory basis.

Regulatory Assets and Liabilities

Regulatory Assets Unrealized losses on derivatives ⁽¹⁾ Foreign exchange on long-term debt principal ⁽²⁾ Deferred income tax on carrying costs capitalized during construction of utility plant ⁽³⁾	67 32 26	106 34	(years)
Unrealized losses on derivatives ⁽¹⁾ Foreign exchange on long-term debt principal ⁽²⁾	32		
Foreign exchange on long-term debt principal ⁽²⁾	32		
		34	1 - 5
Deferred income tax on carrying costs capitalized during construction of utility plant ⁽³⁾	26		21
		20	n/a
Unamortized issue costs on Preferred Securities ⁽⁴⁾	18	19	18
Phase II preliminary expenditures ⁽⁵⁾	16	18	7
Transitional other benefit obligations ⁽⁶⁾	15	16	8
Unamortized post-retirement benefits ⁽⁷⁾	11	13	3 - 5
Operating and debt-service regulatory assets ⁽⁸⁾	-	85	n/a
Other	16	25	n/a
Total Regulatory Assets (Other Assets)	201	336	
Regulatory Liabilities	234	3	1
Operating and debt-service regulatory liabilities ⁽⁸⁾	254	3	I
Foreign exchange gain on redemption of Preferred Securities, net of income tax of	404	150	2
\$10 million (2007 – \$15 million) ⁽⁴⁾	101	150	3
Foreign exchange on long-term debt ⁽⁹⁾	70	266	4 - 21
Post-retirement benefits other than pension ⁽¹⁰⁾	58	38	n/a
Unamortized gains on derivatives ⁽¹⁾	24	n/a	4
Fuel tracker ⁽¹¹⁾	23	29	n/a
Negative salvage ⁽¹²⁾	16	17	n/a
Other	25	22	n/a
Total Regulatory Liabilities (Deferred Amounts)	551	525	

(1) Unrealized gains and losses on derivatives represent the net position of fair value gains and losses on cross-currency and interest-rate swaps, and forward foreign currency contracts, which act as economic hedges. The cross-currency swaps pertain to foreign debt instruments associated with the Canadian Mainline, Foothills and Alberta System. Pre-tax operating results would have been \$63 million higher in 2008 (2007 – \$22 million lower) if these amounts had not been recorded as regulatory assets and liabilities.

(2) The foreign exchange on long-term debt principal account in the Alberta System, as approved by the AUC, is designed to facilitate the recovery or refund of foreign exchange gains and losses over the life of the foreign currency debt issues. Realized gains and losses and estimated net future losses on foreign currency debt are amortized over the remaining years of the longest outstanding U.S. debt issue. The annual amortization amount is included in the determination of tolls for the year. Pre-tax operating results would have been \$2 million lower in 2008 (2007 – \$1 million higher) if these amounts had not been recorded as regulatory assets.

- (3) Rate-regulated accounting allows the capitalization of both equity and interest components for the carrying costs of funds used during the construction of utility assets. The capitalized AFUDC is depreciated as part of the total depreciable plant after the utility assets are placed in service. Equity AFUDC is not subject to income taxes, therefore, a deferred tax provision is recorded with an offset to a corresponding regulatory asset.
- ⁽⁴⁾ In July 2007, the Company redeemed the US\$460-million 8.25 per cent Preferred Securities that underpinned the Canadian Mainline's investment base. Upon redemption of the securities, there was a realized foreign exchange gain that will flow through, net of income tax, to Canadian Mainline's customers over the five years of the current rate case settlement. In addition, the issue costs on the Preferred Securities will be amortized over 20 years beginning January 1, 2007. GAAP would have required the foreign exchange gain and the unamortized issue costs to be included in the operating results of the Canadian Mainline in the year the securities were redeemed if these amounts had not been recorded as regulatory assets. This would have (decreased)/increased 2008 pre-tax operating results by \$(54) million and \$1 million (2007 \$165 million and \$(19) million) related to the foreign exchange gain and issue costs, respectively.
- ⁽⁵⁾ Phase II preliminary expenditures are costs incurred by Foothills prior to 1981 related to development of Canadian facilities to deliver Alaskan gas. These costs have been approved by the regulator for collection through straight-line amortization over the period November 2002 to December 2015. Pre-tax operating results would have been \$2 million higher in 2008 (2007 – \$2 million higher) if these amounts had not been recorded as regulatory assets.

- (6) The regulatory asset with respect to the annual transitional other benefit obligations is being amortized over 17 years to December 2016, at which time the full transitional obligation will have been recovered through tolls. Pre-tax operating results would have been \$1 million higher in 2008 (2007 \$2 million higher) if these amounts had not been recorded as regulatory assets.
- (7) An amount is recovered in ANR's rates for post-retirement benefits other than pensions (PBOP). A curtailment and special termination benefits charge related to PBOP for a closed group of retirees was recorded as a regulatory asset and is being amortized through 2011. Pre-tax operating results would have been \$3 million higher in 2008 (2007 \$3 million higher) if these amounts had not been recorded as regulatory assets.
- (8) Operating and debt-service regulatory assets and liabilities represent the accumulation of cost and revenue variances approved by the regulatory authority for inclusion in determining tolls for the immediate following calendar year. Pre-tax operating results would have been \$316 million higher in 2008 (2007 \$152 million lower) if these amounts had not been recorded as regulatory assets and liabilities.
- (9) Foreign exchange on long-term debt of the Canadian Mainline, Alberta System and Foothills represents the variance resulting from revaluing foreign currency-denominated debt instruments to the current foreign exchange rate from the historic foreign exchange rate. Foreign exchange gains and losses realized when foreign debt matures or is redeemed early are expected to be recovered or refunded through the determination of future tolls. In the absence of rate-regulated accounting, GAAP would have required the inclusion of these unrealized gains or losses either on the balance sheet or income statement depending on whether the foreign debt is designated as a hedge of the Company's net investment in foreign assets.
- ⁽¹⁰⁾ An amount is recovered in ANR's rates for PBOP. This regulatory liability represents the difference between the amount collected in rates and the amount of PBOP expense. No PBOP expense was recorded in 2008 and 2007.
- (11) ANR's tariff stipulates a fuel tracker mechanism to track over- or under-collections of fuel used and gas lost and unaccounted for (collectively, fuel). The fuel tracker represents the difference between the value of 'in-kind' natural gas retained from shippers and the actual amount of natural gas used for fuel by ANR. Any over- or under-collections are returned to or collected from shippers through a prospective annual adjustment to fuel retention rates. A regulatory asset or liability is established for the difference between ANR's actual fuel use and amounts collected through its fuel rates. Pre-tax operating results are not affected by the fuel tracker mechanism.
- (12) ANR collects in its current rates an allowance for negative salvage related to its offshore transmission and gathering facilities. The allowance for negative salvage is collected as a component of depreciation expense and recorded to a negative salvage account within the reserve for accumulated depreciation. Costs associated with the abandonment of offshore transmission and with gathering facilities are recorded against the negative salvage reserve.

As prescribed by regulators, the taxes payable method of accounting for income taxes is used for toll-making purposes on Canadian regulated natural gas transmission operations. As permitted by GAAP at December 31, 2008, this method is also used for accounting purposes. Consequently, future income tax liabilities have not been recognized, as it is expected they will be recovered through future rates when the amounts become payable. In the absence of rate-regulated accounting, GAAP would have required the recognition of future income tax liabilities. If the liability method of accounting had been used, additional future income tax liabilities would have been recorded at December 31, 2008 and would have been recoverable from future revenues. The liability method of accounting is used for both accounting and toll-making purposes for the U.S. natural gas transmission operations. Under this method, future income tax assets and liabilities are recognized based on the differences between financial statement carrying amounts and the tax basis of the assets and liabilities. This method is also used for toll-making purposes for the U.S. natural gas transmission operations. As a result, current year's revenues include a tax provision that is calculated based on the liability method of accounting and there is no recognition of a related regulatory asset or liability. Effective January 1, 2009, the Company will be adopting policies consistent with FAS 71 to account for its rate-regulated pipelines, as discussed in Note 3.

NOTE 15 NON-CONTROLLING INTERESTS

The Company's non-controlling interests included in the consolidated balance sheet were as follows:

December 31 (millions of dollars)	2008	2007
Non-controlling interest in PipeLines LP	721	539
Preferred shares of subsidiary	389	389
Non-controlling interest in Portland	84	71
	1,194	999

The Company's non-controlling interests included in the consolidated income statement are as follows:

Year ended December 31 (millions of dollars)	2008	2007	2006
Non-controlling interest in PipeLines LP	62	65	43
Preferred share dividends of subsidiary	22	22	22
Non-controlling interest in Portland	46	10	13
	130	97	78

The non-controlling interests in PipeLines LP and Portland as at December 31, 2008 represented the 67.9 per cent and 38.3 per cent interest, respectively, not owned by TransCanada (2007 – 67.9 per cent and 38.3 per cent, respectively).

TransCanada received revenues of \$2 million from PipeLines LP in 2008 (2007 – \$2 million; 2006 – \$1 million) and \$7 million from Portland in 2008 (2007 – \$7 million; 2006 – \$6 million) for services it provided.

Preferred Shares of Subsidiary

December 31	Number of Shares	Dividend Rate Per Share	Redemption Price Per Share	2008	2007
	(thousands)			(millions of dollars)	(millions of dollars)
Cumulative First Preferred Shares of Subsidiary					
Series U	4,000	\$2.80	\$50.00	195	195
Series Y	4,000	\$2.80	\$50.00	194	194
			_	389	389

The authorized number of preferred shares of TCPL issuable in series is unlimited. All of the cumulative first preferred shares of TCPL are without par value.

On or after October 15, 2013, TCPL may redeem the Series U shares at \$50 per share and on or after March 5, 2014, TCPL may redeem the Series Y shares at \$50 per share.

NOTE 16 COMMON SHARES

	Number of Shares	Amount
	(thousands)	(millions of dollars)
Outstanding at January 1, 2006	487,236	4,755
Exercise of options	1,739	39
Outstanding at December 31, 2006	488,975	4,794
Issuance of common shares ⁽¹⁾	45,390	1,683
Dividend reinvestment and share purchase plan	4,147	157
Exercise of options	1,253	28
Outstanding at December 31, 2007	539,765	6,662
Issuance of common shares ⁽¹⁾	69,805	2,363
Dividend reinvestment and share purchase plan	5,976	218
Exercise of options	925	21
Outstanding at December 31, 2008	616,471	9,264

⁽¹⁾ Net of underwriting commissions and future income taxes.

Common Shares Issued and Outstanding

The Company is authorized to issue an unlimited number of common shares without par value.

In July 2008, TransCanada filed a final short form base shelf prospectus in Canada and the U.S. to allow for the offering of up to \$3.0 billion of common shares, preferred shares and/or subscription receipts in Canada and the U.S. until August 2010. This shelf prospectus replaced the previous base shelf prospectus filed in January 2007. The Company issued the following equity under the July 2008 prospectus:

• In fourth quarter 2008, TransCanada 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.

In January 2007, TransCanada filed a short form base shelf prospectus in Canada and the U.S. to allow for the offering of up to \$3.0 billion of common shares, preferred shares and/or subscription receipts in Canada and the U.S. until February 2009. The Company issued the following equity under the January 2007 prospectus:

- In first quarter 2007, the Company completed a public offering of common shares at a purchase price of \$38.00 per share. The entire issue of 45.4 million common shares, including the full exercise of a 15 per cent over-allotment option by the underwriters, resulted in gross proceeds of \$1.7 billion.
- In May 2008, TransCanada 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.

Net Income per Share

During the year, the weighted average number of common shares of 569.6 million and 571.5 million (2007 – 529.9 million and 532.5 million; 2006 – 488.0 million and 490.6 million) were used to calculate basic and diluted earnings per share, respectively. The increase in the weighted average number of shares for the diluted earnings per share calculation is due to the options exercisable under TransCanada's Stock Option Plan.

Stock Options

		Weighted	
	Number of	Average	Options
	Options	Exercise Prices	Exercisable
	(thousands)		(thousands)
Outstanding January 1, 2006	8,714	\$22.67	6,300
Granted	1,841	\$34.48	
Exercised	(1,739)	\$21.44	
Forfeited	(17)	\$30.98	
Outstanding at December 31, 2006	8,799	\$25.37	5,888
Granted	1,083	\$38.10	
Exercised	(1,253)	\$22.77	
Forfeited	(20)	\$35.08	
Outstanding at December 31, 2007	8,609	\$27.32	6,118
Granted	872	\$39.75	
Exercised	(925)	\$22.26	
Forfeited	(55)	\$35.23	
Outstanding at December 31, 2008	8,501	\$29.10	6,461
-			

Stock options outstanding at December 31, 2008, were as follows:

	Options Outstanding				Options Exercisable			
- Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life		
	(thousands)		(years)	(thousands)		(years)		
\$10.03 to \$20.58	1,242	\$17.22	1.9	1,242	\$17.22	1.9		
\$20.59 to \$21.86	927	\$21.42	3.1	927	\$21.42	3.1		
\$22.33 to \$24.49	766	\$22.33	1.2	766	\$22.33	1.2		
\$24.61 to \$26.85	971	\$26.84	2.1	971	\$26.84	2.1		
\$30.09 to \$33.08	1,527	\$31.33	3.8	1,314	\$31.04	3.7		
\$35.23	1,106	\$35.23	4.2	854	\$35.23	4.2		
\$36.67 to \$38.10	983	\$38.07	5.1	341	\$38.02	5.1		
\$38.14 to \$39.75	979	\$39.57	6.1	46	\$38.29	5.3		
	8,501	\$29.10	3.4	6,461	\$26.31	3.3		

An additional 4.0 million common shares were reserved for future issuance under TransCanada's Stock Option Plan at December 31, 2008. In 2008, TransCanada issued 871,733 options to purchase common shares at an average price of 39.75 under the Company's Stock Option Plan and the weighted average fair value of each option was determined to be 3.27 (2007 – 4.22; 2006 – 3.53). The Company used the Black-Scholes model for determining the fair value of options granted applying the following weighted average assumptions for 2008: four years of expected life (2007 and 2006 – four years); 1.5 per cent interest rate (2007 and 2006 – 4.1 per cent); 28 per cent volatility (2007 – 15 per cent; 2006 – 14 per cent); and 4.5 per cent dividend yield (2007 – 3.6 per cent; 2006 – 3.7 per cent). The amount expensed for stock options, with a corresponding increase in contributed surplus, was 4 million in 2008 (2007 – 4 million; 2006 – 3 million).

The total intrinsic value of options exercised in 2008 was \$15 million. As at December 31, 2008, the aggregate intrinsic value was \$48 million for each of the total currently exercisable options and the total outstanding options. In 2008, the 1.4 million shares that vested had a fair value of \$45 million.

Shareholder Rights Plan

TransCanada's Shareholder Rights Plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Under certain circumstances, each common share is entitled to one right that entitles certain holders to purchase two common shares of the Company for the price of one.

Dividend Reinvestment and Share Purchase Plan

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 Dividend Reinvestment and Share Purchase Plan (DRP). Under the DRP, eligible shareholders may reinvest their dividends and make optional cash payments to obtain additional TransCanada common shares. 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. The Company reserves the right to alter the discount or return to purchasing shares on the open market at any time. In accordance with the DRP, dividends of \$218 million were paid in 2008 by the issuance from treasury of 6.0 million common shares. In 2007, dividends of \$157 million were paid by the issuance from treasury of 4.1 million common shares. Prior to the April 2007 dividend, TransCanada purchased shares on the open market and provided them to DRP participants at cost.

NOTE 17 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk Management Overview

TransCanada has exposure to market risk, counterparty credit risk, and liquidity risk. TransCanada engages in risk management activities with the primary objective being to protect earnings, cash flow and, ultimately, shareholder value.

Risk management strategies, policies and limits are designed to ensure TransCanada's risks and related exposures are in line with the Company's business objectives and risk tolerance. Risks are managed within limits ultimately established by the Company's Board of Directors, implemented by senior management and monitored by risk management and internal audit personnel. The Board of Directors' Audit Committee oversees how management monitors compliance with risk management policies and procedures, and oversees management's review of the adequacy of the risk management framework. Internal audit personnel assist the Audit Committee in its oversight role by performing regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Board of Directors also has a Governance Committee that assists in overseeing the risk management activities of TransCanada. The Governance Committee monitors, reviews with management and makes recommendations related to TransCanada's risk management programs and policies on an ongoing basis.

Market Risk

The Company constructs and invests in large infrastructure projects, purchases and sells commodities, issues short-term and long-term debt, including amounts in foreign currencies, and invests in foreign operations. These activities expose the Company to market risk from changes in commodity prices, foreign exchange rates and interest rates, which affect the Company's earnings and the value of the financial instruments it holds.

The Company uses derivatives as part of its overall risk management policy to manage exposure to market risk that results from these activities. Derivative contracts used to manage market risk generally consist of the following:

- Forwards and futures contracts contractual agreements to purchase or sell a specific financial instrument or commodity at a specified price and date in the future. TransCanada enters into foreign exchange and commodity forwards and futures to mitigate the impact of volatility in foreign exchange rates and commodity prices.
- Swaps contractual agreements between two parties to exchange streams of payments over time according to specified terms. The Company enters into interest rate, cross-currency and commodity swaps to mitigate the impact of changes in interest rates, foreign exchange rates and commodity prices.
- Options contractual agreements to convey the right, but not the obligation, of the purchaser to buy or sell a specific amount of a financial instrument or commodity at a fixed price, either at a fixed date or at any time within a specified period. The Company enters into option agreements to mitigate the impact of changes in interest rates, foreign exchange rates and commodity prices.

Commodity Price Risk

The Company is exposed to commodity price movements as part of its normal business operations, particularly in relation to the prices of electricity, natural gas and oil products. A number of strategies are used to mitigate these exposures, including the following:

- Subject to the Company's overall risk management policies, the Company commits a significant portion of its expected power supply to fixed-price medium-term or long-term sales contracts, while reserving an amount of unsold supply to mitigate price risk in its asset portfolio.
- The Company purchases a portion of the natural gas and oil products required for its power plants or enters into contracts that base the sales price of electricity on the cost of natural gas, effectively locking in a margin. A significant portion of the electricity needed to fulfill the Company's power sales commitments is purchased with contracts or fulfilled through power generation, thereby reducing the Company's exposure to fluctuating commodity prices.
- The Company enters into offsetting or back-to-back positions and derivative financial instruments to manage price risk exposure in power and natural gas commodities created by certain fixed and variable pricing arrangements for different pricing indices and delivery points.

The Company assesses its commodity contracts and derivative instruments used to manage commodity risk to determine the appropriate accounting treatment. Contracts, with the exception of leases, have been assessed to determine whether they or certain aspects of them meet the definition of a derivative. Certain commodity purchase and sale contracts are derivatives but are not within the scope of CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement", as they were entered into and continue to be held for the purpose of receipt or delivery in accordance with the Company's expected purchase, sale or usage requirements exemption. Certain other contracts are not within the scope of Section 3855 as they are considered to meet other exemptions.

TransCanada manages its exposure to seasonal natural gas price spreads in its natural gas storage business by economically hedging storage capacity with a portfolio of third-party storage capacity contracts and proprietary natural gas purchases and sales. TransCanada simultaneously enters into a forward purchase of natural gas for injection into storage and an offsetting forward sale of natural gas for withdrawal at a later period, thereby locking in future positive margins and effectively eliminating exposure to price movements of natural gas. Fair value adjustments recorded each period on proprietary natural gas storage inventory and these forward contracts may not be representative of the amounts that will be realized on settlement.

Natural Gas Inventory Price Risk

At December 31, 2008, \$76 million (2007 - \$190 million) of proprietary natural gas inventory was included in Inventories. Effective April 2007, TransCanada began valuing its proprietary natural gas inventory held in storage at fair value, as measured by the one-month forward price for natural gas less selling costs. The Company did not have any proprietary natural gas inventory held in storage prior to April 2007. In 2008, the net change in fair value of proprietary natural gas held in inventory was a net unrealized loss of \$7 million (2007 - nil), which was recorded as a decrease to Revenue and Inventory. In 2008, the net change in fair value of natural gas forward purchases and sales contracts was a net unrealized gain of \$7 million (2007 - \$10 million) which was included in Revenues.

Foreign Exchange and Interest Rate Risk

Foreign exchange and interest rate risk is created by fluctuations in the fair value or cash flow of financial instruments due to changes in foreign exchange rates and/or market interest rates.

A portion of TransCanada's earnings from its Pipelines and Energy operations is generated in U.S. dollars and is subject to currency fluctuations. The performance of the Canadian dollar relative to the U.S. dollar can affect TransCanada's earnings. This foreign exchange impact is offset by certain related debt and financing costs being denominated in U.S. dollars and by the Company's hedging activities. Due to its increased U.S. operations, TransCanada has a greater exposure to U.S. currency fluctuations than in prior years.

The Company uses foreign currency and interest rate derivatives to manage the foreign exchange and interest rate risks related to its debt and other U.S. dollar-denominated transactions, and to manage the interest rate exposure of the Canadian Mainline, Alberta System and Foothills operations. Certain of the realized gains and losses on these derivatives are shared with shippers on predetermined terms. These gains and losses are deferred as regulatory assets and liabilities until they are recovered from or paid to the shippers in accordance with the terms of the shipping agreements.

TransCanada has floating interest rate debt, which subjects it to interest rate cash flow risk. The Company uses a combination of forwards, interest rate swaps and options to manage its exposure to this risk.

Net Investment in Self-Sustaining Foreign Operations

The Company hedges its net investment in self-sustaining foreign operations (on an after-tax basis) with U.S. dollar-denominated debt, forward foreign exchange contracts, cross-currency interest rate swaps and foreign exchange options. At December 31, 2008, the Company had designated as a net investment hedge U.S. dollar-denominated debt with a carrying value of \$7.2 billion (US\$5.9 billion) (2007 – \$4.7 billion (US\$4.7 billion)) and a fair value of \$5.9 billion (US\$4.8 billion) (2007 – \$4.8 billion (US\$4.8 billion)). In January 2009, the Company issued an additional US\$2.0 billion of long-term debt and designated it as a hedge of the net U.S. dollar investment in foreign operations. At December 31, 2008, \$254 million was included in Deferred Amounts for the fair value of the forwards, swaps and options used to hedge the Company's net U.S. dollar investment in foreign operations.

The fair values and notional or principal amount for the derivatives designated as a net investment hedge were as follows:

	200	8	2007	
Asset/(Liability) December 31 (millions of dollars)	Fair Value	Notional or Principal Amount	Fair Value	Notional or Principal Amount
U.S. dollar cross-currency swaps (maturing 2009 to 2014) U.S. dollar forward foreign exchange contracts	(218)	U.S. 1,650	77	U.S. 350
(maturing 2009) U.S. dollar options	(42)	U.S. 2,152	(4)	U.S. 150
(maturing 2009)	6	U.S. 300	3	U.S. 600
	(254)	U.S. 4,102	76	U.S. 1,100

VaR Analysis

TransCanada uses a Value-at-Risk (VaR) methodology to estimate the potential impact resulting from its exposure to market risk. VaR estimates the potential change in pre-tax earnings over a given holding period for a specified confidence level. The VaR number calculated and used by TransCanada reflects the 95 per cent probability that the daily change resulting from normal market fluctuations in its liquid positions will not exceed the reported VaR. The VaR methodology is a statistically-calculated, probability-based approach that takes into consideration market volatilities as well as risk diversification by recognizing offsetting positions and correlations among products and markets. Risks are measured across all products and markets, and risk measures are aggregated to arrive at a single VaR number.

There is currently no uniform industry methodology for estimating VaR. The use of VaR has limitations because it is based on historical correlations and volatilities in commodity prices, interest rates and foreign exchange rates, and assumes that future price movements will follow a statistical distribution. Although losses are not expected to exceed the statistically estimated VaR on 95 per cent of occasions, losses on the other five per cent of occasions could be substantially greater than the estimated VaR.

TransCanada's estimation of VaR includes wholly owned subsidiaries and incorporates relevant risks associated with each market or business unit. The calculation does not include the Pipelines segment as the rate-regulated nature of the pipeline business reduces the impact of market risks. The Company's Board of Directors has established a VaR limit, which is monitored on an ongoing basis as part of the Company's risk management policy. TransCanada's consolidated VaR was \$23 million at December 31, 2008 (2007 – \$8 million). The increase from December 31, 2007 was primarily due to the Ravenswood acquisition.

Counterparty Credit Risk

Counterparty credit risk represents the financial loss the Company would experience if a counterparty to a financial instrument failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company.

Counterparty credit risk is managed through established credit management techniques, including conducting financial and other assessments to establish and monitor a counterparty's creditworthiness, setting exposure limits, monitoring exposures against these limits, using master netting arrangements and obtaining financial assurances where warranted. In general, financial assurances include guarantees, letters of credit and cash. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis. The Company believes these measures minimize its counterparty credit risk but there is no certainty that these processes will protect it against all losses.

TransCanada's maximum counterparty credit exposure with respect to financial instruments at the balance sheet date consisted primarily of the carrying amount, which approximates fair value, of non-derivative financial assets, such as accounts receivable, as well as the fair value of derivative financial assets.

The Company does not have significant concentrations of counterparty credit risk with any individual counterparties and the majority of counterparty credit exposure is with counterparties who are investment grade. At December 31, 2008, there were no significant amounts past due or impaired.

TransCanada has significant credit and performance exposures to financial institutions as they provide committed credit lines and cash deposit facilities, critical liquidity in the foreign exchange derivative, interest rate derivative and energy wholesale markets, and letters of credit to mitigate TransCanada's exposure to non-credit worthy counterparties.

During the deterioration of global financial markets in 2008, TransCanada continued to closely monitor and reassess the creditworthiness of its counterparties, including financial institutions. This has resulted in TransCanada reducing or mitigating its exposure to certain counterparties where it is deemed warranted and permitted under contractual terms. As part of its ongoing operations, TransCanada must balance its market risk and counterparty credit risk when making business decisions.

Certain subsidiaries of Calpine Corporation (Calpine) filed for bankruptcy protection in both Canada and the U.S. in 2005. Gas Transmission Northwest Corporation (GTNC) and Portland Natural Gas Transmission System (PNGTS) reached agreements with Calpine for allowed unsecured claims in the Calpine bankruptcy. In February 2008, GTNC and PNGTS received initial distributions of 9.4 million common shares and 6.1 million common shares of Calpine, respectively, which represented approximately 85 per cent of their agreed-upon claims. In 2008, these shares were subsequently sold into the open market and resulted in total pre-tax gains of \$279 million. Claims by NGTL and Foothills Pipe Lines (South B.C.) Ltd. for \$32 million and \$44 million, respectively, were received in cash in January 2008 and will be passed on to shippers on these systems. At December 31, 2008, \$22 million remained in regulatory liabilities for these claims.

Liquidity Risk

Liquidity risk is the risk that TransCanada will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that, under both normal and stressed conditions, it always has sufficient cash and credit facilities to meet its obligations when due, without incurring unacceptable losses or damage to the Company's reputation.

Management forecasts cash flows for a period of 12 months to identify financing requirements. These requirements are then managed through a combination of committed and demand credit facilities and access to capital markets, as discussed under the heading Capital Management in this note.

At December 31, 2008, the Company had 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. As of December 31, 2008, no draws were made on these facilities as the Company has continued to have largely uninterrupted access to the Canadian commercial paper market on competitive terms. In January 2009, TransCanada filed a new US\$3.0 billion debt shelf in the U.S. to supplement the \$1.8 billion and \$1.0 billion of capacity available under its existing equity and Canadian debt shelves, respectively. The Company has US\$1.0 billion of capacity remaining available under its January 2009 U.S. debt shelf.

The following tables detail the remaining contractual maturities for TransCanada's non-derivative financial liabilities, including both the principal and interest cash flows at December 31, 2008:

Contractual Repayments of Financial Liabilities⁽¹⁾

		Payments Due by Period				
(millions of dollars)	Total	2009	2010 and 2011	2012 and 2013	2014 and Thereafter	
Notes payable Long-term debt and junior subordinated notes Long-term debt of joint ventures	1,702 17,367 1,076	1,702 786 207	_ 1,545 270	_ 2,550 172	_ 12,486 427	
Total contractual repayments	20,145	2,695	1,815	2,722	12,913	

⁽¹⁾ The anticipated timing of settlement of derivative contracts is presented in the Derivatives Financial Instrument Summary in this Note.

Interest Payments on Financial Liabilities

		Payments Due by Period				
(millions of dollars)	Total	2009	2010 and 2011	2012 and 2013	2014 and Thereafter	
Long-term debt and junior subordinated notes Long-term debt of joint ventures	15,170 328	1,150 61	2,151 76	1,950 56	9,919 135	
Total interest payments	15,498	1,211	2,227	2,006	10,054	

Capital Management

The primary objective of capital management is to ensure TransCanada has strong credit ratings to support its businesses and maximize shareholder value. In 2008, this overall objective and policy for managing capital remained unchanged from the prior year.

TransCanada manages its capital structure in a manner consistent with the risk characteristics of the underlying assets. The Company's management considers its capital structure to consist of net debt, Non-Controlling Interests and Shareholders' Equity. Net debt is comprised of Notes Payable, Long-Term Debt and Junior Subordinated Notes less Cash and Cash Equivalents. Net debt only includes obligations that the Company controls and manages. Consequently, it does not include Cash and Cash Equivalents, Notes Payable and Long-Term Debt of TransCanada's joint ventures.

The capital structure at December 31 was as follows:

(millions of dollars)	2008	2007
Notes payable	1,685	407
Long-term debt	16,154	12,933
Junior subordinated notes	1,213	975
Cash and cash equivalents	(1,117)	(333)
Net debt	17,935	13,982
Non-controlling interests	1,194	999
Shareholders' equity	12,898	9,785
Total equity	14,092	10,784
Total capital	32,027	24,766

Fair Values

The fair value of financial instruments included in Cash and Cash Equivalents, Accounts Receivable, Other Assets, Notes Payable, Accounts Payable, Accrued Interest and Deferred Amounts approximates their carrying amounts due to the nature of the item and/or the short time to maturity. The fair value of foreign exchange and interest rate derivatives has been calculated using year-end market rates. The fair value of power, natural gas and oil products derivatives has been calculated using quoted market prices where available. In the absence of quoted market prices, third-party broker quotes are used. Credit risk has been taken into consideration when calculating fair values.

Valuation techniques that refer to observable market data or estimated market prices may also be used to calculate fair value. These include comparisons with similar instruments that have observable market prices, option pricing models and other valuation techniques commonly used by market participants. Fair values determined using valuation models require the use of assumptions about the amount and timing of estimated future cash flows and discount rates. In making these assumptions, the Company looks primarily to readily observable external market input factors such as interest rate yield curves, currency rates and price and rate volatilities, as applicable.

The fair value of the Company's Long-Term Debt was estimated based on quoted market prices for the same or similar debt instruments and, when such information was not available, was estimated by discounting future payments of interest and principal at estimated interest rates that were made available to the Company.

Fair Value of Long-Term Debt and Other Long-Term Securities

The carrying and fair values of long-term debt and other long-term securities were as follows:

	2008		2007	
December 31 (millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt				
TransCanada PipeLines Limited ⁽¹⁾	11,389	10,583	8,519	9,400
NOVA Gas Transmission Ltd.	1,437	1,534	1,508	1,877
TransCanada PipeLine USA Ltd.	857	857	850	850
ANR Pipeline Company	541	570	435	573
Gas Transmission Northwest Corporation	488	393	399	383
TC PipeLines, LP	580	580	499	499
Great Lakes Gas Transmission Limited Partnership	526	496	434	519
Tuscarora Gas Transmission Company	78	80	67	81
Portland Natural Gas Transmission System	236	220	205	214
Other	22	24	17	24
	16,154	15,337	12,933	14,420
Junior Subordinated Notes	1,213	815	975	914
	17,367	16,152	13,908	15,334
Long-Term Debt of Joint Ventures				
Northern Border Pipeline Company	391	391	311	329
Iroquois Gas Transmission System, L.P.	195	181	169	180
Bruce Power L.P. and Bruce Power A L.P.	330	318	243	243
Trans Québec & Maritimes Pipeline Inc.	155	157	165	169
Other	5	5	15	16
	1,076	1,052	903	937
	18,443	17,204	14,811	16,271

⁽¹⁾ At December 31, 2008, the carrying amount of Long-Term Debt included \$15 million (2007 – \$15 million) for fair value adjustments related to swap agreements on \$50 million (2007 – \$150 million) and US\$200 million (2007 – US\$200 million) of this debt.

Non-Derivative Financial Instruments Summary

The carrying and fair values of non-derivative financial instruments were as follows:

	2008	2007		
December 31 (millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets ⁽¹⁾				
Cash and cash equivalents	1,308	1,308	504	504
Accounts receivable and other assets ⁽²⁾⁽³⁾	1,404	1,404	1,231	1,231
Available-for-sale assets ⁽²⁾	27	27	17	17
	2,739	2,739	1,752	1,752
Financial Liabilities ⁽¹⁾⁽³⁾				
Notes payable	1,702	1,702	421	421
Accounts payable and deferred amounts ⁽⁴⁾	1,372	1,372	1,193	1,193
Accrued interest	359	359	261	261
Long-term debt and junior subordinated notes	17,367	16,152	13,908	15,334
Long-term debt of joint ventures	1,076	1,052	903	937
Other long-term liabilities of joint ventures ⁽⁴⁾	_	-	60	60
	21,876	20,637	16,746	18,206

⁽¹⁾ Consolidated Net Income in 2008 and 2007 included unrealized gains or losses of nil for the fair value adjustments to each of these financial instruments.

(2) At December 31, 2008, the Consolidated Balance Sheet included financial assets of \$1,257 million (2007 – \$1,018 million) in Accounts Receivable and \$174 million (2007 – \$230 million) in Other Assets.

⁽³⁾ Recorded at amortized cost, except for certain Long-Term Debt which is adjusted to fair value.

(4) At December 31, 2008, the Consolidated Balance Sheet included financial liabilities of \$1,350 million (2007 – \$1,175 million) in Accounts Payable and \$22 million (2007 – \$78 million) in Deferred Amounts.

Derivative Financial Instruments Summary

Information for the Company's derivative financial instruments is as follows:

			2008		
December 31 (all amounts in millions unless otherwise indicated)	Power	Natural Gas	Oil Products	Foreign Exchange	Interest
Derivative Financial Instruments Held					
for Trading					
Fair Values ⁽¹⁾		****			
Assets	\$132	\$144	\$10	\$41	\$57
Liabilities	\$(82)	\$(150)	\$(10)	\$(55)	\$(117)
Notional Values					
Volumes ⁽²⁾	4 0 2 5	470	440		
Purchases	4,035	172	410	-	-
Sales	5,491	162	252	-	-
Canadian dollars U.S. dollars	-	-	-	-	1,016
	-	-	-	U.S. 479 JPY 4.3	U.S. 1,575
Japanese yen (in billions)	-	-	_	227/U.S. 157	-
Cross-currency	_ \$24	- ())	- ¢1		- ¢(C1)
Net unrealized gains/(losses) in the year ⁽³⁾ Net realized gains/(losses) in the year ⁽³⁾	\$24 \$23	\$(23) \$(2)	\$1 \$1	\$(9) \$6	\$(61) \$13
Maturity dates	عد 2009-2014	(2) 2009-2011	تة 2009	ە ت 2009-2012	۵۱۵ 2009-2018
Maturity dates	2009-2014	2009-2011	2009	2009-2012	2009-2018
Derivative Financial Instruments in Hedging					
Relationships ⁽⁴⁾⁽⁵⁾					
Fair Values ⁽¹⁾					
Assets	\$115	\$-	\$ -	\$2	\$8
Liabilities	\$(160)	\$(18)	\$-	\$(24)	\$(122)
Notional Values					
Volumes ⁽²⁾					
Purchases	8,926	9	-	-	-
Sales	13,113	-	-	-	_
Canadian dollars	-	-	-	-	50
U.S. dollars	-	-	-	U.S. 15	U.S. 1,475
Cross-currency	- ((CC)	- 645	-	136/U.S. 100	-
Net realized (losses)/gains in the year ⁽³⁾	\$(56) 2009-2014	\$15 2009-2011	\$-	\$- 2009-2013	\$(10) 2009-2019
Maturity dates	2009-2014	2009-2011	-	2009-2013	2009-2019

⁽¹⁾ Fair value is equal to the carrying value of these derivatives.

⁽²⁾ Volumes for power, natural gas and oil products derivatives are in gigawatt hours, billion cubic feet and thousands of barrels, respectively.

(3) All power, natural gas and oil products realized and unrealized gains and losses are included in Revenues. All interest rate and foreign exchange realized and unrealized gains and losses are included in Financial Charges and Interest Income and Other, respectively. Realized gains and losses are included in Net Income upon settlement of the financial instrument.

(4) All hedging relationships are designated as cash flow hedges except for interest-rate derivative financial instruments designated as fair value hedges with a fair value of \$8 million. In 2008, the Company did not record any amounts in Net Income related to ineffectiveness for fair value hedges.

⁽⁵⁾ In 2008, Net Income included losses of \$6 million for the changes in fair value of power and natural gas cash flow hedges that were ineffective in offsetting the change in fair value of their related underlying positions. In 2008, there were no gains or losses included in Net Income for discontinued cash flow hedges.

The anticipated timing of settlement of the derivative contracts assumes no changes in commodity prices, interest rates and foreign exchange rates from December 31, 2008. Actual settlements will vary based on changes in these factors. The anticipated timing of settlement of these contracts is as follows:

(millions of dollars)	Total	2009	2010 and 2011	2012 and 2013	2014 and Thereafter
Derivative financial instruments held for trading Derivative financial instruments in hedging relationships	(30) (199)	38 (68)	(46) (65)	(14) (43)	(8) (23)
	(229)	(30)	(111)	(57)	(31)

Derivative Financial Instruments Summary

Information for the Company's derivative financial instruments is as follows:

	2007						
December 31		Natural	Foreign				
(all amounts in millions unless otherwise indicated)	Power	Gas	Exchange	Interest			
Derivative Financial Instruments Held for Trading							
Fair Values ⁽¹⁾							
Assets	\$55	\$43	\$11	\$23			
Liabilities	\$(44)	\$(19)	\$(79)	\$(18)			
Notional Values							
Volumes ⁽²⁾							
Purchases	3,774	47	-	-			
Sales	4,469	64	-	-			
Canadian dollars	-	-	-	615			
U.S. dollars	-	-	U.S. 484	U.S. 550			
Japanese yen (in billions)	-	-	JPY 9.7	-			
Cross-currency	-	-	227/U.S. 157	-			
Net unrealized gains/(losses) in the year ⁽³⁾	\$16	\$(10)	\$8	\$(5)			
Net realized(losses)/gains in the year ⁽³⁾	\$(8)	\$47	\$39	\$5			
Maturity dates	2008-2016	2008-2010	2008-2012	2008-2016			
Derivative Financial Instruments in Hedging							
Relationships ⁽⁴⁾⁽⁵⁾							
Fair Values ⁽¹⁾							
Assets	\$135	\$19	\$-	\$2			
Liabilities	\$(104)	\$(7)	\$(62)	\$(16)			
Notional Values							
Volumes ⁽²⁾							
Purchases	7,362	28	-	-			
Sales	16,367	4	-	-			
Canadian dollars	-	-	-	150			
U.S. dollars	-	-	U.S. 113	U.S. 875			
Cross-currency	-	-	136/U.S. 100	-			
Net realized (losses)/gains in the year ⁽³⁾	\$(29)	\$18	\$-	\$3			
Maturity dates	2008-2013	2008-2010	2008-2013	2008-2013			

⁽¹⁾ Fair value is equal to the carrying value of these derivatives.

⁽²⁾ Volumes for power and natural gas derivatives are in gigawatt hours and billion cubic feet, respectively.

(3) All power and natural gas realized and unrealized gains and losses are included in Revenues. All interest rate and foreign exchange realized and unrealized gains and losses are included in Financial Charges and Interest Income and Other, respectively. Realized gains and losses are included in Net Income upon settlement of the financial instrument.

(4) All hedging relationships are designated as cash flow hedges except for interest rate derivative financial instruments designated as fair value hedges with a fair value of \$2 million. In 2007, the Company did not record any amounts in Net Income related to ineffectiveness for fair value hedges.

⁽⁵⁾ In 2007, Net Income included gains of \$7 million for the changes in fair value of power and natural gas cash flow hedges that were ineffective in offsetting the change in fair value of their related underlying positions. In 2007, Net Income included a loss of \$4 million for the changes in fair value of an interest-rate cash flow hedge that was reclassified as a result of discontinuance of cash flow hedge accounting when the anticipated transaction was not likely to occur by the end of the originally specified time period.

Balance Sheet Presentation of Derivative Financial Instruments

The fair value of the derivative financial instruments in the Company's Balance Sheet was as follows:

December 31 (millions of dollars)	2008	2007
Current Other current assets Accounts payable	318 (298)	160 (144)
Long-term Other assets Deferred amounts	191 (694)	204 (205)

Derivative Financial Instruments of Joint Ventures

Included in the Balance Sheet Presentation of Derivative Financial Instruments table above are amounts related to power derivatives used by one of the Company's joint ventures to manage commodity price risk. The Company's proportionate share of the fair value of these power sales derivatives was \$75 million at December 31, 2008 (2007 – \$75 million). These contracts mature from 2009 to 2014. The Company's proportionate share of the notional sales volumes of power associated with this exposure was 7,600 gigawatt hours (GWh) at December 31, 2008 (2007 – 7,300 GWh). The Company's proportionate share of the notional purchased volumes of power associated with this exposure was 47 GWh at December 31, 2008 (2007 – 50 GWh).

NOTE 18 INCOME TAXES

Provision for Income Taxes

Year ended December 31 (millions of dollars)	2008	2007	2006
Current			
Canada	383	367	264
Foreign	143	65	37
	526	432	301
Future			
Canada	(1)	12	104
Foreign	77	46	71
	76	58	175
	602	490	476

Geographic Components of Income

Year ended December 31 (millions of dollars)	2008	2007	2006
Canada Foreign	1,234 938	1,228 582	1,161 444
Income from continuing operations before income taxes and non-controlling interests	2,172	1,810	1,605

Reconciliation of Income Tax Expense

Year ended December 31 (millions of dollars)	2008	2007	2006
Income from continuing operations before income taxes and non-controlling interests	2,172	1,810	1,605
Federal and provincial statutory tax rate	29.5%	32.1%	32.5%
Expected income tax expense	641	581	522
Income tax differential related to regulated operations	44	69	72
Lower effective foreign tax rates	(5)	(39)	n/a
Tax rate and legislated changes	-	(72)	(33)
Income from equity investments and non-controlling interests	(45)	(34)	(27)
Change in valuation allowance	(9)	-	-
Other ⁽¹⁾	(24)	(15)	(58)
Actual income tax expense	602	490	476

(1) Includes net income tax benefits of \$5 million recorded in 2008 (\$2007 - \$13 million; 2006 - \$51 million) on the resolution of certain income tax matters with taxation authorities and changes in estimates.

Future Income Tax Assets and Liabilities

December 31 (millions of dollars)	2008	2007
Deferred amounts	119	43
Other post-employment benefits	69	57
Unrealized losses on derivatives	62	22
Unrealized foreign exchange losses on long-term debt	77	n/a
Non-capital loss carryforwards	24	n/a
Other	137	77
	488	199
Less: valuation allowance ⁽¹⁾	77	13
Future income tax assets, net of valuation allowance	411	186
Difference in accounting and tax bases of plant, equipment and PPAs	1,464	1,073
Investments in subsidiaries and partnerships	28	61
Pension benefits	55	50
Unrealized foreign exchange gains on long-term debt	14	110
Unrealized gains on derivatives	19	27
Other	54	44
Future income tax liabilities	1,634	1,365
Net future income tax liabilities	1,223	1,179

⁽¹⁾ A valuation allowance was recorded in 2008 as there is no virtual certainty that the Company will realize the tax benefit related to the unrealized foreign exchange losses on long-term debt in the future.

Unremitted Earnings of Foreign Investments

Income taxes have not been provided on the unremitted earnings of foreign investments that the Company does not intend to repatriate in the foreseeable future. Future income tax liabilities would have increased by approximately \$102 million at December 31, 2008 (2007 – \$72 million) if there had been a provision for these taxes.

Income Tax Payments

Income tax payments of \$491 million were made during the year ended December 31, 2008 (2007 - \$442 million; 2006 - \$494 million).

NOTE 19 NOTES PAYABLE

	200	3	2007	
	Outstanding December 31	Weighted Average Interest Rate Per Annum at December 31	Outstanding December 31	Weighted Average Interest Rate Per Annum at December 31
	(millions of dollars)		(millions of dollars)	
Canadian dollars U.S. dollars (2008 – US\$369; 2007 – US\$370)	1,250 452 1,702	1.8% 3.3%	55 <u>366</u> 421	5.0% 5.5%

Notes payable consists of commercial paper outstanding and drawings on bridge and line-of-credit facilities. Unsecured revolving and demand credit facilities totaled \$4.2 billion at December 31, 2008 to support the Company's commercial paper program and for general corporate purposes. These credit facilities included the following:

- a \$2.0 billion committed, syndicated, revolving credit facility maturing December 2012, which was fully available at December 31, 2008. The cost to maintain the credit facility was \$2 million in 2008 (2007 \$2 million).
- a US\$300 million syndicated, revolving facility, maturing February 2013, which was fully available at December 31, 2008. This facility is part of the US\$1.0 billion committed, unsecured TransCanada PipeLine USA Ltd. credit facility established in February 2007.
- a US\$1.0 billion committed, extendible, expandable, revolving, unsecured, one-year agreement executed by TransCanada Keystone Pipeline L.P. in fourth quarter 2008 with a syndicate of banks, bearing interest at a floating rate, based on the greater of bank prime interest rates and LIBOR, plus a margin of not less than one per cent and not more than three per cent on revolving loans and not less than three per cent and not more than 6.5 per cent if drawn as a term loan. The agreement is extendible at the option of the Keystone partnership for an additional one-year term. As at December 31, 2008, this facility was fully available. This US\$1.0 billion agreement is guaranteed by TransCanada.
- demand lines totaling \$611 million, which support the issuance of letters of credit and provide additional liquidity. The Company had used approximately \$433 million of its total lines of credit for letters of credit at December 31, 2008. When drawn, interest on the lines of credit is charged at prime rates of Canadian chartered and U.S. banks, and at other negotiated financial bases.

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 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 and cancelled the remainder of the commitment. At December 31, 2008, US\$255 million remained outstanding on the facility.

In February 2007, the Company established a US\$2.2 billion committed, unsecured one-year bridge facility and utilized \$1.5 billion and US\$700 million to partially finance the acquisition of ANR and an increased ownership in Great Lakes. The facility had a floating interest rate based on the one-month LIBOR plus 25 basis points. The outstanding balance at December 31, 2007 of US\$370 million was repaid on January 7, 2008. The undrawn balance of this facility has been cancelled and is no longer available to the Company.

NOTE 20 ASSET RETIREMENT OBLIGATIONS

The estimated undiscounted cash flows required to settle the asset retirement obligations with respect to the regulated and non-regulated operations in the Pipelines segment were \$69 million at December 31, 2008 (2007 – \$65 million), calculated using an inflation rate ranging from two per cent to four per cent per annum. The estimated fair value of these liabilities was \$31 million at December 31, 2008 (2007 – \$25 million) after discounting the estimated cash flows at rates ranging from 5.4 per cent to 8.0 per cent. At December 31, 2008, the expected timing of payment for settlement of the obligations ranged from one year to 27 years. Management believes it is reasonable to assume that all retirement costs associated with its regulated pipelines will be recovered through future tolls and, therefore, typically only records asset retirement obligations for its non-regulated pipelines.

The estimated undiscounted cash flows required to settle the asset retirement obligations with respect to the Energy segment were \$427 million at December 31, 2008 (2007 – \$216 million), calculated using an inflation rate ranging from two per cent to three per cent per annum. The estimated fair value of this liability was \$85 million at December 31, 2008 (2007 – \$63 million), after discounting the estimated cash flows at rates ranging from 5.4 per cent to 8.0 per cent. At December 31, 2008, the expected timing of payment for settlement of the obligations ranged from 10 years to 33 years.

Reconciliation of Asset Retirement Obligations⁽¹⁾

(millions of dollars)	Pipelines	Energy	Total
Balance at January 1, 2006	4	29	33
New obligations and revisions in estimated cash flows	4	6	10
Accretion expense	1	1	2
Balance at December 31, 2006	9	36	45
New obligations and revisions in estimated cash flows	14	25	39
Accretion expense	2	2	4
Balance at December 31, 2007	25	63	88
New obligations and revisions in estimated cash flows	4	18	22
Accretion expense	2	4	6
Balance at December 31, 2008	31	85	116

⁽¹⁾ At December 31, 2008, Asset Retirement Obligations totalling \$114 million (2007 – \$88 million) and \$2 million (2007 – nil) were included in Deferred Amounts and Accounts Payable, respectively.

NOTE 21 EMPLOYEE FUTURE BENEFITS

The Company sponsors DB Plans that cover substantially all employees. Pension benefits provided under the DB Plans are based on years of service and highest average earnings over three consecutive years of employment, and increase annually in the Canadian pension plan by a portion of the increase in the Consumer Price Index (CPI). Past service costs are amortized over the expected average remaining service life of employees, which is approximately nine years.

Effective January 1, 2008, the Company also provides its employees with a Savings Plan in Canada, a 401(k) Plan in the U.S. and post-employment benefits other than pensions, including termination benefits and defined life insurance and medical benefits beyond those provided by government-sponsored plans. Past service costs are amortized over the expected average remaining life expectancy of former employees, which was approximately 11 years at December 31, 2008. Contributions to the Savings Plan and 401(k) Plan are expensed as incurred.

Total cash payments for employee future benefits, consisting of cash contributed by the Company to the DB Plans and other benefit plans, was \$90 million in 2008 (2007 – \$61 million; 2006 – \$104 million), including \$21 million in 2008 (2007 – \$8 million; 2006 – \$2 million) related to retirement savings plans.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as at January 1, 2009, and the next required valuation will be as at January 1, 2010.

	Pension Bene	Pension Benefit Plans		Other Benefit Plans	
millions of dollars)	2008	2007	2008	2007	
Change in Benefit Obligation					
Benefit obligation – beginning of year	1,462	1,378	155	132	
Current service cost	52	45	2	2	
Interest cost	80	73	8	7	
Employee contributions	3	4	1	-	
Benefits paid	(68)	(65)	(8)	(7)	
Actuarial (gain)/loss	(261)	(22)	(21)	8	
Foreign exchange rate changes	35	(16)	10	(6)	
Plan amendment	-	-	(11)	-	
Acquisition	29	65	8	19	
Benefit obligation – end of year	1,332	1,462	144	155	
Change in Plan Assets					
Plan assets at fair value – beginning of year	1,358	1,264	30	33	
Actual return on plan assets	(222)	33	(10)	2	
Employer contributions	62	46	7	7	
Employee contributions	3	4	1	_	
Benefits paid	(68)	(65)	(8)	(7)	
Foreign exchange rate changes	32	(17)	6	(5)	
Acquisition	28	93	-	-	
Plan assets at fair value – end of year	1,193	1,358	26	30	
Funded status – plan deficit	(139)	(104)	(118)	(125)	
Unamortized net actuarial loss	340	299	33	44	
Unamortized past service costs	25	28	(1)	7	
Accrued benefit asset/(liability), net of valuation allowance of nil	226	223	(86)	(74)	

The accrued benefit asset/(liability) net of valuation allowance of nil in the Company's balance sheet was as follows:

	Pension Be	Pension Benefit Plans		t Plans
(millions of dollars)	2008	2007	2008	2007
Other Assets	226	223	-	5
Deferred Amounts	-	-	(86)	(79)
Total	226	223	(86)	(74)

Included in the above benefit obligation and fair value of plan assets at December 31 were the following amounts for plans that are not fully funded:

	Pension Benefit Plans		Other Benefit Plans	
(millions of dollars)	2008	2007	2008	2007
Benefit obligation Plan assets at fair value	(1,317) 1,178	(1,324) 1,198	(144) 26	(155) 30
Funded status – plan deficit	(139)	(126)	(118)	(125)

The Company's expected contributions in 2009 are approximately \$140 million for the pension benefit plans and approximately \$27 million for the other benefit plans.

The following are estimated future benefit payments, which reflect expected future service:

(millions of dollars)	Pension Benefits	Other Benefits
2009	77	8
2010	81	9
2011	84	9
2012	88	10
2013	91	10
2014 to 2018	510	59

The significant weighted average actuarial assumptions adopted in measuring the Company's benefit obligations at December 31 were as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2008	2007	2008	2007
Discount rate	6.65%	5.30%	6.50%	5.50%
Rate of compensation increase	3.65%	3.50%		

The significant weighted average actuarial assumptions adopted in measuring the Company's net benefit plan cost for years ended December 31 were as follows:

	Pension Benefit Plans		Other Benefit Plans			
	2008	2007	2006	2008	2007	2006
Discount rate	5.30%	5.05%	5.00%	5.50%	5.20%	5.15%
Expected long-term rate of return on plan assets	6.95%	6.90%	6.90%	7.75%	7.75%	7.75%
Rate of compensation increase	3.60%	3.50%	3.50%			

The overall expected long-term rate of return on plan assets is based on historical and projected rates of return for the portfolio in aggregate and for each asset class in the portfolio. Assumed projected rates of return are selected after analyzing historical experience and estimating future levels and volatility of returns. Asset class benchmark returns, asset mix and anticipated benefit payments from plan assets are also considered in determining the overall expected rate of return. The discount rate is based on market interest rates of high quality bonds that match the timing and benefits expected to be paid under each plan.

A nine per cent annual rate of increase in the per-capita cost of covered health care benefits was assumed for 2009 measurement purposes. The rate was assumed to decrease gradually to five per cent in 2018 and remain at this level thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects:

(millions of dollars)	Increase	Decrease
Effect on total of service and interest cost components	1	(1)
Effect on post-employment benefit obligation	11	(10)

The Company's net benefit cost is as follows:

	Pension Benefit Plans			Other Benefit Plans		
Year ended December 31 (millions of dollars)	2008	2007	2006	2008	2007	2006
Current service cost	52	45	39	2	2	3
Interest cost	80	73	65	8	7	8
Actual return on plan assets	222	(33)	(134)	10	(2)	(6)
Actuarial (gain)/loss	(261)	(22)	53	(21)	8	(2)
Plan amendment	-	-	-	(11)	-	(18)
Elements of net benefit cost prior to adjustments to recognize the long-term nature of net						
benefit cost	93	63	23	(12)	15	(15)
Difference between expected and actual return on	(245)	(51)	62	(42)	(1)	4
plan assets Difference between actuarial loss/(gain) recognized and actual actuarial loss/(gain) on accrued benefit	(316)	(51)	63	(12)	(1)	4
obligation	280	47	(27)	23	(7)	4
Difference between amortization of past service						
costs and actual plan amendments	4	4	4	11	-	19
Amortization of transitional obligation related to						
regulated business	-	-	-	2	2	2
Net benefit cost recognized	61	63	63	12	9	14

The Company pension plans' weighted average asset allocations and target allocations by asset category were as follows:

December 31	Percentage of Plar	Target Allocations	
Asset Category	2008	2007	2008
Debt securities	48%	42%	35% to 60%
Equity securities	52%	58%	40% to 65%
	100%	100%	

Debt securities included the Company's debt of \$3 million (0.3 per cent of total plan assets) and \$4 million (0.3 per cent of total plan assets) at December 31, 2008 and 2007, respectively. Equity securities included the Company's common shares of \$4 million (0.3 per cent of total plan assets) and \$6 million (0.4 per cent of total plan assets) at December 31, 2008 and 2007, respectively.

The assets of the pension plans are managed on a going concern basis subject to legislative restrictions. The plans' investment policies are to maximize returns within an acceptable risk tolerance. Pension assets are invested in a diversified manner with consideration given to the demographics of the plans' participants.

Employee Future Benefits of Joint Ventures

Certain of the Company's joint ventures sponsor DB Plans as well as post-employment benefits other than pensions, including defined life insurance and medical benefits beyond those provided by government-sponsored plans. The obligations of these plans are non-recourse to TransCanada. The following amounts in this note, including those in the accompanying tables, represent TransCanada's proportionate share with respect to these plans.

Total cash payments for employee future benefits, consisting of cash contributed by the Company's joint ventures to DB Plans and other benefit plans was \$42 million in 2008 (2007 - \$34 million; 2006 - \$25 million).

The Company's joint ventures measure the benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were as at January 1, 2009, and the next required valuations will be as at January 1, 2010.

	Pension Benef	Pension Benefit Plans		Other Benefit Plans	
(millions of dollars)	2008	2007	2008	2007	
Change in Benefit Obligation					
Benefit obligation – beginning of year	789	807	165	169	
Current service cost	27	28	8	10	
Interest cost	42	40	9	8	
Employee contributions	6	5	-	_	
Benefits paid	(37)	(23)	(4)	(2)	
Actuarial gain	(229)	(34)	(45)	(16)	
Foreign exchange rate changes	1	(3)	-	-	
Acquisition	-	(31)	-	(2)	
Plan amendment	-	-	-	(2)	
Benefit obligation – end of year	599	789	133	165	
Change in Plan Assets					
Plan assets at fair value – beginning of year	626	666	-	_	
Actual return on plan assets	(78)	(1)	-	_	
Employer contributions	38	32	4	2	
Employee contributions	6	5	-	-	
Benefits paid	(37)	(23)	(4)	(2)	
Foreign exchange rate changes	1	(5)	-	_	
Acquisition	-	(48)	-	-	
Plan assets at fair value – end of year	556	626	-	_	
Funded status – plan deficit	(43)	(163)	(133)	(165)	
Unamortized net actuarial loss/(gain)	51	169	(3)	45	
Unamortized past service costs	-	-	3	3	
Accrued benefit asset/(liability), net of valuation allowance of nil	8	6	(133)	(117)	

The accrued benefit asset/(liability), net of valuation allowance of nil in the Company's balance sheet was as follows:

	Pension Benefit Plans Other Benefit Pl		t Plans	
(millions of dollars)	2008	2007	2008	2007
Other Assets	8	6	-	-
Deferred Amounts	-	-	(133)	(117)
Total	8	6	(133)	(117)

The following amounts were included at December 31 in the above benefit obligation and fair value of plan assets for plans that are not fully funded:

	Pension Benefit Plans		Other Benefit Plans	
(millions of dollars)	2008	2007	2008	2007
Benefit obligation	(594)	(786)	(133)	(165)
Plan assets at fair value	551	623	-	-
Funded status – plan deficit	(43)	(163)	(133)	(165)

The expected total contributions of the Company's joint ventures in 2009 are approximately \$37 million for the pension benefit plans and approximately \$4 million for the other benefit plans.

The following are estimated future benefit payments, which reflect expected future service:

(millions of dollars)	Pension Benefits	Other Benefits
2009	39	4
2010	43	5
2011	46	6
2012	50	7
2013	54	7
2014 to 2018	325	49

The significant weighted average actuarial assumptions adopted in measuring the benefit obligations of the Company's joint ventures at December 31 were as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2008	2007	2008	2007
Discount rate	6.70%	5.25%	6.40%	5.15%
Rate of compensation increase	3.50%	3.50%		

The significant weighted average actuarial assumptions adopted in measuring the net benefit plan costs of the Company's joint ventures for years ended December 31 were as follows:

	Pension Benefit Plans		Othe	r Benefit Plans		
	2008	2007	2006	2008	2007	2006
Discount rate	5.25%	5.00%	5.25%	5.15%	4.90%	5.15%
Expected long-term rate of return on plan assets	7.00%	7.00%	7.30%			
Rate of compensation increase	3.50%	3.50%	3.50%			

A one percentage point change in assumed health care cost trend rates would have the following effects:

(millions of dollars)	Increase	Decrease
Effect on total of service and interest cost components	3	(2)
Effect on post-employment benefit obligation	17	(14)

The Company's proportionate share of net benefit cost of joint ventures is as follows:

	Pension Benefit Plans			Other Benefit Plans		
Year ended December 31 (millions of dollars)	2008	2007	2006	2008	2007	2006
Current service cost	27	28	24	8	10	7
Interest cost	42	40	37	9	8	5
Actual return on plan assets	78	1	(68)	-	-	_
Actuarial (gain)/loss	(229)	(34)	77	(45)	(16)	72
Plan amendment	-	-	-	-	(2)	6
Elements of net benefit cost prior to adjustments to recognize the long-term nature of net	(22)					
benefit cost	(82)	35	70	(28)	-	90
Difference between expected and actual return on plan assets	(122)	(44)	26	-	_	_
Difference between actuarial loss/(gain) recognized and actual actuarial loss/(gain) on accrued benefit obligation	239	44	(70)	48	20	(72)
Difference between amortization of past service	233	44	(70)	40	20	(72)
costs and actual plan amendments	-	-	-	-	3	(6)
Net benefit cost recognized related to joint ventures	35	35	26	20	23	12

The weighted average asset allocations and target allocations by asset category in the pension plans of the Company's joint ventures were as follows:

December 31	Percentage of Plar	Target Allocations	
Asset Category	2008	2007	2008
Debt securities	44%	43%	40%
Equity securities	56%	57%	60%
	100%	100%	

Debt securities included the Company's debt of \$1 million (0.2 per cent of total plan assets) and \$1 million (0.2 per cent of total plan assets) at December 31, 2008 and 2007, respectively. Equity securities included the Company's common shares of \$3 million (0.6 per cent of total plan assets) and \$3 million (0.5 per cent of total plan assets) at December 31, 2008 and 2007, respectively.

The assets of the pension plans are managed on a going concern basis subject to legislative restrictions. The plans' investment policies are to maximize returns within an acceptable risk tolerance. Pension assets are invested in a diversified manner with consideration given to the demographics of the plans' participants.

NOTE 22 CHANGES IN OPERATING WORKING CAPITAL

Year ended December 31 (millions of dollars)	2008	2007	2006
(Increase)/decrease in accounts receivable	(197)	51	(188)
Decrease/(increase) in inventories	82	(6)	(108)
(Increase)/decrease in other current assets	(146)	118	(6)
(Decrease)/increase in accounts payable	(18)	61	(42)
Increase/(decrease) in accrued interest	98	(9)	41
	(181)	215	(303)

NOTE 23 COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

Operating leases

Future annual payments, net of sub-lease receipts, under the Company's operating leases for various premises, services and equipment are approximately as follows:

Year ended December 31 (millions of dollars)	Minimum Lease Payments	Amounts Recoverable under Sub-leases	Net Payments
2009	40	(12)	28
2010	39	(12)	27
2011	39	(10)	29
2012	38	(5)	33
2013	37	(4)	33
2014 and thereafter	260	(7)	253
Total	453	(50)	403

The operating lease agreements for premises, services and equipment expire at various dates through 2035, with an option to renew certain lease agreements for periods of one year to ten years. Net rental expense on operating leases in 2008 was 52 million (2007 - 34 million; 2006 - \$25 million).

TransCanada's commitments under the acquired Alberta PPAs are considered to be operating leases and a portion of these PPAs have been subleased to third parties under similar terms and conditions. Future payments under these PPAs have been excluded from the above table, as these payments are dependent upon plant availability, among other factors. The amount of power purchased under the PPAs in 2008 was \$471 million (2007 – \$440 million; 2006 – \$499 million). The generating capacities and expiry dates of the PPAs are as follows:

	Megawatts	Expiry Date
Sundance A	560	December 31, 2017
Sundance B	353	December 31, 2020
Sheerness	756	December 31, 2020

TransCanada and its affiliates have long-term natural gas transportation and natural gas purchase arrangements as well as other purchase obligations, all of which are transacted at market prices and in the normal course of business.

Bruce Power

Bruce A has signed commitments to third-party suppliers related to refurbishing and restarting Units 1 and 2 and refurbishing Units 3 and 4 to extend their operating life. TransCanada's share of these signed commitments, which extend over the three-year period ending December 31, 2011, are as follows:

Year ended December 31 (millions of dollars)

2009 2010 2011	204
2010	49
2011	2
	255

Loan-Aboriginal Pipeline Group

On June 18, 2003, the Mackenzie Delta gas producers, the APG and TransCanada reached an agreement governing TransCanada's role in the Mackenzie Gas Pipeline (MGP) project. The project would result in a natural gas pipeline being constructed from Inuvik, Northwest Territories, to the northern border of Alberta, where it would connect with the Alberta System. Under the agreement, TransCanada agreed to finance the APG for its one-third share of project pre-development costs. These costs, on a cumulative basis, are currently forecast to be between \$150 million and \$200 million, depending upon the pace of project development. As at December 31, 2008, the Company had advanced \$140 million to the APG.

TransCanada and the other co-venture companies involved in the MGP continue to pursue approval of the proposed project, focusing on obtaining regulatory approval and the Canadian government's support of an acceptable fiscal framework. Detailed discussions with the Canadian government are continuing, and project timing continues to be uncertain. In the event the co-venture group is unable to reach an agreement with the government on an acceptable fiscal framework, the parties will need to determine the appropriate next steps for the project, including a review by TransCanada of the carrying value of advances to the APG.

Other Commitments

TransCanada is committed to capital expenditures totalling approximately \$2.3 billion related to its share of the construction costs of Keystone, North Central Corridor and other pipeline projects.

The Company is committed to capital expenditures totalling approximately \$1.0 billion related to its share of the construction costs of Coolidge, Bruce Power, the remaining Cartier Wind projects, Halton Hills and Portlands Energy.

Contingencies

On April 3, 2008, the Ontario Court of Appeal dismissed an appeal filed by the Canadian Alliance of Pipeline Landowners' Associations (CAPLA). CAPLA filed the appeal as a result of a decision by the Ontario Superior Court in November 2006 to dismiss CAPLA's class action lawsuit against TransCanada and Enbridge Inc. for damages alleged to have arisen from the creation of a control zone within 30 metres of a pipeline pursuant to Section 112 of the *National Energy Board Act*. The Ontario Court of Appeal's decision is final and binding as CAPLA did not seek any further appeal within the time frame allowed.

TransCanada is subject to laws and regulations governing environmental quality and pollution control. At December 31, 2008, the Company accrued approximately \$83 million related to operating facilities and \$3 million related to discontinued operation sites. The accrued amount represents the Company's estimate of the amount it expects to expend to remediate the sites. However, additional liabilities may be incurred as assessments occur and remediation efforts continue.

TransCanada and its subsidiaries are subject to various legal proceedings and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated financial position or results of operations.

Guarantees

TransCanada, Cameco Corporation and BPC Generation Infrastructure Trust (BPC) have severally guaranteed one-third of certain contingent financial obligations of Bruce B related to power sales agreements, operator licenses, a lease agreement and contractor services. The guarantees have terms ranging from one year ending in 2010 to perpetuity. In addition, TransCanada and BPC have severally guaranteed one-half of certain contingent financial obligations related to an agreement with the Ontario Power Authority to refurbish and restart Bruce A power generation units. The guarantees were provided as part of the reorganization of Bruce Power in 2005 and have terms ending in 2019. TransCanada's share of the potential exposure under these Bruce A and Bruce B guarantees was estimated at December 31, 2008 to range from \$711 million to a maximum of \$750 million. The fair value of these guarantees is estimated to be \$17 million.

The Company and its partners in certain jointly owned entities have severally as well as jointly and severally guaranteed the financial performance of these entities related primarily to construction projects, redelivery of natural gas, PPA payments and the payment of liabilities. TransCanada's share of the potential exposure under these guarantees was estimated at December 31, 2008 to range from \$688 million to a maximum of \$1.4 billion. For certain of these entities, any payments made by TransCanada under these guarantees in excess of its ownership interest are to be reimbursed by its partners. Deferred Amounts includes \$9 million for the fair value of these joint and several guarantees.

TransCanada has guaranteed a subsidiary's equity undertaking to support the payment, under certain conditions, of principal and interest on US\$43 million of the public debt obligations of TransGas de Occidente S.A. (TransGas). The Company has a 46.5 per cent interest in TransGas. Under the terms of a shareholder agreement, TransCanada and another major multinational company may be required to severally fund more than their proportionate share of debt obligations of TransGas in the event that the minority shareholders fail to contribute. Any payments made by TransCanada under this agreement would convert into share capital of TransGas. The Company's potential exposure is contingent on the impact any change of law would have on the ability of TransGas to service the debt. There has been no change in applicable law since the issuance of debt in 1995 and, thus, no exposure for TransCanada. The debt matures in 2010. The Company has made no provision related to this guarantee.

NOTE 24 DISCONTINUED OPERATIONS

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

SUPPLEMENTARY INFORMATION

SELECTED QUARTERLY AND ANNUAL CONSOLIDATED FINANCIAL DATA

Toronto Stock Exchange (Stock trading symbol TRP)	First	Second	Third	Fourth	Annual
2008 (Canadian dollars)					
High	40.97	40.71	40.65	39.26	40.97
Low	36.21	35.98	35.95	29.42	29.42
Close	39.55	39.50	38.17	33.17	33.17
Volume (millions of shares)	86.1	134.0	114.0	159.7	493.8
2007 (Canadian dollars)					
High	41.35	40.29	39.83	40.73	41.35
Low	36.75	35.77	35.43	36.47	35.43
Close	38.35	36.64	36.47	40.54	40.54
Volume (millions of shares)	88.7	78.7	91.4	77.2	336.0
2006 (Canadian dollars)					
High	37.15	34.93	36.49	40.90	40.90
Low	33.60	30.77	31.70	33.87	30.77
Close	33.67	31.85	35.15	40.61	40.61
Volume (millions of shares)	71.9	74.1	61.6	61.0	268.6
New York Stock Exchange (Stock trading symbol TRP)					
New York Stock Exchange (Stock trading symbol TRP) 2008 (U.S. dollars)					
	41.53	40.64	39.29	36.33	41.53
2008 (U.S. dollars)	41.53 35.60	40.64 35.33	39.29 34.01	36.33 23.52	41.53 23.52
2008 (U.S. dollars) High					
2008 (U.S. dollars) High Low	35.60	35.33	34.01	23.52	23.52
2008 (U.S. dollars) High Low Close	35.60 38.53	35.33 38.77	34.01 36.15	23.52 27.14	23.52 27.14
2008 (U.S. dollars) High Low Close Volume (millions of shares) 2007 (U.S. dollars)	35.60 38.53	35.33 38.77	34.01 36.15	23.52 27.14	23.52 27.14
2008 (U.S. dollars) High Low Close Volume (millions of shares)	35.60 38.53 8.7	35.33 38.77 8.8	34.01 36.15 9.8	23.52 27.14 17.2	23.52 27.14 44.5
2008 (U.S. dollars) High Low Close Volume (millions of shares) 2007 (U.S. dollars) High	35.60 38.53 8.7 35.30	35.33 38.77 8.8 37.21	34.01 36.15 9.8 38.06	23.52 27.14 17.2 43.94	23.52 27.14 44.5 43.94
2008 (U.S. dollars) High Low Close Volume (millions of shares) 2007 (U.S. dollars) High Low	35.60 38.53 8.7 35.30 31.33	35.33 38.77 8.8 37.21 32.91	34.01 36.15 9.8 38.06 32.92	23.52 27.14 17.2 43.94 36.68	23.52 27.14 44.5 43.94 31.33
2008 (U.S. dollars) High Low Close Volume (millions of shares) 2007 (U.S. dollars) High Low Close Volume (millions of shares)	35.60 38.53 8.7 35.30 31.33 33.28	35.33 38.77 8.8 37.21 32.91 34.41	34.01 36.15 9.8 38.06 32.92 36.61	23.52 27.14 17.2 43.94 36.68 40.93	23.52 27.14 44.5 43.94 31.33 40.93
2008 (U.S. dollars) High Low Close Volume (millions of shares) 2007 (U.S. dollars) High Low Close Volume (millions of shares) 2006 (U.S. dollars)	35.60 38.53 8.7 35.30 31.33 33.28	35.33 38.77 8.8 37.21 32.91 34.41	34.01 36.15 9.8 38.06 32.92 36.61	23.52 27.14 17.2 43.94 36.68 40.93	23.52 27.14 44.5 43.94 31.33 40.93
2008 (U.S. dollars) High Low Close Volume (millions of shares) 2007 (U.S. dollars) High Low Close Volume (millions of shares)	35.60 38.53 8.7 35.30 31.33 33.28 8.2	35.33 38.77 8.8 37.21 32.91 34.41 5.7	34.01 36.15 9.8 38.06 32.92 36.61 9.0	23.52 27.14 17.2 43.94 36.68 40.93 7.9	23.52 27.14 44.5 43.94 31.33 40.93 30.8
2008 (U.S. dollars) High Low Close Volume (millions of shares) 2007 (U.S. dollars) High Low Close Volume (millions of shares) 2006 (U.S. dollars) High	35.60 38.53 8.7 35.30 31.33 33.28 8.2 32.14	35.33 38.77 8.8 37.21 32.91 34.41 5.7 31.36	34.01 36.15 9.8 38.06 32.92 36.61 9.0 32.85	23.52 27.14 17.2 43.94 36.68 40.93 7.9 35.40	23.52 27.14 44.5 43.94 31.33 40.93 30.8 35.40

NINE-YEAR FINANCIAL HIGHLIGHTS

Revenues 8,619 8,828 7,520 6,124 5,497 5,636 5,225 5,285 4,384 Net income from continuing operations 1,440 1,223 1,051 1,209 980 801 747 666 662 Pipelines 902 686 560 679 584 625 639 572 613 Corporate (76) 23 39 (36) (2) (41) (52) (67) (86 Continuing operations 1,440 1,223 1,079 1,209 980 801 747 686 622 Discontinued operations - - 28 - 52 50 - (67) 61 Micreasey/decrease in operating 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 Greate Aperovided by operations 3,021 2,621 2,378 1,951 1,732 1,915 1,338 1,212 Lincrea	(millions of dollars except where indicated)	2008	2007	2006	2005	2004	2003	2002	2001	2000
Net income from continuing operations 1,440 1,223 1,051 1,209 980 801 747 686 628 Net income(loss) by segment 902 686 560 679 584 625 639 572 613 Energy 614 514 452 566 398 217 160 181 992 Continuing operations 1,440 1,223 1,051 1,209 980 801 747 686 662 Discontinued operations 1,440 1,223 1,051 1,209 980 801 747 619 685 Cash Flow Statement - - 28 - 52 50 - (67) 616 Vet income 1,440 1,223 1,051 1,092 1,032 851 747 619 685 Cash Flow Statement - - 2.861 2,075 1,902 1,322 1,843 1,625 1,440 (horcease)/decrease in operations 5,871 2,621 2,376 1,902 1,732 1,915	Income Statement									
Net income/(loss) by segment 902 6614 514 452 566 398 217 160 181 952 Energy 614 514 452 566 398 217 160 181 952 Corporate (76) 23 39 (36) (2) (41) (52) (67) 686 Discontinued operations 1,440 1,223 1,051 1,209 980 801 747 686 622 Discontinued operations 1,440 1,223 1,079 1,209 1,032 851 747 619 688 Cash Flow Statement 1 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 (Increase)/decrease in operations 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 (Increase)/decrease in operations 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 Upscoition of assets, net of current 6,363 5,874 2,042 <td>Revenues</td> <td>8,619</td> <td>8,828</td> <td></td> <td>6,124</td> <td>5,497</td> <td>5,636</td> <td>5,225</td> <td>5,285</td> <td>4,384</td>	Revenues	8,619	8,828		6,124	5,497	5,636	5,225	5,285	4,384
Pipelines 902 686 560 679 584 625 639 572 613 Energy 614 514 452 566 398 217 160 181 99 Corporate (76) 23 39 (36) (2) (41) (52) (67) (68 Continuing operations 1,440 1,223 1,051 1,209 980 801 747 686 628 Net income 1,440 1,223 1,079 1,209 1,032 851 747 619 688 Cash Flow Statement 1,440 1,223 1,079 1,209 1,322 1,843 1,625 1,484 (ncrease/decrease in operations 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,443 Disposition of assets, net of current 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net	Net income from continuing operations	1,440	1,223	1,051	1,209	980	801	747	686	628
Energy Corporate 614 (76) 514 23 452 39 566 (39) 217 (2) 160 (41) 181 (52) 950 (67) 080 (62) Continuing operations 1,440 1,223 1,051 1,209 980 801 747 686 622 (67) 610 Net income 1,440 1,223 1,079 1,209 1,032 851 747 619 685 Cash Flow Statement - - 28 - 52 50 - (67) 61 funcrease/decrease in operations (apital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Balance Sheet Asset 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Energy 8,435 5,127	Net income/(loss) by segment									
Corporate (76) 23 39 (36) (2) (41) (52) (67) (80) Continuing operations 1,440 1,223 1,051 1,209 980 801 747 686 628 Discontinued operations - - 28 - 52 50 - (67) 685 Cash Flow Statement - - 28 - 52 50 - (67) 689 Cash Flow Statement - - 2,378 1,951 1,703 1,822 1,843 1,625 1,484 (Increase)/decrease in operations 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,444 (Increase)/decrease in operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,444	Pipelines	902	686	560	679	584	625	639	572	613
Continuing operations 1,440 1,223 1,051 1,209 980 801 747 686 628 Discontinued operations - - 28 - 52 50 - (67) 619 Net income 1,440 1,223 1,079 1,209 1,032 851 747 619 688 Cash Flow Statement 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,440 (Increase)/decrease in operating working capital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 57	Energy	614	514	452	566	398	217	160	181	95
Discontinued operations - - 28 - 52 50 - (67) 619 Net income 1,440 1,223 1,079 1,209 1,032 851 747 619 668 Cash Irow Statement 50 - 50 - 619 668 Cash Irow Statement 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 (Increase/decrease in operating working capital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 <	Corporate	(76)	23	39	(36)	(2)	(41)	(52)	(67)	(80)
Net income 1,440 1,223 1,079 1,209 1,032 851 747 619 689 Cash Flow Statement Funds generated from operations (ncrease)/decrease in operating working capital 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 Kind sgenerated from operating working capital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Balance Sheet Assets 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Plelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Corporate 54	Continuing operations	1,440	1,223	1,051	1,209	980	801	747	686	628
Cash Flow Statement 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 (Increase)/decrease in operating working capital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions income taxes 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 18 423 Balance Sheet Assets 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Corporate 54 45 24 27 37<		-							()	61
Funds generated from operations (Increase)/decrease in operating working capital 3,021 2,621 2,378 1,951 1,703 1,822 1,843 1,625 1,484 (Increase)/decrease in operating working capital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions income taxes 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 – – 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets 1, poperty and equipment 9.10 3,483 1,421 1,368 1,340 1,116 776 Corporate 54 45 44 27 37 50 64 66 111	Net income	1,440	1,223	1,079	1,209	1,032	851	747	619	689
Clincrease/decrease in operating working capital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions income taxes 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Plant, property and equipment Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Total assets 20,700 18,280 17,141 16,528 17,306 16,064 16,158	Cash Flow Statement									
capital (181) 215 (303) (49) 29 93 92 (487) 437 Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets 7 546 617 586 552 510 466 111 776 Corporate 54 45 44 27 37 50 64 66 111 Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416	Funds generated from operations	3,021	2,621	2,378	1,951	1,703	1,822	1,843	1,625	1,484
Net cash provided by operations 2,840 2,836 2,075 1,902 1,732 1,915 1,935 1,138 1,921 Capital expenditures and acquisitions 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Plant, property and equipment Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Corporate 54 45 44 27 37 50 64 66 111 Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations	(Increase)/decrease in operating working									
Capital expenditures and acquisitions Disposition of assets, net of current income taxes 6,363 5,874 2,042 2,071 2,046 965 851 1,082 1,144 Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets Assets 77 546 617 586 552 510 466 418 423 Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Corporate 54 45 44 27 37 50 64 66 111 Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations	capital	(181)	215	(303)	(49)	29	93	92	(487)	437
Disposition of assets, net of current income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets Assets - - 1,170 2,233 Plant, property and equipment - - 617 586 552 510 466 418 423 Plant, property and equipment - - 7,306 16,064 16,158 16,562 16,937 Energy 8,435 5,127 4,302 3,483 1,421 1,368 1,340 1,116 776 Corporate 54 45 44 27 37 50 64 66 111 Total assets - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Long-term debt 15,368 12,37	Net cash provided by operations	2,840	2,836	2,075	1,902	1,732	1,915	1,935	1,138	1,921
income taxes 28 35 23 671 410 - - 1,170 2,233 Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets Assets Plant, property and equipment 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Energy 8,435 5,127 4,302 3,483 1,421 1,368 1,340 1,116 776 Corporate 54 45 44 27 37 50 64 66 111 Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 <		6,363	5,874	2,042	2,071	2,046	965	851	1,082	1,144
Cash dividends paid on common shares 577 546 617 586 552 510 466 418 423 Balance Sheet Assets Assets Plant, property and equipment 9 9 16,528 17,306 16,064 16,158 16,562 16,937 Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Corporate 54 45 44 27 37 50 64 66 111 Total assets Continuing operations 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization Long-term debt 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes		28	35	23	671	410	_	_	1,170	2.233
Assets Plant, property and equipment Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Energy 8,435 5,127 4,302 3,483 1,421 1,368 1,340 1,116 776 Corporate 54 45 44 27 37 50 64 66 111 Total assets - - - 7 11 139 276 5,007 Discontinued operations 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Continuing operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization - - - 7 - - - - - - - - - - - - - - - </td <td>Cash dividends paid on common shares</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>510</td> <td>466</td> <td>,</td> <td>423</td>	Cash dividends paid on common shares						510	466	,	423
Plant, property and equipment Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Energy 8,435 5,127 4,302 3,483 1,421 1,368 1,340 1,116 776 Corporate 54 45 44 27 37 50 64 66 111 Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization - - - 7 11 139 276 5,007 Junior subordinated notes 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 - - - -<	Balance Sheet									
Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Energy 8,435 5,127 4,302 3,483 1,421 1,368 1,340 1,116 776 Corporate 54 45 44 27 37 50 64 66 111 Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization - - - 7 11 139 276 5,007 Junior subordinated notes 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 - - - - - - - <t< td=""><td>Assets</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></t<>	Assets									
Pipelines 20,700 18,280 17,141 16,528 17,306 16,064 16,158 16,562 16,937 Energy 8,435 5,127 4,302 3,483 1,421 1,368 1,340 1,116 776 Corporate 54 45 44 27 37 50 64 66 111 Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization - - - 7 11 139 276 5,007 Junior subordinated notes 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 - - - - - - - <t< td=""><td>Plant, property and equipment</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></t<>	Plant, property and equipment									
Corporate 54 45 44 27 37 50 64 66 111 Total assets Continuing operations 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization Econg-term debt 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 -		20,700	18,280	17,141	16,528	17,306	16,064	16,158	16,562	16,937
Total assets 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization Long-term debt 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 -	Energy	8,435	5,127	4,302	3,483	1,421	1,368	1,340	1,116	776
Continuing operations Discontinued operations 39,414 30,330 25,909 24,113 22,415 20,876 20,416 20,255 20,238 Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization Long-term debt 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 - </td <td>Corporate</td> <td>54</td> <td>45</td> <td>44</td> <td>27</td> <td>37</td> <td>50</td> <td>64</td> <td>66</td> <td>111</td>	Corporate	54	45	44	27	37	50	64	66	111
Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization I 13,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 -	Total assets									
Discontinued operations - - - 7 11 139 276 5,007 Total assets 39,414 30,330 25,909 24,113 22,422 20,887 20,555 20,531 25,245 Capitalization I 139,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 -	Continuing operations	39,414	30,330	25,909	24,113	22,415	20,876	20,416	20,255	20,238
Capitalization Long-term debt 15,368 12,377 10,887 9,640 9,749 9,516 8,899 9,444 10,008 Junior subordinated notes 1,213 975 -	Discontinued operations	-	-	-	-	7	11	139		5,007
Long-term debt15,36812,37710,8879,6409,7499,5168,8999,44410,008Junior subordinated notes1,213975Preferred securities5365365545989449501,208Non-controlling interests1,194999755783700713677675646	Total assets	39,414	30,330	25,909	24,113	22,422	20,887	20,555	20,531	25,245
Long-term debt15,36812,37710,8879,6409,7499,5168,8999,44410,008Junior subordinated notes1,213975Preferred securities5365365545989449501,208Non-controlling interests1,194999755783700713677675646	Capitalization									
Junior subordinated notes 1,213 975 - <t< td=""><td>•</td><td>15,368</td><td>12,377</td><td>10,887</td><td>9,640</td><td>9,749</td><td>9,516</td><td>8,899</td><td>9,444</td><td>10,008</td></t<>	•	15,368	12,377	10,887	9,640	9,749	9,516	8,899	9,444	10,008
Preferred securities – – 536 536 554 598 944 950 1,208 Non-controlling interests 1,194 999 755 783 700 713 677 675 646	5			-	,	,	-	-	,	
Non-controlling interests 1,194 999 755 783 700 713 677 675 646		-			536	554		944	950	1,208
		1.194	999							646
	Common shareholders' equity	12,898	9,785	7,701	7,206	6,565	6,091	5,747	5,426	5,211

	2008	2007	2006	2005	2004	2003	2002	2001	2000
Per Common Share Data (dollars)									
Net income – Basic									
Continuing operations	\$2.53	\$2.31	\$2.15	\$2.49	\$2.02	\$1.66	\$1.56	\$1.44	\$1.32
Discontinued operations	-	-	0.06	-	0.11	0.10	-	(0.14)	0.13
	\$2.53	\$2.31	\$2.21	\$2.49	\$2.13	\$1.76	\$1.56	\$1.30	\$1.45
Net income – Diluted									
Continuing operations	\$2.52	\$2.30	\$2.14	\$2.47	\$2.01	\$1.66	\$1.55	\$1.44	\$1.32
Discontinued operations	-	-	0.06	-	0.11	0.10	-	(0.14)	0.13
	\$2.52	\$2.30	\$2.20	\$2.47	\$2.12	\$1.76	\$1.55	\$1.30	\$1.45
Dividends declared	\$1.44	\$1.36	\$1.28	\$1.22	\$1.16	\$1.08	\$1.00	\$0.90	\$0.80
Book value ⁽¹⁾⁽⁶⁾	\$20.92	\$18.13	\$15.75	\$14.79	\$13.54	\$12.61	\$11.99	\$11.38	\$10.97
Market price									
Toronto Stock Exchange (\$Cdn)									
High	40.97	41.35	40.90	37.90	30.35	28.49	23.91	21.13	17.25
Low	29.42	35.43	30.77	28.94	25.37	20.77	19.05	14.85	9.80
Close	33.17	40.54	40.61	36.65	29.80	27.88	22.92	19.87	17.20
Volume (millions of shares)	493.8	336.0	268.6	238.0	280.1	277.9	280.6	288.2	400.7
New York Stock Exchange (\$US)									
High	41.53	43.94	35.40	32.41	24.91	21.88	15.56	13.41	11.50
Low	23.52	31.33	27.40	23.36	18.75	14.16	11.89	9.88	6.75
Close	27.14	40.93	34.95	31.48	24.87	21.51	14.51	12.51	11.50
Volume (millions of shares)	44.5	30.8	27.7	31.6	33.0	21.2	16.3	16.8	21.2
Shares outstanding (millions)									
Average for the year	569.6	529.9	488.0	486.2	484.1	481.5	478.3	475.8	474.6
End of year	616.5	539.8	489.0	487.2	484.9	483.2	479.5	476.6	474.9
Registered common shareholders ⁽¹⁾	33,681	34,204	35,522	30,533	31,837	33,133	34,902	36,350	30,758
Financial Ratios									
Return on average common shareholders'									
equity ⁽²⁾	12.7%	14.0%	14.5%	17.6%	16.3%	14.4%	13.4%	11.6%	13.6%
Dividend yield ⁽³⁾	4.3%	3.4%	3.2%	3.3%	3.9%	3.9%	4.4%	4.5%	4.7%
Price/earnings multiple ⁽⁴⁾⁽⁵⁾	13.1	17.5	18.4	14.7	14.0	15.8	14.7	15.3	11.9
Price/book multiple ⁽⁴⁾⁽⁶⁾	1.6	2.2	2.6	2.5	2.2	2.2	1.9	1.7	1.6
Debt to debt plus shareholders' equity ⁽⁷⁾	57%	59%	61%	59%	63%	64%	64%	67%	69%
Total shareholder return ⁽⁸⁾	(15%)	3%	15%	28%	11%	27%	21%	21%	48%
Earnings to fixed charges ⁽⁹⁾	2.7	2.6	2.5	2.9	2.5	2.3	2.3	2.1	1.9
5 5	-	-	-	-	-	-	-		

⁽¹⁾ As at December 31.

⁽²⁾ The return on average common shareholders' equity is determined by dividing net income by average common shareholders' equity (i.e. opening plus closing shareholders' equity divided by two) for each year.

⁽³⁾ The dividend yield is determined by dividing dividends declared during the year by price per share as at December 31.

⁽⁴⁾ Price per share refers to market price per share as reported on the Toronto Stock Exchange as at December 31.

⁽⁵⁾ The price/earnings multiple is determined by dividing price per share by the basic net income per share.

⁽⁶⁾ The price/book multiple is determined by dividing price per share by book value per share as calculated by dividing shareholders' equity by the number of shares outstanding as at December 31.

⁽⁷⁾ Debt comprises total long-term debt, including the current portion of long-term debt, plus preferred securities as at December 31, and excludes non-recourse debt of joint ventures. Shareholders' equity in this ratio is at December 31.

⁽⁸⁾ Total shareholder return is the sum of the change in price per share, the dividends received and the impact of dividend re-investment in a calendar year, expressed as a percentage of the value of shares at the end of the previous year.

(9) The earnings to fixed charges ratio is determined by dividing earnings by fixed charges. Earnings is calculated as the sum of income from continuing operations, financial charges, financial charges of joint ventures, income taxes, income from non-controlling interests (excluding non-controlling interests with financial charges) and adjusted for undistributed earnings of investments accounted for by the equity method. Fixed charges is calculated as the sum of financial charges, financial charges of joint ventures and capitalized interest.

INVESTOR INFORMATION

STOCK EXCHANGES, SECURITIES AND SYMBOLS

TransCanada Corporation

Common shares are listed on the Toronto and New York stock exchanges under the symbol: TRP

TransCanada PipeLines Limited (TCPL)*

Preferred shares are listed on the Toronto Stock Exchange under the following symbols:

Cumulative redeemable first preferred Series U: TCA.PR.X and Series Y: TCA.PR.Y

* TCPL is a wholly owned subsidiary of TransCanada Corporation.

Annual Meeting The annual meeting of shareholders is scheduled for May 1, 2009 at 10:00 a.m. (Mountain Daylight Time) at the Roundup Centre, Calgary, Alberta.

Dividend Payment Dates Scheduled common share dividend payment dates in 2009 are January 30, April 30, July 31 and October 30.

Dividend Reinvestment and Share Purchase Plan TransCanada's dividend reinvestment and share purchase plan (Plan) allows common shareholders of TransCanada and preferred shareholders of TCPL to purchase additional common shares by reinvesting their cash dividends without incurring brokerage or administrative fees. Participants in the Plan may also buy additional common shares, up to \$10,000 (US\$7,000) per quarter. Please contact our Plan agent, Computershare Trust Company of Canada, for more information on the Plan or visit us at www.transcanada.com.

TRANSFER AGENTS, REGISTRARS AND TRUSTEE

TransCanada Corporation Common Shares Computershare Trust Company of Canada (Montréal, Toronto, Calgary and Vancouver) and Computershare Trust Company, N.A. (Golden)

TCPL Preferred Shares Computershare Trust Company of Canada (Montréal, Toronto, Calgary and Vancouver)

TCPL Debentures

Canadian Series: CIBC Mellon Trust Company (Halifax, Montréal, Toronto, Calgary and Vancouver)

11.10% series N	10.50% series O	10.50% series P	10.625% series Q	
11.85% series R	11.90% series S	11.80% series U	9.80% series V	9.45% series W

U.S. Series: The Bank of New York (New York) 9.875% and 8.625%

TCPL Canadian Medium-Term Notes CIBC Mellon Trust Company (Halifax, Montréal, Toronto, Calgary and Vancouver)

TCPL U.S. Medium-Term Notes and Senior Notes The Bank of New York (New York)

TCPL U.S. Junior Subordinated Notes The Bank of Nova Scotia Trust Company of New York

NOVA Gas Transmission Ltd. (NGTL) Debentures

Canadian Series: CIBC Mellon Trust Company (Halifax, Montreal, Toronto, Calgary and Vancouver)

11.95% series 1311.70% series 1511.20% series 1812.625% series 1912.20% series 2012.20% series 219.90% series 23

U.S. Series: U.S. Bank Trust National Association (New York) 8.50% and 7.875%

NGTL Canadian Medium-Term Notes CIBC Mellon Trust Company (Halifax, Montreal, Toronto, Calgary and Vancouver)

NGTL U.S. Medium-Term Notes U.S. Bank Trust National Association (New York)

REGULATORY FILINGS

Annual Information Form TransCanada's 2008 Annual Information Form, as filed with Canadian securities commissions and as filed under Form 40-F with the SEC, is available on our website at www.transcanada.com.

A printed copy may be obtained from:

Corporate Secretary, TransCanada Corporation, 450 1st Street SW, Calgary, Alberta, Canada T2P 5H1

SHAREHOLDER ASSISTANCE

If you are a registered shareholder and have questions regarding your account, please contact our transfer agent in writing, by telephone or e-mail at:

Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario, Canada M5J 2Y1

Toll-free: 1 (800) 340-5024 Telephone: 1 (514) 982-7959

E-mail: transcanada@computershare.com

www.computershare.com

If you hold your shares in a brokerage account (beneficial shareholder), questions should be directed to your broker on all administrative matters.

If you would like to receive quarterly reports, please contact Computershare or visit our website at www.transcanada.com.

Electronic Proxy Voting and Delivery of Documents TransCanada is pleased to offer registered and beneficial shareholders the ability to receive their documents (annual report, management information circular, notice of meeting and view-only proxy form) and vote online.

In 2009, registered shareholders who opt to receive their documents electronically will have a tree planted on their behalf through eTree. For more information and to sign up online, registered shareholders can visit www.etree.ca/transcanada.

Shareholders who do not have access to e-mail, or who still prefer to receive their proxy materials by mail also have the ability to choose whether to receive TransCanada's annual report by regular mail. Each year, shareholders are required to renew their option and will receive a notification for doing so. The annual report is available on the TransCanada website at www.transcanada.com/investor/financial.html at the same time that the report is mailed to shareholders.

Electronic delivery and the ability to opt out of receiving the annual report by mail, provides increased convenience to shareholders, benefits to the environment and reduced mailing and printing costs for the company.

TransCanada in the Community TransCanada's annual Corporate Social Responsibility Report is available at www.transcanada.com. If you would like to receive a copy of this report by mail, please contact:

Communications 450 1st Street SW, Calgary, Alberta T2P 5H1, 1.403.920.2000 or 1.800.861.3805 or Communications@transcanada.com

Visit our website at www.transcanada.com to access TransCanada's corporate and financial information, including quarterly reports, news releases, real-time conference call webcasts and investor presentations.

Si vous désirez vous procurer un exemplaire de ce rapport en français, veuillez consulter notre site web ou vous adresser par écrit à TransCanada Corporation, bureau du secrétaire.

BOARD OF DIRECTORS

(as at December 31, 2008)

S. Barry Jackson* Chairman TransCanada Corporation Calgary, Alberta

Harold N. Kvisle President and CEO TransCanada Corporation Calgary, Alberta

Kevin E. Benson⁽¹⁾ Corporate Director Wheaton, Illinois

Derek H. Burney, O.C.⁽²⁾⁽³⁾ Senior Strategic Advisor Ogilvy Renault LLP Ottawa, Ontario

Wendy K. Dobson⁽⁴⁾⁽⁷⁾ Professor, Rotman School of Management and Director, Institute for International Business University of Toronto Uxbridge, Ontario E. Linn Draper⁽⁵⁾⁽⁷⁾ Former Chairman, President and CEO American Electric Power Co., Inc. (AEP) Lampasas, Texas

The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C.⁽²⁾⁽⁶⁾ Senior Partner Stein Monast L.L.P. Ouébec, Ouébec

Kerry L. Hawkins⁽⁶⁾⁽⁷⁾ Retired President Cargill Limited Winnipeg, Manitoba

Paul L. Joskow⁽²⁾⁽³⁾ President Alfred P. Sloan Foundation New York, New York John A. MacNaughton⁽²⁾⁽³⁾ Chairman Business Development Bank of Canada Toronto, Ontario

David P. O'Brien, O.C.⁽³⁾⁽⁷⁾ Chairman EnCana Corporation Royal Bank of Canada Calgary, Alberta

W. Thomas Stephens⁽⁶⁾⁽⁸⁾ Former Chairman and Chief Executive Officer Boise Cascade, LLC Greenwood Village, Colorado

D. Michael G. Stewart⁽³⁾ Corporate Director Calgary, Alberta

- * Non-voting member of the Governance Committee and the Human Resources Committee of the Board
- (1) Chair, Audit Committee
- (2) Member, Audit Committee
- ⁽³⁾ Member, Governance Committee
- ⁽⁴⁾ Chair, Governance Committee
- ⁽⁵⁾ Chair, Health, Safety and Environment Committee
- ⁽⁶⁾ Member, Health, Safety and Environment Committee
- ⁽⁷⁾ Member, Human Resources Committee
- ⁽⁸⁾ Chair, Human Resources Committee

CORPORATE GOVERNANCE

Please refer to TransCanada's Notice of 2009 Annual Meeting of Common Shareholders and Management Proxy Circular for the company's statement of corporate governance.

TransCanada's Corporate Governance Guidelines, Board charter, Committee charters, Chair and CEO terms of reference and codes of business conduct and ethics are available on our website at www.transcanada.com. Also available on our website is a summary of the significant ways in which TransCanada's corporate governance practices differ from those required to be followed by U.S. domestic companies under the New York Stock Exchange's listing standards.

Additional information relating to the company is filed with securities regulators in Canada on SEDAR at www.sedar.com and in the United States on EDGAR at www.sec.gov. The documents referred to in this Annual Report may be obtained free of charge by contacting TransCanada's Corporate Secretary at 450 1st Street SW, Calgary, Alberta, Canada T2P 5H1, or by telephoning 1.800.661.3805.

Ethics Help-Line The Audit Committee of the Board of Directors has established an anonymous and confidential toll-free telephone number for employees, contractors and others to call with respect to accounting irregularities and ethical violations. The Ethics Help-Line number is 1.888.920.2042.

executive officers



Hal Kvisle President and Chief Executive Officer

Russ Girling President, Pipelines

Alex Pourbaix President, Energy

Greg Lohnes Executive Vice-President, and Chief Financial Officer

Dennis McConaghy Executive Vice-President, Pipeline Strategy and Development

Sean McMaster Executive Vice-President, Corporate and General Counsel

Sarah Raiss Executive Vice-President Corporate Services

Don Wishart Executive Vice-President, Operations and Engineering

contact information

Visit our website for more information on:

- Our Pipelines and Energy businesses
- Projects and initiatives
- Corporate responsibility
- Corporate governance
- Investor services

www.transcanada.com

TransCanada welcomes questions from shareholders and investors.

Please contact:

David Moneta, Vice-President, Investor Relations and Corporate Communications

1.800.361.6522 (Canada and U.S. Mainland)

TransCanada Corporation

TransCanada Tower 450 1st Street SW Calgary, Alberta T2P 5H1

 $\begin{array}{c} 1.403.920.2000 \\ 1.800.661.3805 \end{array}$





our vision

TransCanada will be the leading energy infrastructure company in North America, with a strong focus on pipelines and power generation opportunities located in regions where we have or can develop significant competitive advantage.



Please recycle Printed in Canada March 2009

ATTACHMENT B.9-2

TransCanada Corporation Letter Re Financial Capacity



450 – 1st Street S W. Calgary, Alberta, Canada T2P 5H1 **Gregory A. Lohnes** Tel: (403) 920-5561 fax (403) 920-2410 email:greg_lohnes@transcanada.com

November 5, 2009

Land Use Regulation Commission 22 State House Station Augusta, Maine 04333

Attention: Marcia Spencer Famous

Dear Madam;

Re: TransCanada Maine Wind Development Inc. Application for Kibby Wind Power Expansion Project

This letter is provided in support of TransCanada Maine Wind Development Inc.'s ("TransCanada Maine") application to the Maine Land Use Regulation Commission to develop an approximately 45 MW wind power project in Western Maine (the "Kibby Wind Power Expansion Project"). TransCanada Maine Wind Development Inc. is a wholly owned subsidiary of TransCanada Corporation.

We have reviewed the proposed Kibby Wind Power Expansion Project and agree to advance or fund as necessary the obligations of TransCanada Maine with regard to that project in the estimated amount of US \$120 million, subject to the satisfaction of the following conditions:

- Receipt of all applicable regulatory permits and approvals;
- Approval of the project by TransCanada's Board of Directors.

Yours very truly,

TRANSCANADA CORPORATION

Gregory A. Lohnes Executive Vice President and Chief Financial Officer

JBC/cml