



TQM
Pipeline



ACHIEVEMENTS 2006

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Achievements 2006

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In 2006, the rate of return on rate base decreased from 7.53% to 6.84%, reflecting the lower interest rate on debt, which dropped from 6.70% to 5.97%, and the decrease in the approved rate of return on equity from 9.46% to 8.88%. The average rate base decreased from \$471,777,000 to \$459,893,000. The Company achieved incentive earnings of approximately \$314,000 which were shared equally with the customers in accordance with terms of the cost savings initiative agreement.

Tolling matters

The Company filed an application for final 2006 tolls for which it secured support from the interested parties and approval from the National Energy Board (the “NEB” or “Board”). The final tolls reflect an annual cost of service of \$80,402,000. All but a small portion of the total capital costs related to the Lachenaie compressor station expansion which was placed into service on November 1, 2006 were included in the approved 2006 rate base. The remaining Lachenaie expansion related costs to be incurred in 2007 will be included in the Company’s application for final 2007 tolls.

The Company also initiated discussions with the interested parties on a multi-year toll Settlement agreement to replace the actual multi-year cost savings initiative agreement which was expiring on December 31, 2006. A Settlement offer was submitted to the interested parties in

November 2006 but exchanges were put on hold to allow the interested parties to conclude a separate and unrelated agreement with another, major, pipeline. The Company therefore sought and received support from the interested parties and approval from the Board to set interim tolls beginning January 1, 2007 at the same level as in 2006.

The Company is of the view that its equity ratio should be increased from 30% to 36%. A multi-year toll Settlement offer is currently under discussion with its Interested Parties. In the event that agreement cannot be reached on the increase in equity ratio, TQM intends to pursue this issue before the NEB.

System throughput and capacity

TQM Pipeline delivered 4.8 billion cubic metres (169 Bcf) in 2006 as compared to 4.7 billion cubic metres (167 Bcf) in 2005 - an overall increase of approximately 1.5%.

The Company’s annual flow to the East Hereford interconnect with PNGTS was down 19.5% in 2006 relative to 2005 which had been an exceptional year (up by 30.7%) as Hurricane Katrina had impaired gas production from the Gulf of Mexico. The 2006 annual flow at East Hereford nevertheless represents a 5.2% increase over 2004.



This is consistent with the interest expressed in potential incremental service to East Hereford over the next couple of years - albeit on a short term basis only.

Deliveries in Québec in 2006 were up by 13.9% relative to 2005. The Lachenaie compressor expansion was driven in part by the fuel requirements of the new gas-fired cogeneration power plant in Bécancour. The power plant went into service earlier than expected thus contributing to the increased deliveries in Québec. In another unrelated project, Gaz Métro has extended its facilities to interconnect with the TQM Pipeline in Montreal East. Deliveries at this new point were initiated in February 2007 and will contribute to increasing the Company's throughput in 2007. The peak day deliveries at this new point correspond to approximately fifty percent (50%) of those of the Bécancour power plant.

The new Bécancour and Montreal East loads combined with the single compressor unit at East Hereford currently prevent TQM Pipeline from offering additional firm service at East Hereford - the service could not be guaranteed on a winter peak day in the event of a loss of a compressor unit. The Company is actively seeking ways to satisfy the interest for incremental service at East Hereford.

Pipeline Integrity

A full integration of integrity management was undertaken in prior years. New computerized systems and a significant volume of data obtained from previous in-line inspections and excavation results have culminated in a revised sound pipeline integrity plan that is responsive to the risks involved in the operation of the Company's pipeline facilities. There were no ruptures or leaks along the Company's pipeline during the year.

Public awareness

TQM Pipeline continued its public awareness and information program.

The number of incidents on the TQM Pipeline nevertheless increased in 2006. Third party incidents along the TQM Pipeline are high relative to that of the other eight pipelines in the comparison group. The situation is being closely monitored and an enhanced program will be considered should the situation not improve in the second year of the current program.

As well its efforts toward public awareness, TQM Pipeline contributed to the communities it belongs to through the payment of \$2,550,000 of municipal and school taxes to Québec municipalities crossed by the TQM Pipeline system.



Credit ratings

With a balanced financial structure and sound management, the Company maintained its credit ratings, namely “A (low)” from Dominion Bond Rating Service and “BBB+” from Standard & Poor’s.

The Company has sufficient flexibility under its \$85 million Term Loan to cover the development costs that are forecasted for 2007.

Development Project

TQM Pipeline continues to be well positioned to benefit from the advent of imported liquefied natural gas (“LNG”). In November 2006, the Company entered into a Precedent Agreement with TransCanada Pipelines Limited to provide transportation service from the Cacouna LNG Project located along the St- Lawrence river near Rivière-du-Loup in Québec to various points located along the existing TQM Pipeline. The Agreement requires the Company to use all reasonable efforts to expand the capacity of its pipeline to transport 14,000 $10^3\text{m}^3/\text{day}$ for a 20-year period starting on December 1, 2009 or as soon as possible thereafter.

Bernard Otis
Acting General Manager

Trans Québec & Maritimes Pipeline Inc.

The Company is targeting to file a facilities application in the fourth quarter of 2007. The capital cost of the required TQM Pipeline expansion is estimated to be in the range of \$700 million. The Precedent Agreement provides full financial backstopping to the Company.



Directors

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 Corporate Control*

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*Vice-President
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Bernard Otis ^{(1) (2)}
Acting General Manager

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(1) Executive Committee
 (2) Audit Committee

Management

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Acting General Manager

Amy W. Leong
Chief Financial Officer

Jean-Marc Rousseau
Financial Manager

Martin Imbleau
Chief Executive Officer



Management's Discussion and Analysis, dated March 9, 2007, should be read in conjunction with the audited Financial Statements of Trans Québec & Maritimes Pipeline Inc. (As mandatory of TQM Pipeline and Company, Limited Partnership) and the notes thereto for the year ended December 31, 2006. Amounts are stated in Canadian dollars.

Trans Québec & Maritimes Pipeline Inc. (the "Company" or "TQM Pipeline") is mandatory 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.

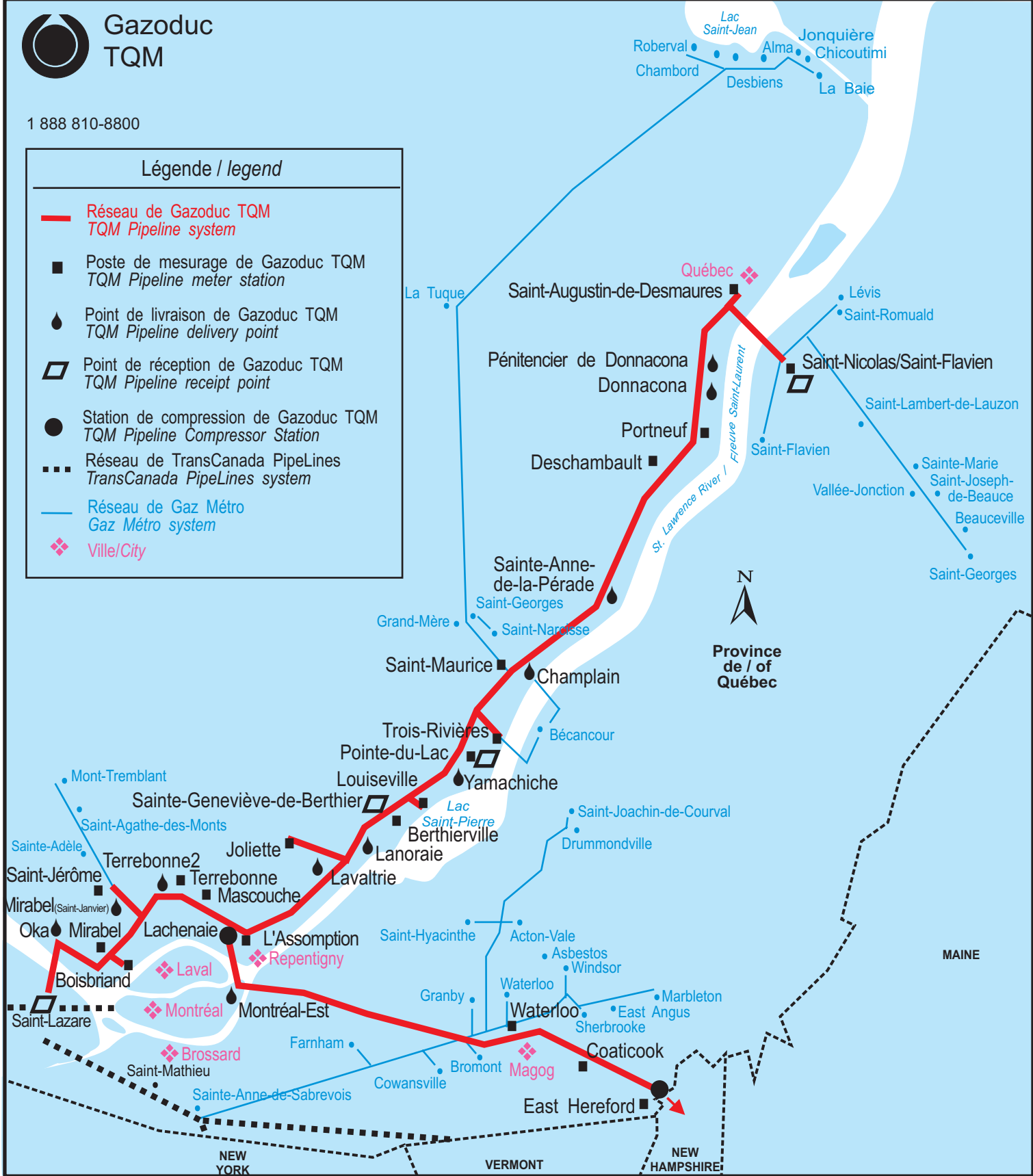
TQM Pipeline built and operates an underground gas transmission system. Although the system is almost invisible on the surface, it crosses more than 75 municipalities and about 40 watercourses, including the St. Lawrence River in two places, near Montréal and Québec City. The pipeline is 572 kilometres ("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 30 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.



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





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.



Years ended December 31 (dollar amounts in thousands)	2006	2005	2004
Operating revenues ⁽¹⁾	\$80,204	\$87,538	\$84,468
Partners' income ⁽¹⁾	\$13,132	\$14,628	\$14,216
Total assets ⁽¹⁾	\$498,460	\$486,161	\$496,646
Total long-term debt ^{(1) (2)}	\$340,700	\$332,000	\$254,600
Partners' withdrawals ⁽¹⁾	\$8,901	\$17,302	\$19,502
Approved average rate base	\$459,893	\$471,777	\$463,584
Weighted rate of return on approved rate base	6.84%	7.53%	7.78%
Approved monthly tolls	\$6,700	\$7,207	\$7,017
Total natural gas deliveries	4.8 10 ⁹ m ³	4.7 10 ⁹ m ³	4.5 10 ⁹ m ³
Peak day ⁽³⁾	20.0 10 ⁶ m ³	19.8 10 ⁶ m ³	21.0 10 ⁶ m ³

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

(2) The First Mortgage Bonds Series G in the amount of \$85,000,000 matured in September 2005 and accordingly, this amount was presented in the financial statements in current liabilities, under long-term debt due within one year in 2004.

(3) Historical peak day achieved on February 13, 2002 - 21.5 10⁶m³.



Partners' income in 2006 was \$13,132,000, a decrease of \$1,496,000 from 2005. The primary factors causing this decrease are a lower approved rate of return together with a lower approved average rate base in 2006 resulting in lower equity return. Operating cost savings achieved under the terms of the 1997 and Multi-Year Tolls Agreement again had a positive impact on earnings. This agreement between TQM Pipeline and the parties interested in its tolls and tariffs was initially signed on January 6, 1997 and was to expire on December 31, 2001. In 2001, the agreement was extended to cover the period of January 1, 2002 through December 31, 2006. Under this agreement, savings achieved on certain designated components of the Company's operating costs against a benchmark amount are shared equally between the Company and its customers. In 2006, the Company achieved incentive earnings of approximately \$314,000 which were shared equally with our customers.

Liquidity and Capital Resources

Funds Generated From Operations

Operating activities generated \$37,365,000 during 2006, an increase of \$2,710,000 in relation to the previous year. This fluctuation can be explained mainly by a decrease in deferred charges (\$863,000) and the positive impact of changes in working capital (\$2,479,000) due mainly to a decrease in trade accounts receivable-partners together with a decrease in accounts payable and accrued liabilities.

Investing Activities

Investing activities required \$34,123,000 in 2006, an increase of \$27,999,000 compared with the previous year, primarily resulting from costs incurred for the construction at the Lachenaie compressor station expansion project. Capital spending includes construction of new facilities, which are dependent on requests from customers for new services, as well as capital maintenance.



Financing Activities and Capital Structure

Financing activities required \$2,750,000 in 2006, a decrease of \$25,326,000 mainly because of increased usage of the term loan (\$6,300,000), lower partners' withdrawals (\$8,401,000), and no bond issuances or repayments in 2006 of (\$10,000,000).

The \$85,000,000 First Mortgage Bonds, Series G (the "Series G Bonds") matured in September 2005 and were replaced with the issuance of \$75,000,000 Series J Bonds which mature in September 2010. 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. The proceeds of this financing were used to repay all outstanding amounts due under the bank financing agreement entered into April 1, 2003, repay \$10,000,000 of the Series G Bonds maturing on September 22, 2005, and for other corporate purposes. 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.

A balanced financial structure and sound management enabled the Company to maintain its credit ratings, namely "A (low)" from Dominion Bond Rating Service and "BBB+" from Standard & Poor's. The Company's ability to generate adequate amounts of cash in the short term and the long term when needed, and to maintain financial capacity and flexibility to provide for planned growth, remains strong.



Capital Structure

Description	Amount		Rate	Date		
	As at	As at		Issue	Maturity	
	2006-12-31	2005-12-31				
(\$000,000)	(\$000,000)	%				
Series H Bonds	100.0	100.0	6.50	1999-08-16	2009-08-24	
Series I Bonds	100.0	100.0	7.053	2000-07-17	2010-09-22	
Series J Bonds	75.0	75.0	3.906	2005-09-22	2010-09-22	
Term loan	65.7	57.0	(1)	2005-09-22	2010-09-22	
Total long-term debt	340.7	332.0				
Equity	147.2	143.0				
Total long-term debt and equity	487.9	475.0				
				Distribution		
					As at 2006-12-31	
					As at 2005-12-31	
				Bonds	56.4%	57.9%
				Equity	30.2%	30.1%
				Term loan	13.4%	12.0%
					100.0%	100.0%

(1) Rate set in relation to prime rate



Tolls and Tariffs

2006 Toll Application

On December 8, 2005 TQM Pipeline filed an application for interim tolls for 2006, which were authorized by the Board in Order TGI-04-2005 on December 21, 2005. On October 18, 2006, after discussions with the parties interested in its tolls and tariffs and with their agreement, the Company filed its toll application for the period from January 1 to December 31, 2006. In Order TG-09-2006 of November 3, 2006, the Board authorized the tolls as requested.

The main points are summarized as follows:

- ✚ the cost of service is \$80,402,000;
- ✚ the rate of return on equity approved by the Board decreased from 9.46% to 8.88%, calculated according to the pre-established formula;
- ✚ the average rate base decreased from \$471,777,000 to \$459,893,000;
- ✚ the rate of return on rate base decreased from 7.53% to 6.84%, reflecting the lower interest on debt, which decreased from 6.70% to 5.97%, as well as the reduction in the rate of return on equity approved by the Board.



2007 Interim Toll Application

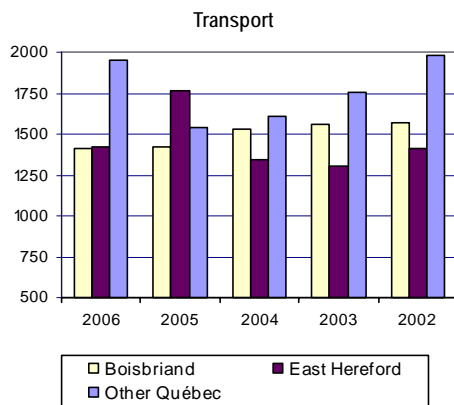
The Company initiated discussions with the interested parties on a multi-year toll Settlement agreement to replace the multi-year cost savings initiative agreement which was expiring on December 31, 2006. A Settlement offer was submitted to the interested parties in November 2006 but exchanges were put on hold to allow the interested parties to conclude a separate and unrelated agreement with another, major, pipeline. The Company therefore sought and received support from the interested parties and approval from the Board to set interim tolls beginning January 1, 2007 at the same level as in 2006.

Accordingly, in Order TGI-02-2006 of December 7, 2006, the Board 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.



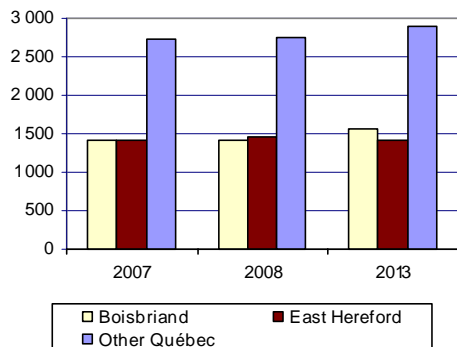
The following statistics concerning TQM Pipeline provide information on the results of its transportation, delivery and storage operations for the years 2002 through 2006.

Transportation and Storage Volumes (10⁶m³)



	2006	2005	2004	2003	2002
Transportation					
Boisbriand	1,414	1,420	1,530	1,554	1,573
Other Québec	1,953	1,535	1,611	1,759	1,980
East Hereford	1,419	1,762	1,348	1,305	1,415
Total transported	4,786	4,717	4,489	4,618	4,968
Storage					
Injection	138	157	146	155	118
Withdrawal	108	140	123	126	109

Forecast Gas Delivery (10⁶m³)



	2007	2008	2013
Boisbriand	1,415	1,421	1,553
Other Québec	2,736	2,751	2,904
East Hereford	1,414	1,451	1,411
Total	5,565	5,623	5,868

The forecasts do not include potential transport of imported LNG.



Gas Volumes Delivered

Delivery Points	(10 ³ m ³)
Oka	1,571
Boisbriand	1,414,068
Mirabel	5,019
Mirabel (Saint-Janvier)	18,744
Saint-Jérôme	81,497
L'Assomption	26,055
Lavaltrie	73
Joliette	64,795
Lanoraie	2,536
Berthierville	5,572
Terrebonne 2	3,946
Mascouche	3,660
Terrebonne	18,818
Louiseville	13,267
Yamachiche	2,933
Pointe-du-Lac	16,349
Trois-Rivières	255,505
Saint-Maurice	424,984
Sainte-Anne-de-la-Pérade	224
Deschambault	17,691
Portneuf	18,453
Donnacona	17,314
Pénitencier de Donnacona	545
Saint-Augustin-de-Desmaures	251,872
Saint-Nicolas	144,482
Saint-Flavien	121,373
Waterloo	113,243
Coaticook	3,686
Champlain	318,829
East Hereford	1,419,072
TOTAL	4,786,176



East Hereford Electric Transformer Oil Sampling

As a result of a force majeure incident caused by the transformer failure in 2004, monthly oil samples have been collected from East Hereford's transformer to monitor oil concentration throughout the year. Reports have continuously shown a favourable trend.

NEB Inspection

TQM facilities were inspected by an NEB inspector in March of 2006. The inspector completed the Field verification of TransCanada's Safety Program pursuant to the NEB Onshore Pipeline Regulations and the Canada Labour Code.

Findings were minor and related to proper labelling, signs and tags at the Lachenaie Compressor Station.



Integrated Public Awareness

The Integrated Public Awareness program initiated in 2005 to target high risk areas continued in 2006. TQM has a high number of incidents in comparison to its peers, so this awareness program emphasized the reduction of unauthorized encroachments to land owners and contractors in the following municipalities: Ste-Thérèse, Blainville, Mascouche, Maskinongé, Granby, Repentigny, L'Assomption, Boisbriand and Mirabel. TQM Services also meets regularly with emergency services in the high risk areas to discuss emergency planning.

TQM Services made a total of 708 landowner visits and 75 contractor visits in 2006. In addition, presentations were made to 18 Québec Municipalité de Comté (MRC's) to promote awareness about development near the ROW and will continue in 2007.

As a member of the Québec Pipeline Committee, TQM Services was involved in a number of other awareness initiatives.

Management of System Integrity

There were no ruptures or leaks along the Company's pipeline during 2006. The frequency of patrols has remained unchanged. The Montréal to Trois-Rivières and Magog to Montréal segments are flown twice weekly. The Trois-Rivières to Québec City section is flown weekly and the remainder of the pipeline system (laterals) is flown twice per year.



L'Assomption River Slope Failure

In October of 2005, cracks in the ground were observed at the L'Assomption River right-of-way parallel to the crest of the slope towards the river. Analyses determined the potential for a rapid slope failure and pipe failure. The pipeline was eventually shut down and excavated for further pipe analysis. No integrity issues with the pipe were discovered.

Land remediation work was completed in August 2006. All work including final clean up, asphalt repairs, sodding, and issues with landowners were resolved in 2006. The slope will continue to be monitored for stability throughout 2007.

Pipeline Imperfection/Defect

In December 2005, an Elastic Wave crack inspection was performed on the pipe section from Les Cèdres to Mirabel. The final report was received in January 2006, and identified four areas of concern. In February, three digs and recoats were conducted. The fourth area of concern is located directly under Highway 640. We will continue to analyze this finding and additional comments and recommendations will be provided in 2007.

In May 2005, a Magnetic Flux Leakage (MFL) inspection was conducted on the Boisbriand lateral. Based on the results of this corrosion inspection, two digs and recoats were performed in July 2006. These digs revealed no significant defects.



St-Maurice River Crossing

In 2005, additional slope movement was noted on the right side of the failure underneath the landowner's home. An engineering assessment was performed in 2006, concluding that there was no threat to the integrity of the pipeline. The condition of the slope continues to be monitored, and may be hydroseeded in the future to help reduce surface erosion.



In November 2006, TQM placed into service its \$40 million Lachenaie compression expansion project which was required to serve expanded gas markets (Gaz Métro and TCE Becancour cogeneration plant). The expansion project increased TQM's rate base and enhanced both its earnings and cashflow.

Looking forward to 2007, TQM will:

- Pursue an increase in equity thickness from 30% to 36% and complete negotiations with its shippers in respect to establishing a multi-year toll agreement;
- Find ways to satisfy the interest in short term incremental services at East Hereford;
- Prepare a facilities application to the NEB to allow markets to access LNG imported along the St-Lawrence river. ¹



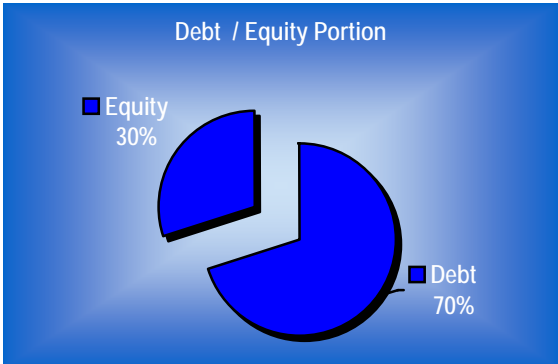
¹ In November 2006, the Company entered into a Precedent Agreement with TransCanada PipeLines Limited to provide transportation service from the Cacouna LNG Project located along the St-Lawrence river near Rivière-du-Loup in Québec to various points located along the existing TQM Pipeline. The Agreement requires the Company to use all reasonable efforts to expand the capacity of its pipeline to transport 14,000 10³m³/day for a 20-year period starting on December 1, 2009 or as soon as possible thereafter. The capital cost of the required TQM expansion is estimated to be in the range of \$700 million. The Precedent Agreement provides full financial backstopping to the Company.



Primary Risk

The Company’s primary risk is due to the fact that it is regulated by the Board. The Board plays a significant role in approving TQM Pipeline’s return on equity, capital structure, tolls and system expansions.

The Company is cognizant of the views and shares the concerns of credit rating agencies regarding the Canadian regulatory environment. Credit ratings and liquidity have risen to the forefront of investor attention. In light of the developments in the Canadian regulatory environment, there exists a view that current Canadian regulatory policy is eroding the credit worthiness of utilities and, over the long term, could make it increasingly difficult for utilities to access capital on reasonable terms.



By virtue of a decision from the Board, the Company is authorized to charge a fixed monthly toll which includes the reimbursement of certain expenses and a return on equity based on a deemed capital structure of 70% for debt and 30% for equity. As stated earlier, the Company is of the view that its equity ratio should be increased from 30% to 36%. A multi-year toll Settlement offer is currently under discussion with its Interested Parties. In the event that agreement cannot be reached on the increase in equity ratio, TQM intends to pursue this issue before the NEB.

Effectiveness of Disclosure Procedures and Controls

Having assessed the effectiveness of controls and procedures over financial reporting used by TQM Pipelines, 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, 2006 is relevant, reliable and accurate.

CONTRACTUAL OBLIGATIONS



Obligations and Commitments

At December 31, 2006, the Company's contractual obligations were as follows:

Contractual Obligations (thousands of dollars)	2007	2008	2009	2010	2011+
Principal payments on long-term debt	-	-	100,000	240,700	-
Interest payments on long-term debt	19,071	19,817	18,472	10,459	-
Operating leases	48	16	1	-	-
Purchase Obligations ⁽¹⁾	10,294	8,802	-	-	-

(1) The services agreement between the Company and TQM Services became effective January 1, 2003 and remains in effect unless one of the party's provides a termination notice to the other. The majority of the Company's operating functions are performed by TQM Services. The amount for 2007 will be \$8,802,014 which includes an incremental other cost component resulting from the addition of facilities at Lachenaie. The remaining purchase obligations in 2007 (\$1,492,000) are amounts owing to third party suppliers for the purchase of services and equipment related to the Lachenaie compressor station expansion and other projects in progress.

Guarantees

The Company had no outstanding guarantees related to the long-term debt of unrelated third parties at December 31, 2006.



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 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.

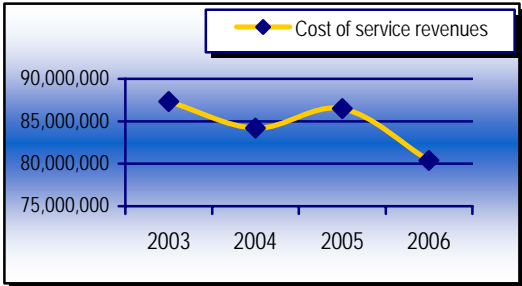
In December of 2006, a claim was filed against the Company in the amount of \$1,900,000 by a contractor who performed work on the expansion of the Lachenaie compressor station. The claim relates to change requests received during the execution of the work. The Company is currently engaged in settlement discussions with the contractor. As at December 31, 2006 approximately \$460,000 has been accrued with respect to the claim. Included in the total amount of the claim, is an amount of approximately \$760,000 which relates directly to a subcontractor which the Company has no potential liability for.

Any amounts relating to the resolution of these claims are expected to be applied to gas plant in service and submitted to the NEB for inclusion in the Company's tolls.

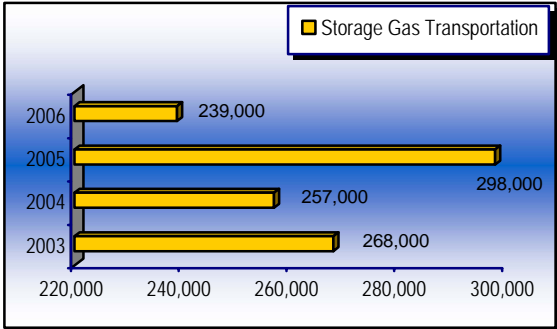
RELATED PARTY TRANSACTIONS



Cost of service revenues totalling \$80,402,000 in 2006 (\$86,481,000 in 2005) have been recorded for gas transportation services rendered to TransCanada.

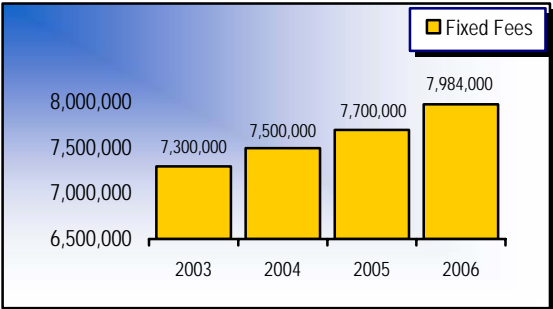


Revenues relating to Storage gas transportation and Storage and transportation totalling \$239,000 in 2006 (\$298,000 in 2005) have been recorded for services rendered to Gaz Métro.



Municipal and other taxes include amounts of \$1,664,000 in 2006 (\$1,863,000 in 2005) 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 2006, TQM Services charged the Company a fixed fee of \$7,984,000 for operating services (\$7,700,000 in 2005). In addition, on behalf of TQM Services, TransCanada charged the Company \$31,728,000 for costs related to additions to property, plant and equipment and \$1,859,000 for additional operating services (\$6,498,000 and \$1,442,000 in 2005, respectively). In accordance with the terms of the agreement between the Company and TQM Services, these amounts were paid to TransCanada.



All transactions have been measured at the exchange amount.



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, 2006 was \$22,771,000. 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.



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)	2006				Total
	Mar.31	Jun.30	Sep.30	Dec.31	
Operating revenue	20,392	20,406	19,710	19,696	80,204
Partners' income	3,505	3,586	3,051	2,990	13,132
Partners' withdrawals	3,400	2,901	-	2,600	8,901

Three months ended (thousands of dollars)	2005				Total
	Mar.31	Jun.30	Sep.30	Dec.31	
Operating revenue	21,443	21,696	21,555	22,844	87,538
Partners' income	3,419	3,216	3,325	4,668	14,628
Partners' withdrawals	2,000	5,501	3,301	6,500	17,302

(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 fluctuate on a quarter over quarter basis to maintain a 70/30 debt-equity ratio.

Partner' income for the three months ended December 31, 2006 was \$2,990,000, a decrease of \$1,678,000 from the same period in 2005. The primary factors causing this decrease are a lower approved average rate base and a lower approved rate of return on equity in 2006 resulting in lower equity return.

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