



Achievements 2008



Table of Contents

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3	Message from Management
5	Directors and Management
6	System
8	Mission
9	Highlights
10	Financial Review
15	Statistics
17	Safety
19	Outlook
20	Company Risks
24	Capital Management and Financial Instruments
26	Contractual Obligations
28	Related Party Transactions
29	Significant Accounting Estimate
30	Recent Accounting Changes
31	Forward-Looking Information
32	Other Information



Message from Management

Partners' income for 2008 amounted to \$12,502,000 compared to \$12,850,000 in 2007. The 2008 average rate base of \$452,344,000 was \$19,825,000 lower than in 2007 due to normal annual depreciation. The Company's debt-equity ratio (70/30) remained unchanged in 2008 as the Company awaited the National Energy's Board (NEB) decision on its 2007 and 2008 cost of capital application. The Company achieved a rate of return on equity (ROE) of 9.06 per cent in 2008 compared to 8.74 per cent in 2007, the increase in achieved ROE being consistent with the increase in the NEB's benchmark ROE for 2008.

In September 2008, the NEB approved the agreement the Company had reached with its interested parties with respect to all revenue requirement matters for the three year period commencing January 1, 2007 with the exception of cost of capital (and related income taxes).

In September and October 2008, the NEB held an oral hearing (RH-1-2008) on the Company's 2007 and 2008 cost of capital application. The Company had sought approval of a fair return on capital resulting from the application of an ROE of 11.0 per cent on a deemed equity component of 40 per cent of the TQM capital structure, together with the Company's actual cost of debt. The requested overall rate of return on capital was equivalent to an After-Tax

Weighted-Average Cost of Capital (ATWACC) of about 6.9 per cent based on the Company's actual cost of debt.

In its RH-1-2008 Reasons for Decision released on March 19, 2009, the NEB awarded the Company a 6.4 per cent total weighted average after-tax return for each of 2007 and 2008. It would have been approximately 5.5 per cent under the status quo. The NEB did not identify a capital structure for the Company leaving it to TQM to choose its optimal capital structure. Finally, the NEB directed the Company to file for 2007 and 2008 final tolls by April 30, 2009. The Company expects to collect in 2009 the additional 2007 and 2008 revenues resulting from the RH-1-2008 decision. These additional revenues which consist of additional return on capital and related income taxes total \$13,348,000, excluding carrying charges.

The intent of the Company is to initiate discussions with its interested parties on its 2009 cost of capital and on a new multi-year tolls agreement to be effective January 1, 2010.

The Company was reimbursed during 2008 for the expenditures it had incurred to the Eastern Access Project. The funds were used to repay amounts borrowed under the Term Loan and Partners' equity used for these expenditures.



Message from Management

The Company's \$100,000,000 Series H Bonds mature on August 24, 2009. Refinancing would not be required in 2009 if Partners' equity were increased to 40 per cent of the Company's capital structure. The Series H Bonds could be repaid using the additional equity from the Partners along with the financing available through the unused portion of its revolving term loan. The NEB decision not to specify a capital structure provides the Company with the flexibility to nevertheless pursue some refinancing in 2009 should the market conditions be favourable while increasing Partners' equity to a level between 35 and 40 per cent. The Company would migrate to its target equity ratio following the refinancing required in September 2010 when the Series I and J Bonds mature.

TQM Pipeline delivered 4.8 billion cubic metres (171 Bcf) in 2008 compared to 5.8 billion cubic metres (206 Bcf) in 2007. The shutdown of the Bécancour power plant for all of 2008 and lower exports at East Hereford account for the lower deliveries in 2008. Deliveries increased by 152 400 thousand cubic metres (5 Bcf) in 2008 at the Gaz Métro Montréal East delivery point. Although annual throughput was 17 per cent lower in 2008 relative to 2007, peak day deliveries were only down 2 per cent.

A new gear box was installed in 2008 on a compressor unit at Lachenaie to

accommodate a wider range of operating conditions arising from significant fluctuations in daily deliveries along both its Québec City and East Hereford segments.

Finally, system reliability and integrity are always of utmost importance but more so at a time when significant infrastructure related to Liquefied Natural Gas ("LNG") imports is in place and offers a competitive alternative to Portland Natural Gas Transmission System ("PNGTS") in delivering gas into New England. The Company experienced motor failures in 2008 on the two electric compressor units installed at the time of the construction of its PNGTS Extension. The Company will undertake minor upgrades and increase its maintenance program on these units in view of design issues. These actions should significantly improve the reliability of these compression facilities.

On the pipeline integrity front, the Company has expanded its public awareness program over the past few years but continues to have too many third party incidents. No pipeline ruptures have occurred. The Company will further expand this program to lower the number of such incidents.

Bernard Otis
Acting General Manager

Trans Québec & Maritimes Pipeline Inc.



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Chief Financial Officer

Management's Discussion and Analysis, dated March 19, 2009, should be read in conjunction with the audited Financial Statements of Trans Québec & Maritimes Pipeline Inc. (as mandatary of TQM Pipeline and Company, Limited Partnership) and the notes thereto for the year ended December 31, 2008. Amounts are stated in Canadian dollars.

Trans Québec & Maritimes Pipeline Inc. (the "Company" or "TQM Pipeline") is mandatary of TQM Pipeline and Company, Limited Partnership (the "Partnership"). Gaz Métro Limited Partnership ("Gaz Métro") and TransCanada PipeLines Limited ("TransCanada") are the general partners, each with 49.995% participation in the Partnership, and 3118240 Canada Inc. is the limited partner with the remaining 0.01% participation. Gaz Métro and TransCanada are also equal shareholders in the Company, 3118240 Canada Inc. and TQM Finance Inc., which acts as a financial intermediary between the Company and the Partnership.

TQM Pipeline built and operates an underground gas transmission system. Although the system is almost invisible on the surface, it crosses more than 75 municipalities and about 40 watercourses, including the St. Lawrence River in two places, near Montréal and Québec City. The pipeline is 572 kilometres ("km") long, including 3.5 km in a sub-fluvial tunnel near Québec City, and has a diameter ranging from 114 millimetres ("mm") to 762 mm.

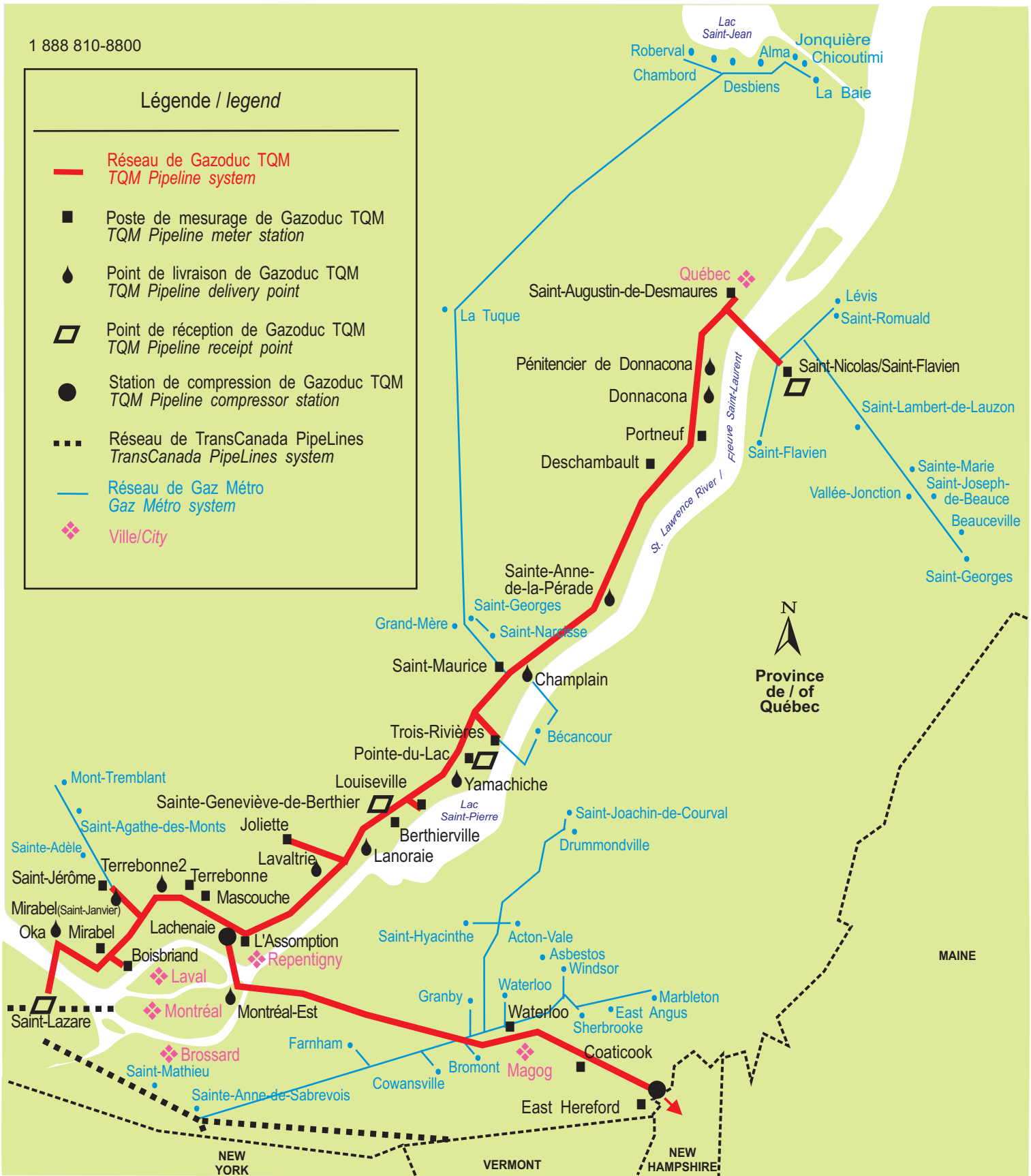


In addition to the underground system, TQM Pipeline's facilities include two compressor stations and 31 delivery points in the following areas: Montréal, the Laurentians, the Mauricie, Québec City, the Montérégie and the Eastern Townships. TQM Pipeline's Head Office is in Brossard.

1 888 810-8800

Légende / legend

- Réseau de Gazoduc TQM
TQM Pipeline system
- Poste de mesurage de Gazoduc TQM
TQM Pipeline meter station
- Point de livraison de Gazoduc TQM
TQM Pipeline delivery point
- ◻ Point de réception de Gazoduc TQM
TQM Pipeline receipt point
- Station de compression de Gazoduc TQM
TQM Pipeline compressor station
- Réseau de TransCanada PipeLines
TransCanada PipeLines system
- Réseau de Gaz Métro
Gaz Métro system
- ◆ Ville/City





Mission

TQM Pipeline is an energy carrier with a mandate to develop and operate its pipeline system safely, efficiently and profitably across Québec and the Maritimes.

To that end it will:

- ▶ **promote** the efficient use of natural gas;
- ▶ **aim** for high quality standards while using cost effective operational and administrative technologies;
- ▶ **encourage** the ongoing development of its employees;
- ▶ **comply** with all laws, regulations and bylaws, with the utmost respect for the environment; and
- ▶ **contribute** to the well-being and development of the communities in which it operates, acting as a good corporate citizen.



Highlights

Years ended December 31	2008	2007	2006
(dollar amounts in the table are in thousands)			
Operating revenues ^{(1) (2)}	\$85,786	\$83,727	\$80,204
Partners' income and comprehensive income ⁽¹⁾	\$12,502	\$12,850	\$13,132
Total assets ⁽¹⁾	\$459,857	\$488,946	\$498,460
Total long-term debt ^{(1) (3)}	\$210,500	\$330,500	\$340,700
Partners' withdrawals ⁽¹⁾	\$22,001	\$17,203	\$8,901
Approved average rate base	\$452,344	\$472,169	\$459,893
Rate of return on approved rate base	6.85%	6.78%	6.84%
Approved monthly tolls ⁽⁴⁾	\$7,179	\$6,700	\$6,700
Total natural gas deliveries	4.8 10⁹m³	5.8 10 ⁹ m ³	4.8 10 ⁹ m ³
Peak day ⁽⁵⁾	24.2 10⁶m³	24.7 10 ⁶ m ³	20.0 10 ⁶ m ³

(1) Prepared in accordance with Canadian generally accepted accounting principles.

(2) Operating revenues for 2007 include \$2,047,000 in deferred revenue agreed to in the Partial Settlement Agreement.

(3) In 2008, long-term debt has been presented in the financial statements net of unamortized debt issue costs of \$410,000, (\$714,000 in 2007). It does not include the \$100,000,000 of the Series H Bond which matures August 24, 2009.

(4) The approved monthly tolls for 2007 and 2008 are interim tolls.

(5) Historical peak day achieved on December 17, 2007 - 24.7 10⁶m³.



Financial Review

Partners' income in 2008 was \$12,502,000, a decrease of \$348,000 from the 2007 income of \$12,850,000. The decrease in income resulting from a Québec Sales Tax reassessment of \$307,000 and a \$19,825,000 lower average rate base in 2008 was partially offset by the increase in the NEB RH-2-94 formula rate of return on common equity (ROE) and lower financing charges.

Financing charges were also lower in 2008 as a result of lower term loan balances resulting from the cancellation and refunding of the Eastern Access Project expenditures, and lower than expected term loan financing rates.

Liquidity and Capital Resources

Funds Generated From Operations

Operating activities generated \$46,972,000 during 2008, an increase of \$14,547,000 in relation to the previous year. This fluctuation was due to a decrease in deferred charges (\$23,089,000), related mainly to the Eastern Access project reimbursement of expenditures, and the negative impact of changes in working capital (\$7,235,000) due primarily to a decrease in accounts payable and accrued liabilities.

Investing Activities

\$2,823,000 were used in investing activities in 2008, a decrease of \$108,000 compared with the previous year. Investing activities in 2008 were related to maintenance capital, the remediation of slopes at the St Maurice river crossing and compressor modifications at Lachenaie to accommodate a wider range of operating conditions.

Financing Activities and Capital Structure

\$44,138,000 were used in financing activities in 2008, an increase of \$14,177,000 mainly due to higher net repayments on the term loan (\$9,800,000) and higher partners' withdrawals (\$4,798,000) resulting from the cancellation of the Eastern Access project and reimbursement of the related expenditures by TransCanada.

On September 22, 2005, the Partnership and the Company entered into a new five-year term bank financing agreement. A maximum \$85,500,000 revolving term loan is authorized under this agreement. An \$80,000,000 2005 Demand Bond was issued by the Company and pledged (hypothecated with delivery) in favour of the lenders. This bond ranks pari passu with all other bonds issued by the Company. During 2007, this agreement was extended for one year now

Tolls and Tariffs

RH-2-94 Decision

In the fall of 1994, the NEB held the Multi-Pipeline Cost of Capital Proceeding (RH-2-94). In the RH-2-94 Decision, the NEB approved a rate of return on common equity (ROE) for a low-risk, high-grade benchmark pipeline and adopted a formula for adjusting the ROE on an annual basis (RH-2-94 Formula). The NEB also approved a 30 per cent equity thickness for all pipelines subject to the RH-2-94 Decision. The NEB's original objective was to adjust the capital structure to offset changes in business risk experienced by any given pipeline subject to the RH-2-94 Decision.

TQM has been subject to the RH-2-94 Decision and the associated adjustment mechanism from 1995 to 2006 inclusive.

2007 and 2008 Cost of Capital Application

On December 17, 2007, TQM applied to the NEB for approval of the Cost of Capital that would be utilized by TQM in the calculation of final tolls to be charged by TQM for or in respect of transportation services provided to customers between January 1, 2007 and December 31, 2008.

Pursuant to subsection 21(1) of the National Energy Board Act (Act), TQM applied for a review and variance of:

- ▶ the RH-2-94 Decision;
- ▶ NEB Order TG/TO-1-95 dated March 16, 1995;
- ▶ NEB approval dated November 23, 2006 of a ROE of 8.46 per cent for the year 2007; and
- ▶ NEB approval dated November 29, 2007 of a ROE of 8.71 per cent for the year 2008.

Effectively, the review and variance application was to allow for the determination of an overall fair return on capital for TQM for the years 2007 and 2008.

Pursuant to Part IV of the Act, TQM also applied for an order approving an overall fair return on capital for the years 2007 and 2008 resulting from the application of a rate of return of 11.0 per cent on a deemed equity component of 40 per cent of the TQM capital structure, together with the actual cost of debt of TQM. The requested overall return is equivalent to an ATWACC of about 6.9 per cent based on the Company's actual cost of debt.



Financial Review

2007 Interim Toll

By Order TGI-02-2006 of December 7, 2006, the NEB authorized a monthly interim toll of \$6,700,167 for TQM Pipeline, beginning January 1, 2007 as requested by the Company on November 30, 2006. The 2007 monthly interim toll corresponded to the monthly final toll for 2006.

2008 Interim Toll

By Order TGI-04-2007 of December 20, 2007, the NEB authorized a monthly interim toll of \$7,179,333 for TQM Pipeline, beginning January 1, 2008 as requested by the Company on December 4, 2007.

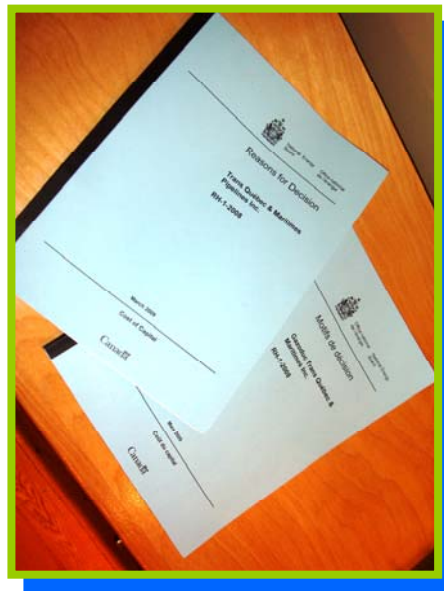
2009 Interim Toll Application

The Company filed an application dated December 1, 2008 with the NEB for interim tolls effective January 1, 2009. The application was based on the Partial Settlement agreed to by the interested Parties. The interim tolls application was approved by the NEB by Order TGI-05-2008 on December 16, 2008 authorizing a monthly interim toll of \$7,138,750.

Final Tolls

Orders from the NEB regarding the Partial Settlement and the Cost of Capital applications are required before 2007 and 2008 final tolls can be determined. The Partial Settlement application was approved by the NEB on September 4, 2008. The NEB's decision on the Cost of Capital Application was rendered on March 19, 2009.

Final tolls for 2009 will be determined once an agreement has been reached between the Company and its Interested Parties on the Company's 2009 Cost of Capital or failing this, following a decision from the NEB on this matter.



2007 and 2008 Cost of Capital Decision

On March 19, 2009 the NEB issued a decision on the Company's 2007 and 2008 Cost of Capital Application. In the decision, the NEB granted the variance from the RH-2-94 Decision sought by the Company as it relates to its cost of capital for 2007 and 2008. NEB agreed to vary from its methodology and set a 6.4 per cent ATWACC for 2007 and 2008. The decision granted the Company an aggregate return on capital, leaving the Company to determine its optimal capital structure. Based on the decision, the Company will establish final tolls for 2007 and 2008 and will apply to recover the variance between interim and final tolls for 2007 and 2008 tolls in 2009. This decision does not address TQM's cost of capital for 2009. This matter is to be resolved by negotiation between the Company and its interested parties or failing that will be litigated before the NEB.

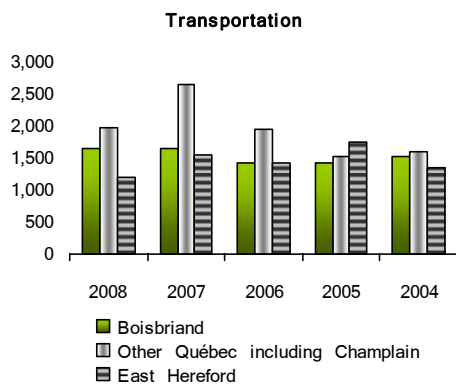
For comparison purposes, the NEB Decision equates to a 9.85% return on 40% deemed equity in 2007 and a 9.75% return on 40% deemed equity in 2008. Had no changes been made, TQM's total allowed return for purposes of establishing its revenue requirement would have been equal to a 8.46% and 8.71% return in 2007 and 2008 respectively on a 30% deemed equity.



Statistics

The following statistics concerning TQM Pipeline provide information on the results of its transportation, delivery and storage operations for the years 2004 through 2008.

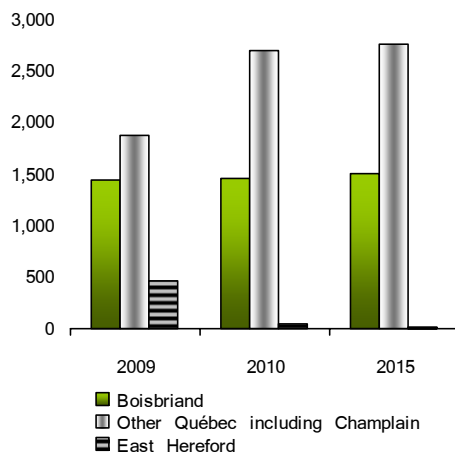
Transportation and Storage Volumes (10⁶m³)



	2008	2007	2006	2005	2004
Transportation					
Boisbriand	1,658	1,647	1,414	1,420	1,530
Champlain ⁽¹⁾	97	891	319	-	-
Other Québec	1,872	1,747	1,634	1,535	1,611
East Hereford	1,191	1,560	1,419	1,762	1,348
Total transported	4,818	5,845	4,786	4,717	4,489
Storage					
Injection	164	157	138	157	146
Withdrawal	153	159	108	140	123

(1) Serves the Bécancour Power Plant

Forecast Gas Delivery (10⁶m³)



	2009	2010	2015
Boisbriand	1,445	1,454	1,507
Other Québec ⁽²⁾	1,886	2,701	2,769
East Hereford ⁽³⁾	473	51	18
Total	3,804	4,206	4,294

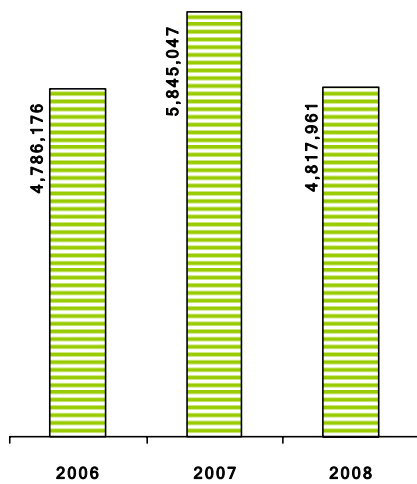
(2) The Bécancour Power Plant was shut down for 2008 and will remain shut down for all of 2009 because Hydro-Québec has excess energy. The lower forecast reflects uncertainty regarding post 2009 utilization of Power Plant.

(3) Forecasted deliveries to the East Hereford export point reduced as import of LNG at Canaport facility in New Brunswick and transported along an expanded Maritimes to Northeast pipeline affects the annual deliveries of PNGTS in the New England market.

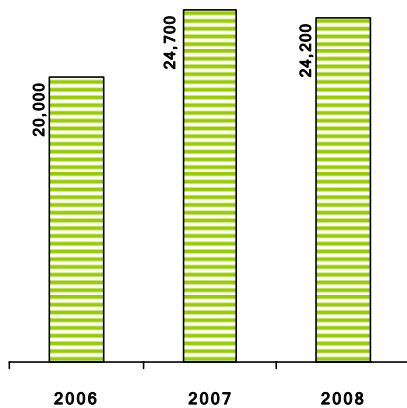


Gas Volumes Delivered 10³m³

Total deliveries



Peak day Deliveries



Delivery Points

Total Deliveries 2008

Delivery Points	Total Deliveries 2008
Oka	1,191
Boisbriand	1,658,492
Mirabel	5,235
Mirabel (Saint-Janvier)	21,132
Saint-Jérôme	76,702
L'Assomption	29,424
Lavaltrie	167
Joliette	78,746
Lanoraie	2,602
Berthierville	6,053
Terrebonne 2	4,536
Mascouche	4,935
Terrebonne	18,763
Louiseville	8,742
Yamachiche	3,787
Pointe-du-Lac	37,866
Trois-Rivières	188,586
Saint-Maurice	476,014
Sainte-Anne-de-la-Pérade	233
Deschambault	17,997
Portneuf	31,020
Donnacona	5,612
Pénitencier de Donnacona	587
Saint-Augustin-de-Desmaures	247,231
Saint-Nicolas	178,890
Saint-Flavien	126,329
Waterloo	99,156
Coaticook	3,821
Champlain	96,729
Montréal-Est	196,493
East Hereford	1,190,890
TOTAL	4,817,961



Integrated Public Awareness

The Integrated Public Awareness program that was initiated in 2005 to target high risk areas, continued in 2008. The Company has too many incidents in comparison to its peers, so this awareness program emphasized the reduction of unauthorized encroachments to land owners and contractors along its pipeline. The goal of the program is to visit with every TQM landowner. Additionally, the Company has an annual calendar mail out program to provide landowners and contractors with emergency and information phone numbers for their reference. TQM Services also meets regularly with emergency services in the high risk areas to discuss emergency planning.

In 2008, an external consultant made presentations to all Québec Municipalities in which the Company operates that were not completed the previous year. These visits promoted safety and awareness about development near the Company's right-of-ways. In addition, a mailing campaign targeted at the residents of all Québec Municipalities in which TQM operates was launched in February. The campaign is intended to inform residents of the guidelines for working safely around pipeline facilities.

The public must be made aware of appropriate procedures for working and living near a high-pressure gas pipeline. To accomplish this, the Integrated Public Awareness program will continue to be evaluated and expanded in the coming years.

Management of System Integrity

TQM experienced no ruptures or leaks along the pipeline during 2008. TQM Services monitors the right-of-way for both leaks and unauthorized encroachments using aerial patrols. Two weekly patrols are done on the Montréal to Trois-Rivières and Magog to Montréal segments, due to their dense population and history of encroachments. The remainder of the pipeline, comprised of the system's laterals, is flown twice annually.



St-Maurice River Crossing

In 2005, additional movement was noted on a slope adjacent to the right-of-way. An engineering assessment was performed, concluding that there was no threat to the integrity of the pipeline. Work to help reduce the surface erosion in the area was completed in 2008.

Pipeline Imperfection

During 2008, the Company continued its analysis of the imperfection previously detected on a pipe section located directly under Highway 640. Under the action plan identified in 2007, the Company ran a new tool with improved technology through the line which resulted in the same imperfection being identified. The imperfection is not thought to be a crack but further investigation is needed. The Company has scheduled a dig in May of 2009 on a different section of pipe with the identical imperfection readings to visually identify what is causing the tool to show these results.

Environment

In June 2008, the Company conducted an annual third-party environmental audit. No significant issues were identified.



Force Majeure

TQM declared Force Majeure under the terms of its transportation contract from December 13 to 30, 2008, due to motor failures at two of the Company's compressor stations. These failures resulted in the curtailment of discretionary shipments of gas and restriction of firm deliveries.

Design issues have been identified on the units installed as part of the construction of TQM's PNGTS extension. The Company will undertake minor upgrades and increase its maintenance programs on these units to improve their reliability.

Looking forward to 2009, TQM will:

- ▶ Establish final tolls for 2007 and 2008 per the NEB RH-1-2008 Decision and recover in 2009 the \$13,348,000 additional revenues resulting from this Decision;
- ▶ Refinance up to \$75 million of long-term debt in 2009 if market conditions are favourable;
- ▶ Refine current refinancing plan for 2010 as additional market information becomes available;
- ▶ Seek a fair return on capital for 2009 (preferably by way of agreement with its Interested Parties);
- ▶ Pursue a new multi-year tolls agreement with its Interested Parties to become effective January 1, 2010;
- ▶ Improve system reliability and reduce the number of third-party pipe line incidents; and
- ▶ Work with the upstream and downstream pipelines to retain load at the East Hereford export point.

Market Risk and Competitive Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the company's earnings or the value of its holdings of the financial instruments. Foreign exchange and interest rate risk is created by fluctuations in the fair values or cash flows of financial instruments due to changes in foreign exchange rates and/or in the market interest rates.

The Company has long-term debt that has a fixed interest rate, and therefore, is subject to interest rate price risk. During the period, the Company had no positions in swaps for interest or foreign exchange management.

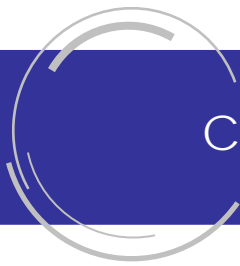
The Company faces competition from other sources of gas supply to the Québec and New England markets and also faces pressure owing to decreased demand for natural gas in favour of electricity and oil. There is an unusually high level of competition between gas and electricity in the Québec market compared to the competition observed in markets outside Québec. The price of electricity in Québec is relatively stable and predictable, and is increasing at approximately the rate of inflation. Recent environmental programs and

politics implemented by the Québec government favour cleaner sources of energy, such as natural gas. These programs may promote consumers to switch their fuel consumption from oil to natural gas in the short-term. However, over the medium-term to long-term, these programs and new hydro-electric projects in Québec could encourage an overall switch from carbon-based fuels to electricity. In the New England market, which is served via the PNGTS Extension, competition is increasing from new gas infrastructure and new gas supplies into the market area served.

The Company also faces significant competitive risk in the New England market, where pipeline expansions and LNG facilities could reduce the share of the market which can be served by Western Canadian Sedimentary Basin ("WCSB") gas delivered via the Pipeline System. The uncertainty affects the risk associated with an extension of the PNGTS which represents roughly half of the net book value of the Pipeline System.

Cost Risk

The Company is at risk for costs varying in excess of levels fixed for the period from January 1, 2007 to December 31, 2009 under the terms of the Partial Settlement. The Company is not exposed to commodity



Company Risks

price movements as part of its normal business operations.

Supply Risk

TQM Pipeline faces the risk that insufficient gas supply may drive tolls (and the commodity price) to levels that significantly reduce the demand for gas in the markets served by the Company. TQM Pipeline's T-1 service is contracted by TransCanada for deliveries from its Canadian Mainline.

TransCanada's Canadian Mainline is supplied primarily by gas from the WCSB. Other sources of gas supply are from Dawn, and, potentially, imported LNG and shale gas production in Québec.

The Dawn supplies today are primarily sourced from a western Canada and transported from Dawn using the Eastern portion of TransCanada's Mainline. The expected levels of LNG imports into Canada remain unclear at this time.

By-Pass Risk

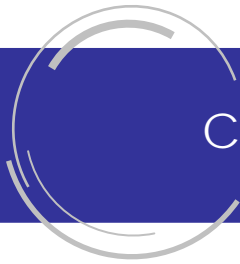
Interest in shale gas in Québec has increased significantly since the announcement in April 2007, of a discovery of what may correspond to extensive, commercially viable quantities of natural gas in the Utica Shale of Québec's St. Lawrence lowlands. This source of supply in Québec, should it materialize, could present an opportunity for

the Company to receive and transport such gas production. On the other hand, exploration is being considered in areas which are also in close proximity to the Gaz Métro network. The production could potentially flow directly into the Gaz Métro network thereby reducing the need for certain quantities of gas currently transported by the Company.

Regulatory Risk

TQM Pipeline's cost of capital and tolls are subject to approval by the NEB. The overall return on capital that is approved by the NEB or achieved by TQM Pipeline could vary from the level that the Company considers to be fair.

In its March 19, 2009 Decision on TQM's 2007 and 2008 Cost of Capital Application, the NEB agreed to vary from its previous methodology and set a 6.4 per cent total weighted average after-tax cost of capital for each of these two years. The NEB also granted TQM an aggregate return on capital leaving it to the Company to choose its optimal capital structure. TQM believes that the return awarded by the NEB in its Decision is in keeping with the fair return standard. The NEB's Decision to vary from its previous cost of capital methodology only applies to 2007 and 2008.



Company Risks

The Pipeline System has, since 1982, been part of the integrated TransCanada Canadian Mainline system. This is accomplished by TransCanada contracting for virtually all, of the firm transportation capacity of the Pipeline System from Saint-Lazare; including the cost of transportation it pays the Company in the revenue requirement of its Canadian Mainline, pursuant to a Transportation Services Agreement. Furthermore, TransCanada offers service from receipt points on its Canadian Mainline to all the delivery points located along the Pipeline System. There are factors that, if they materialize and are acted upon, may cause the integration of the Pipeline System with the Canadian Mainline to be a challenge.

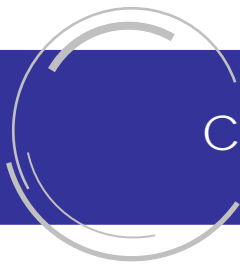
Throughput on TQM has been decreasing as a result of several factors, including the increased competition faced by PNGTS in the New England market, the continued and increasing competition faced by the Gaz Métro market from alternative fuels; and the specific government policies that encourage a move away from carbon-based fuels. These factors could cause the integration of the Pipeline System with the Canadian Mainline or they could prompt another challenge to the current tolling method of the Pipeline System.

Liquidity & Refinancing Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient cash and credit facilities to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Company's reputation.

The Company's business operations result in reasonably predictable cash flows. Management typically forecasts these cash flows for a period of twelve months to identify operational and investing requirements. These requirements are then addressed using a demand credit facility. Currently, the Company has approximately \$50 million available for use under an \$85 million term loan facility.

Global financial markets have recently experienced severe turmoil and as a result, the Company may face additional risk related to the refinancing of its upcoming debt maturities in August, 2009 and September, 2010 in the most cost competitive manner.



Company Risks

Environmental Safety and Service Continuity Risk

The Company's operations are subject to various environmental laws and regulations relating to compliance and remediation.

There are no outstanding orders, material claims or lawsuits against the Company in relation to the release or discharge of any material in the environment or in connection with the environmental protection.

Environmental risks from the Company's facilities typically include potential land impacts including land reclamation following construction. The planning, construction and operation of the Company's facilities are carried out and monitored in a comprehensive way in order to comply with government standards. In fact, appropriate practical measures are taken to prevent or mitigate adverse environmental impacts on the Company's activities.

In addition, the personnel working on the Pipeline System are trained in current environmental protection techniques and they are well aware of the importance of environmental issues. Independent experts periodically conduct environmental audits to identify any non-compliance with governmental or corporate standards. Any corrective measures required are taken without delay.

Ensuring the Pipeline System's integrity and avoiding interruptions to the Corporation's operations depends on the Corporation's ability to closely monitor and protect the Pipeline System including equipment and information stored in data centres. Ensuring safety and continuity of service from damage due to unauthorized encroachments, fire, natural disasters, power outages, break-ins, computer viruses, acts of war or terrorism and other similar situations is also of utmost importance to the Corporation as any one of these events could interrupt service at any time, with repercussions to customers, landowners, the public and the Corporation's operating results. Accordingly, the Corporation places a high priority on operating, maintaining and protecting the integrity of the Pipeline System in order to avoid or minimize service interruptions and inadvertent gas leakages.

Capital Management

The Company and its partners have in the past managed the debt and equity structure at 70 per cent debt and 30 per cent equity to be consistent with the debt equity ratio approved by the NEB and which was also used for the purpose of determining the Company's revenue requirement. The Company was allowed to choose its own optimal equity structure as directed from the NEB Cost of Capital decision. The Company's present debt is composed of three long-term bond issues and a term loan credit facility. The Company attains the ratio by managing the repayments and issues of the term loan facility in addition to the equity dividends and cash calls to the Partners. Through the use of annual models, the Company can reasonably predict the future cash requirements and financing required to attain the 70/30 debt-equity ratio or a ratio which it deems optimal. In 2008, the overall objective and policy for managing capital remained unchanged from the prior year.

Financial Instruments

The CICA requires that all financial instruments must initially be included on the balance sheet at their fair market 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.

- ▶ Trade accounts receivable and other receivables are classified as loans and receivables. They are measured at amortized cost, which is generally the initial recognized amount, less any allowance for doubtful accounts.
- ▶ Accounts payable and accrued liabilities and interest payable are classified as other financial liabilities. They are measured at cost using the effective interest method.
- ▶ Long-term-debt is classified as other financial liabilities. It is measured at amortized costs using the effective interest method. The Company offsets debt transaction costs against the associated debt. In 2008 the offset against debt was \$410,000 (\$714,000 in 2007).



Capital Management & Financial Instruments

As at December 31, the fair value of the Company's long-term debt is detailed as follows:

	2008		2007	
	Fair value	Carrying value	Fair value	Carrying value
Term loan	35,206	35,500	55,500	55,500
Series H Bonds	101,461	100,000	102,827	100,000
Series I Bonds	103,948	100,000	105,799	100,000
Series J Bonds	74,092	75,000	73,384	75,000

The fair value of the term loans and bonds are determined based on current 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.

All other financial instruments are short-term financial instruments whose fair value approximates the carrying amount given that they will mature shortly.

Effectiveness of Disclosure Procedures and Controls

Having assessed the effectiveness of controls and procedures over financial reporting used by TQM Pipeline, management has concluded that these controls and procedures provide reasonable assurance that the financial statements, management's report and annual information form for the fiscal year ended December 31, 2008 is relevant, reliable and accurate.



Contractual Obligations

Obligations and Commitments

At December 31, 2008, the Company's contractual obligations were as follows:

Contractual Obligations (thousands of dollars)	2009	2010	2011	2012	2013+
Principal payments on long-term debt	100,000	175,000	35,500	-	-
Interest payments on long-term debt	15,372	8,304	515	-	-
Operating leases	54	54	54	51	14
Purchase Obligations ⁽¹⁾	10,903	9,770	-	-	-

(1) Under the TQM/TQMSL Agreement (see "Material Contracts - TQM/TQMSL Agreement"), the majority of the Corporation's operating functions are performed by TQMSL. The amount payable under this agreement for the year 2009 will be \$9,770,000. The remaining purchase obligations in 2009 (\$1,133,000) are amounts owing to third party suppliers for the purchase of services and equipment. The amount payable for the year 2010 will be based on the 2009 amount, adjusted to reflect inflation and the salaries and social benefits of the ultimate service provider's employees, the whole based on a respective 25 per cent (inflation)-75 per cent (salaries/social benefits) weighted adjustment.

Guarantees

The Company had no outstanding guarantees related to the long-term debt of unrelated third parties at December 31, 2008.

Contingencies

In September 1996, the Company instituted a Court action before the Superior Court against the contractor responsible for the tunnel portion of a sub-river extension of its pipeline, near Québec City, claiming approximately \$1,690,000 as damages resulting from the delays caused by the contractor. In response to this action, the contractor claimed from the Company



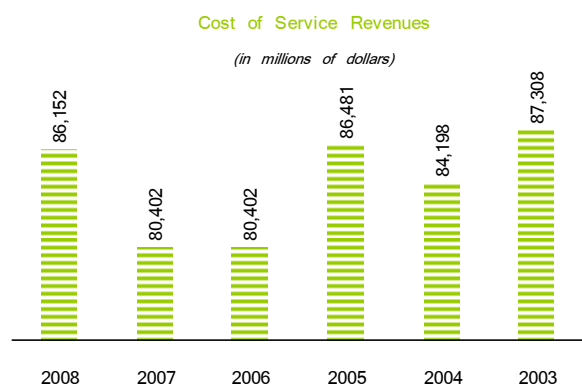
Contractual Obligations

approximately \$8,500,000 principally for cost overruns, which was subsequently reduced to \$4,600,000. The Company believes that it has a valid claim against the contractor and that the claim of the contractor against it is unfounded. An arbitration date of May 26, 2009 has been set for the Parties to present their cases to an Arbitrator.

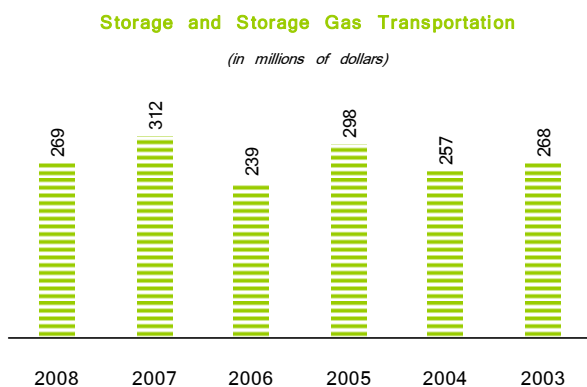
In October 2008 the Company was notified by The Sintra Group of a possible claim against the Company with regards to land that was expropriated from Sintra in 1998. At this time there has been no official indication from Sintra of the value of their claim, hence an estimate of the amount of the contingency cannot be determined. However, the Company does not expect this to have a material impact on its financial condition.

Related Party Transactions

Cost of service revenues totalling \$86,152,000 in 2008 (\$80,402,000 in 2007) have been recorded for gas transportation services rendered to TransCanada. A transition deferral of \$2,047,000 was recorded in 2007, and has been recovered through the 2008 interim tolls.



Revenues relating to storage and storage gas transportation totalling \$269,000 in 2008 (\$312,000 in 2007) have been recorded for services rendered to Gaz Métro.



Municipal and other taxes include amounts of \$1,110,000 in 2008 (\$1,501,000 in 2007) charged by the partners in respect of capital taxes.

Effective January 1, 2003, pursuant to a service agreement, the majority of the Company's operating functions are provided by TQM Services, which is owned equally by TransCanada and Gaz Métro. During 2008, TQM Services charged the Company a Service Fee of \$9,281,000 for operating services (\$8,802,000 in 2007). The increase in 2008 is due to the annual adjustment provided for in the Agreement. In addition, on behalf of TQM Services, TransCanada charged the Company \$4,547,000 for costs related to additions to property, plant and equipment and \$447,000 for additional operating services (\$11,709,000 and \$188,000 in 2007, respectively). Also during 2008, TransCanada charged the Company \$3,684,000 for costs incurred related to the NEB Cost of Capital Hearing (\$1,058,000 in 2007). In accordance with the terms of the agreement between the Company and TQM Services, these amounts were paid to TransCanada. The Company was also reimbursed by TransCanada \$11,494,000 for costs previously incurred on the Eastern Access project which was cancelled in the first quarter of 2008.

All transactions have been measured at the exchange amount.



Significant Accounting Estimate

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Company's financial statements requires the use of estimates and assumptions, which have been made using careful judgement. TQM Pipeline's most significant critical accounting estimate is depreciation expense. The Company's property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Depreciation expense for the year ended December 31, 2008 was \$23,920,000. However, depreciation rates for TQM Pipeline are approved by the NEB and depreciation expense is recoverable as part of the cost of providing the services. A change in the estimation of the useful lives of the Company's property, plant and equipment would therefore have no material impact on the Company's net income but would directly impact the cash flows from operating activities.



Recent Accounting Changes

Note 4 to the financial statements (Changes in Accounting Policies) provide details of the accounting policies adopted in 2008 as a result of the following new accounting standards:

- ▶ Inventories - Section 3031
- ▶ Capital Disclosure - Section 1535

Note 4 also provides information about accounting standards that will be applicable in the future:

- ▶ Rate Regulated Operations - Section 1100 and Section 3465
- ▶ Intangible Assets - Sections 1000, 3064, and 3450
- ▶ Credit Risk and the Fair Value of Financial Assets & Liabilities - EIC-173 (Section 3855)
- ▶ International Financial Reporting Standards



Forward-looking Information

Certain information in this Management's Discussion and Analysis is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include, among other things, the ability of TQM Pipeline to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, regulatory decisions, competitive factors in the pipeline industry sector, and the prevailing economic conditions in North America. For additional information on these and other factors, see the reports filed by the Company with Canadian securities regulators. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.



Other Information

Additional information relating to TQM Pipeline, including the Company's Annual Information Form, is posted on SEDAR at www.sedar.com under Trans Québec & Maritimes Pipeline Inc.

Selected Quarterly and Annual Financial Data ⁽¹⁾

Three months ended (thousands of dollars)	2008					2007				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Operating revenue	20,981	20,924	21,288	22,593	85,786	20,909	20,628	20,193	21,997	83,727
Partners' income and comprehensive income	3,169	3,350	3,194	2,789	12,502	3,168	3,187	2,861	3,634	12,850
Partners' withdrawals	-	11,701	3,900	6,400	22,001	-	6,001	2,001	9,201	17,203

(1) The selected quarterly and annual financial data has been prepared in accordance with Canadian generally accepted accounting principles.

The Company's annual revenues and partners' income fluctuate over the long term based on decisions by the NEB and negotiated settlements with interested parties, which in turn are influenced by changes in the Company's annual costs. These costs include operating, maintenance and administration costs, depreciation, taxes, and operating return, which comprises debt costs and the NEB approved return on equity associated with the Company's approved rate base.

Generally, quarter over quarter revenues and earnings during any particular fiscal year

remain fairly stable with fluctuations arising due to items outside of the normal course of operations. Partners' withdrawals fluctuated on a quarter over quarter basis to maintain a 70/30 debt-equity ratio.

Partners' income for the three months ended December 31, 2008 was \$2,789,000, a decrease of \$845,000 from the same period in 2007. The primary factor causing this decrease is that in December 2007, the Transition Income Deferral of \$2,047,000 from the "Partial Settlement" was recorded in revenue.

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