



**PETRO-CANADA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2005**

**CONSOLIDATED STATEMENT OF EARNINGS** *(unaudited)***For the period ended June 30, 2005***(millions of Canadian dollars, except per share amounts)*

	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Revenue				
Operating	\$ 4,286	\$ 3,653	\$ 8,166	\$ 7,092
Investment and other income (Note 4)	<u>(226)</u>	<u>(88)</u>	<u>(724)</u>	<u>(54)</u>
	<u>4,060</u>	<u>3,565</u>	<u>7,442</u>	<u>7,038</u>
Expenses				
Crude oil and product purchases	2,096	1,666	3,948	3,139
Operating, marketing and general (Note 5)	758	669	1,454	1,324
Exploration	58	65	140	110
Depreciation, depletion and amortization (Note 5)	349	343	697	698
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(10)	26	(5)	42
Interest	<u>39</u>	<u>38</u>	<u>73</u>	<u>75</u>
	<u>3,290</u>	<u>2,807</u>	<u>6,307</u>	<u>5,388</u>
Earnings before income taxes	770	758	1,135	1,650
Provision for income taxes				
Current	461	424	892	819
Future (Note 6)	<u>(36)</u>	<u>(59)</u>	<u>(220)</u>	<u>(75)</u>
	<u>425</u>	<u>365</u>	<u>672</u>	<u>744</u>
Net earnings	\$ <u>345</u>	\$ <u>393</u>	\$ <u>463</u>	\$ <u>906</u>
Earnings per share (Note 8)				
Basic (dollars)	\$ <u>1.33</u>	\$ <u>1.48</u>	\$ <u>1.78</u>	\$ <u>3.41</u>
Diluted (dollars)	\$ <u>1.31</u>	\$ <u>1.46</u>	\$ <u>1.76</u>	\$ <u>3.36</u>

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS** *(unaudited)***For the period ended June 30, 2005***(millions of Canadian dollars)*

	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Retained earnings at beginning of period	\$ 5,487	\$ 4,283	\$ 5,408	\$ 3,810
Net earnings	345	393	463	906
Dividends on common shares	<u>(39)</u>	<u>(40)</u>	<u>(78)</u>	<u>(80)</u>
Retained earnings at end of period	\$ <u>5,793</u>	\$ <u>4,636</u>	\$ <u>5,793</u>	\$ <u>4,636</u>

See accompanying Notes to Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF CASH FLOWS** *(unaudited)***For the period ended June 30, 2005***(millions of Canadian dollars)*

	Three months ended June 30,		Six months ended June 30,	
	2005	2004 <i>(restated)</i>	2005	2004 <i>(restated)</i>
<b>Operating activities</b>				
Net earnings	\$ 345	\$ 393	\$ 463	\$ 906
Items not affecting cash flow from operating activities:				
Depreciation, depletion and amortization	349	343	697	698
Future income taxes	(36)	(59)	(220)	(75)
Accretion of asset retirement obligations	13	12	29	24
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(10)	26	(5)	42
Gain on disposals of assets (Note 4)	(14)	-	(14)	(10)
Unrealized loss associated with the Buzzard derivative contracts (Note 14)	272	93	764	93
Other	(8)	12	1	18
Exploration expenses (Note 3)	23	36	73	57
Proceeds from sale of accounts receivable (Note 9)	-	399	80	399
(Increase) decrease in non-cash working capital related to operating activities	<u>77</u>	<u>92</u>	<u>(294)</u>	<u>81</u>
Cash flow from operating activities	<u>1,011</u>	<u>1,347</u>	<u>1,574</u>	<u>2,233</u>
<b>Investing activities</b>				
Expenditures on property, plant and equipment and exploration (Notes 3 and 7)	(1,076)	(1,805)	(1,955)	(2,267)
Proceeds from sale of assets	20	2	21	32
Increase in deferred charges and other assets	(27)	(8)	(41)	(14)
(Increase) decrease in non-cash working capital and other related to investing activities	<u>191</u>	<u>10</u>	<u>210</u>	<u>(4)</u>
	<u>(892)</u>	<u>(1,801)</u>	<u>(1,765)</u>	<u>(2,253)</u>
<b>Financing activities</b>				
Increase (decrease) in short-term notes payable	(588)	286	(279)	286
Proceeds from issue of long-term debt (Note 10)	762	-	762	-
Repayment of long-term debt	(2)	(295)	(3)	(296)
Proceeds from issue of common shares (Note 11)	18	9	45	24
Purchase of common shares (Note 11)	(75)	(10)	(142)	(10)
Dividends on common shares	(39)	(40)	(78)	(80)
(Increase) decrease in non-cash working capital related to financing activities	<u>(1)</u>	<u>9</u>	<u>(1)</u>	<u>(18)</u>
	<u>75</u>	<u>(41)</u>	<u>304</u>	<u>(94)</u>
Increase (decrease) in cash and cash equivalents	194	(495)	113	(114)
Cash and cash equivalents at beginning of period	<u>89</u>	<u>1,016</u>	<u>170</u>	<u>635</u>
Cash and cash equivalents at end of period	\$ <u>283</u>	\$ <u>521</u>	\$ <u>283</u>	\$ <u>521</u>

See accompanying Notes to Consolidated Financial Statements

**CONSOLIDATED BALANCE SHEET** *(unaudited)***As at June 30, 2005***(millions of Canadian dollars)*

	June 30, 2005	December 31, 2004
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 283	\$ 170
Accounts receivable (Note 9)	1,558	1,254
Inventories	578	549
Prepaid expenses	<u>45</u>	<u>13</u>
	2,464	1,986
Property, plant and equipment, net	15,801	14,783
Goodwill	915	986
Deferred charges and other assets	<u>396</u>	<u>345</u>
	\$ <u>19,576</u>	\$ <u>18,100</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,398	\$ 2,223
Income taxes payable	244	370
Short-term notes payable	24	299
Current portion of long-term debt	<u>7</u>	<u>6</u>
	2,673	2,898
Long-term debt (Note 10)	3,058	2,275
Other liabilities	1,702	646
Asset retirement obligations	842	834
Future income taxes	2,538	2,708
Shareholders' equity		
Common shares (Note 11)	1,353	1,314
Contributed surplus	1,611	1,743
Retained earnings	5,793	5,408
Foreign currency translation adjustment	<u>6</u>	<u>274</u>
	<u>8,763</u>	<u>8,739</u>
	\$ <u>19,576</u>	\$ <u>18,100</u>

See accompanying Notes to Consolidated Financial Statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

(millions of Canadian dollars)

**1 SEGMENTED INFORMATION**

Three months ended June 30,

	Upstream													
	North American Natural Gas		East Coast Oil		Oil Sands		International		Downstream		Shared Services		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Revenue</b>														
Sales to customers	\$ 452	\$ 447	\$ 359	\$ 261	\$ 168	\$ 85	\$ 662	\$ 523	\$ 2,645	\$ 2,337	\$ -	\$ -	\$ 4,286	\$ 3,653
Investment and other income	1	-	-	-	1	-	(251)	(89)	35	(4)	(12)	5	(226)	(88)
Inter-segment sales	76	52	58	105	171	130	-	-	3	2	-	-	-	-
Segmented revenue	<u>529</u>	<u>499</u>	<u>417</u>	<u>366</u>	<u>340</u>	<u>215</u>	<u>411</u>	<u>434</u>	<u>2,683</u>	<u>2,335</u>	<u>(12)</u>	<u>5</u>	<u>4,060</u>	<u>3,565</u>
<b>Expenses</b>														
Crude oil and product purchases	106	93	-	-	133	64	-	-	1,861	1,511	(4)	(2)	2,096	1,666
Inter-segment transactions	-	-	3	2	17	12	-	-	288	275	-	-	-	-
Operating, marketing and general	109	93	36	26	104	90	125	110	345	333	39	17	758	669
Exploration	22	23	-	2	3	-	33	40	-	-	-	-	58	65
Depreciation, depletion and amortization	90	75	73	70	30	12	103	116	52	69	1	1	349	343
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(10)	26	(10)	26
Interest	-	-	-	-	-	-	-	-	-	-	39	38	39	38
	<u>327</u>	<u>284</u>	<u>112</u>	<u>100</u>	<u>287</u>	<u>178</u>	<u>261</u>	<u>266</u>	<u>2,546</u>	<u>2,188</u>	<u>65</u>	<u>80</u>	<u>3,290</u>	<u>2,807</u>
<b>Earnings (loss) before income taxes</b>	<b>202</b>	<b>215</b>	<b>305</b>	<b>266</b>	<b>53</b>	<b>37</b>	<b>150</b>	<b>168</b>	<b>137</b>	<b>147</b>	<b>(77)</b>	<b>(75)</b>	<b>770</b>	<b>758</b>
<b>Provision for income taxes</b>														
Current	69	94	87	87	7	(13)	257	198	71	77	(30)	(19)	461	424
Future	16	(12)	10	(3)	12	25	(52)	(45)	(23)	(22)	1	(2)	(36)	(59)
	<u>85</u>	<u>82</u>	<u>97</u>	<u>84</u>	<u>19</u>	<u>12</u>	<u>205</u>	<u>153</u>	<u>48</u>	<u>55</u>	<u>(29)</u>	<u>(21)</u>	<u>425</u>	<u>365</u>
<b>Net earnings (loss)</b>	<u>\$ 117</u>	<u>\$ 133</u>	<u>\$ 208</u>	<u>\$ 182</u>	<u>\$ 34</u>	<u>\$ 25</u>	<u>\$ (55)</u>	<u>\$ 15</u>	<u>\$ 89</u>	<u>\$ 92</u>	<u>\$(48)</u>	<u>\$(54)</u>	<u>\$ 345</u>	<u>\$ 393</u>
<b>Expenditures on property, plant and equipment and exploration</b>	<u>\$ 131</u>	<u>\$ 173</u>	<u>\$ 68</u>	<u>\$ 70</u>	<u>\$ 396</u>	<u>\$ 79</u>	<u>\$ 253</u>	<u>\$ 1,286</u>	<u>\$ 224</u>	<u>\$ 195</u>	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 1,076</u>	<u>(\$ 1,805)</u> <sup>(1)</sup>
<b>Cash flow from operating activities</b>	<u>\$ 255</u>	<u>\$ 251</u>	<u>\$ 215</u>	<u>\$ 214</u>	<u>\$ 73</u>	<u>\$ 74</u>	<u>\$ 243</u>	<u>\$ 308</u>	<u>\$ 262</u>	<u>\$ 418</u>	<u>\$(37)</u>	<u>\$ 82</u>	<u>\$ 1,011</u>	<u>\$ 1,347</u>

<sup>(1)</sup> Expenditures include capitalized interest in the amount of \$9 million for the three months ended June 30, 2005 (\$3 million for the three months ended June 30, 2004).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

(millions of Canadian dollars)

## 1 SEGMENTED INFORMATION

Six months ended June 30,

	Upstream													
	North American		East Coast		Oil Sands		International		Downstream		Shared Services		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Revenue</b>														
Sales to customers	\$ 883	\$ 865	\$ 596	\$ 504	\$ 297	\$ 180	\$ 1,254	\$ 1,084	\$ 5,136	\$ 4,459	\$ -	\$ -	\$ 8,166	\$ 7,092
Investment and other income	1	1	-	-	-	-	(738)	(71)	28	5	(15)	11	(724)	(54)
Inter-segment sales	149	98	176	241	281	255	-	-	7	5	-	-	-	-
Segmented revenue	1,033	964	772	745	578	435	516	1,013	5,171	4,469	(15)	11	7,442	7,038
<b>Expenses</b>														
Crude oil and product purchases	201	186	-	-	242	125	-	-	3,505	2,825	-	3	3,948	3,139
Inter-segment transactions	4	3	3	2	32	22	-	-	574	572	-	-	-	-
Operating, marketing and general	201	178	80	61	199	172	236	230	672	653	66	30	1,454	1,324
Exploration	64	48	-	2	31	9	45	51	-	-	-	-	140	110
Depreciation, depletion and amortization	184	149	136	142	50	24	221	246	105	136	1	1	697	698
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(5)	42	(5)	42
Interest	-	-	-	-	-	-	-	-	-	-	73	75	73	75
	654	564	219	207	554	352	502	527	4,856	4,186	135	151	6,307	5,388
<b>Earnings (loss) before income taxes</b>	379	400	553	538	24	83	14	486	315	283	(150)	(140)	1,135	1,650
<b>Provision for income taxes</b>														
Current	148	182	172	163	(22)	(27)	476	398	171	142	(53)	(39)	892	819
Future	11	(34)	4	7	31	51	(207)	(58)	(58)	(39)	(1)	(2)	(220)	(75)
	159	148	176	170	9	24	269	340	113	103	(54)	(41)	672	744
<b>Net earnings (loss)</b>	\$ 220	\$ 252	\$ 377	\$ 368	\$ 15	\$ 59	\$ (255)	\$ 146	\$ 202	\$ 180	\$ (96)	\$ (99)	\$ 463	\$ 906
<b>Expenditures on property, plant and equipment and exploration</b>	\$ 380	\$ 305	\$ 127	\$ 121	\$ 546	\$ 165	\$ 420	\$ 1,358	\$ 478	\$ 316	\$ 4	\$ 2	\$ 1,955 <sup>(1)</sup>	\$ 2,267 <sup>(1)</sup>
<b>Cash flow from operating activities</b>	\$ 490	\$ 450	\$ 442	\$ 490	\$ 110	\$ 150	\$ 423	\$ 585	\$ 273	\$ 527	\$ (164)	\$ 31	\$ 1,574	\$ 2,233

(1) Expenditures include capitalized interest in the amount of \$17 million for the six months ended June 30, 2005 (\$5 million for the six months ended June 30, 2004).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

(millions of Canadian dollars, unless otherwise stated)

**2. BASIS OF PRESENTATION**

The note disclosure requirements for annual Consolidated Financial Statements provide additional disclosure to that required for interim Consolidated Financial Statements. Accordingly, these interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements included in the Company's 2004 Annual Report. The interim Consolidated Financial Statements are presented in accordance with Canadian generally accepted accounting principles and follow the accounting policies summarized in the notes to the annual Consolidated Financial Statements except for the change described in Note 3.

**3. CHANGES IN ACCOUNTING POLICIES***Statement of Cash Flows*

Effective January 1, 2005, the Company changed the presentation of cash flow in the Consolidated Statement of Cash Flows pursuant to recent interpretations from the United States Securities and Exchange Commission. Previously, all exploration expenses were classified as investing activities. With the change, general and administrative and geological and geophysical exploration expenses are treated as a reduction of cash flow from operating activities. All prior periods have been restated to reflect this change. The change results in a decrease in cash flow from operating activities and an increase in cash flow from investing activities by \$35 million for the three months ended June 30, 2005 (\$29 million for the three months ended June 30, 2004) and \$67 million for the six months ended June 30, 2005 (\$53 million for the six months ended June 30, 2004).

**4. INVESTMENT AND OTHER INCOME**

Investment and other income includes net losses on derivative contracts (see Note 14) of \$254 million and \$759 million for the three and six months ended June 30, 2005, respectively (\$95 million and \$90 million for the three and six months ended June 30, 2004) and net gains on disposal of assets of \$14 million for the three and six months ended June 30, 2005, respectively (\$ nil and \$10 million for the three and six months ended June 30, 2004).

**5. ASSET WRITE-DOWNS**

Following a review of its Eastern Canada refining and supply operations, Petro-Canada announced in September 2003 it would cease the Oakville refining operations and expand the existing terminalling facilities. The total charge to earnings related to the shutdown, which occurred in April 2005, was approximately \$200 million after-tax. The following expenses have been recorded in the Downstream segment:

	<u>Three months ended June 30,</u>				<u>Six months ended June 30,</u>			
	<u>2005</u>		<u>2004</u>		<u>2005</u>		<u>2004</u>	
	<u>Pre-Tax</u>	<u>After-Tax</u>	<u>Pre-Tax</u>	<u>After-Tax</u>	<u>Pre-Tax</u>	<u>After-Tax</u>	<u>Pre-Tax</u>	<u>After-Tax</u>
Operating, marketing and general expense (de-commissioning and employee related costs)	\$ -	\$ -	\$ 1	\$ -	\$ 1	\$ 1	\$ 2	\$ 1
Depreciation and amortization expenses (asset write-downs and increased depreciation)	<u>1</u>	<u>-</u>	<u>20</u>	<u>13</u>	<u>1</u>	<u>-</u>	<u>40</u>	<u>25</u>
	\$ <u>1</u>	\$ <u>-</u>	\$ <u>21</u>	\$ <u>13</u>	\$ <u>2</u>	\$ <u>1</u>	\$ <u>42</u>	\$ <u>26</u>

**6. INCOME TAXES**

The provision for future income taxes for the six months ended June 30, 2004 was reduced by \$13 million due to the substantively enacted reduction in provincial income tax rates. The adjustment was allocated to the segments as a decrease (increase) to the tax provision as follows: North American Natural Gas - \$7 million, East Coast Oil - \$3 million, Oil Sands - \$2 million, Downstream - \$2 million and Shared Services - \$(1) million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**7. FORT HILLS OIL SANDS MINING PROJECT**

In June 2005, the Company acquired a 60% interest in the Fort Hills oil sands mining project which was previously wholly owned by UTS Energy Corporation (UTS). To pay for the investment, Petro-Canada will fund 75% of UTS' share of the next \$1 billion of development capital, or \$300 million.

Expenditures on property, plant and equipment and exploration in the Consolidated Statement of Cash Flows include the discounted value of the acquisition cost amounting to \$269 million.

**8. EARNINGS PER SHARE**

The following table provides the common shares used in calculating net earnings per common share:

(millions)	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Weighted-average number of common shares outstanding - basic	259.7	266.2	259.9	266.1
Effect of dilutive stock options	<u>3.3</u>	<u>3.5</u>	<u>3.3</u>	<u>3.5</u>
Weighted-average number of common shares outstanding - diluted	<u>263.0</u>	<u>269.7</u>	<u>263.2</u>	<u>269.6</u>

**9. SECURITIZATION PROGRAM**

During 2004, the Company entered into a securitization program, expiring in 2009, to sell an undivided interest of eligible accounts receivable to a third party, on a revolving and fully serviced basis.

In March 2005, Petro-Canada increased the limit to sell eligible accounts receivable under the program from \$400 million to \$500 million. During the six months ended June 30, 2005, the Company sold an additional \$80 million of outstanding receivables for net proceeds of \$80 million.

As at June 30, 2005, \$480 million of outstanding accounts receivable had been sold under the program.

**10. LONG-TERM DEBT**

	<u>Maturity</u>	<u>June 30, 2005</u>
Debentures and notes		
5.95% unsecured senior notes <sup>(1)</sup> (\$600 million US)	2035	\$ 735
5.35% unsecured senior notes (\$300 million US)	2033	368
7.00% unsecured debentures (\$250 million US)	2028	306
7.875% unsecured debentures (\$275 million US)	2026	337
9.25% unsecured debentures (\$300 million US)	2021	368
5.00% unsecured senior notes (\$400 million US)	2014	490
4.00% unsecured senior notes (\$300 million US)	2013	368
Capital leases	2007-2017	83
Retail licensee trust loans	2012-2014	<u>10</u>
		3,065
Current portion		<u>(7)</u>
		\$ <u>3,058</u>

<sup>(1)</sup> In May 2005, the Company issued \$600 million US 5.95% notes due May 15, 2035. The proceeds were used primarily to repay existing short-term notes payable.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

## 11. SHAREHOLDERS' EQUITY

Changes in common shares:

	<u>Number</u>		<u>Amount</u>
Balance at January 1, 2005	259,964,011	\$	1,314
Issued upon exercise of stock options	1,229,052		45
Purchased	(1,966,700)		(10)
Stock-based compensation	<u>-</u>		<u>4</u>
Balance at June 30, 2005	<u>259,226,363</u>	\$	<u>1,353</u>

In June 2005, the Company renewed its normal course issuer bid to repurchase up to 13 million of its common shares during the period from June 22, 2005 to June 21, 2006, subject to certain conditions. The Company purchased 1,021,800 shares at a cost of \$75 million and 1,966,700 shares at a cost of \$142 million during the three and six months ended June 30, 2005, respectively (166,000 shares at a cost of \$10 million during the three and six months ended June 30, 2004). The excess of the purchase price over the carrying amount of the shares purchased, which totaled \$70 million and \$132 million for the three and six months ended June 30, 2005, respectively, was recorded as a reduction of contributed surplus.

## 12. STOCK-BASED COMPENSATION

Changes in the number of outstanding stock options and performance share units (PSUs) were as follows:

	<u>Stock Options</u>		<u>PSUs</u>
	<u>Number</u>	Weighted-Average <u>Exercise Price</u> (dollars)	<u>Number</u>
Balance at January 1, 2005	9,037,349	\$ 41.82	282,930
Granted	2,002,400	68.56	319,171
Exercised	(1,229,052)	36.29	-
Cancelled	<u>(93,224)</u>	<u>57.21</u>	<u>(14,416)</u>
Balance at June 30, 2005	<u>9,717,473</u>	\$ <u>58.16</u>	<u>587,685</u>

During the three and six months ended June 30, 2005, total stock-related compensation expense recorded in the Consolidated Statement of Earnings was \$19 million and \$37 million, respectively (\$2 million and \$5 million for the three and six months ended June 30, 2004).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

Compensation expense has not been recorded for stock options issued prior to 2003. The following table presents the pro forma net earnings and the pro forma earnings per share computed assuming the fair value based accounting method had been used to account for the compensation cost of stock options granted in 2002.

	Three months ended June 30,											
	<u>2005</u>		<u>2004</u>		<u>2005</u>				<u>2004</u>			
	Net earnings				Earnings per share							
				(dollars)								
				Basic	Diluted	Basic	Diluted	Basic	Diluted			
Net earnings as reported	\$	345	\$	393	\$	1.33	\$	1.31	\$	1.48	\$	1.46
Pro forma adjustment		<u>2</u>		<u>3</u>		<u>0.01</u>		<u>0.01</u>		<u>0.02</u>		<u>0.01</u>
Pro forma net earnings	\$	<u>343</u>	\$	<u>390</u>	\$	<u>1.32</u>	\$	<u>1.30</u>	\$	<u>1.46</u>	\$	<u>1.45</u>

	Six months ended June 30,											
	<u>2005</u>		<u>2004</u>		<u>2005</u>				<u>2004</u>			
	Net earnings				Earnings per share							
				(dollars)								
				Basic	Diluted	Basic	Diluted	Basic	Diluted			
Net earnings as reported	\$	463	\$	906	\$	1.78	\$	1.76	\$	3.41	\$	3.36
Pro forma adjustment		<u>4</u>		<u>5</u>		<u>0.01</u>		<u>0.02</u>		<u>0.02</u>		<u>0.02</u>
Pro forma net earnings	\$	<u>459</u>	\$	<u>901</u>	\$	<u>1.77</u>	\$	<u>1.74</u>	\$	<u>3.39</u>	\$	<u>3.34</u>

## 13. EMPLOYEE FUTURE BENEFITS

The Company maintains pension plans with defined benefit and defined contribution provisions and provides certain health care and life insurance benefits to its qualifying retirees. The expenses associated with these plans are as follows:

	Three months ended June 30,				Six months ended June 30,			
	<u>2005</u>		<u>2004</u>		<u>2005</u>		<u>2004</u>	
Pension Plans:								
Defined benefit plans								
Employer current service cost	\$	8	\$	7	\$	16	\$	13
Interest cost		21		20		42		40
Expected return on plan assets		(21)		(19)		(43)		(38)
Amortization of transitional asset		(1)		(1)		(2)		(2)
Amortization of net actuarial losses		<u>8</u>		<u>7</u>		<u>17</u>		<u>15</u>
		<u>15</u>		<u>14</u>		<u>30</u>		<u>28</u>
Defined contribution plan		<u>3</u>		<u>3</u>		<u>7</u>		<u>6</u>
	\$	<u>18</u>	\$	<u>17</u>	\$	<u>37</u>	\$	<u>34</u>
Other post-retirement plans:								
Employer current service cost	\$	1	\$	1	\$	2	\$	2
Interest cost		3		3		6		6
Amortization of transitional obligation		<u>-</u>		<u>1</u>		<u>1</u>		<u>2</u>
	\$	<u>4</u>	\$	<u>5</u>	\$	<u>9</u>	\$	<u>10</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

The Company expects to contribute \$95 million to its defined benefit pension plans in 2005. As at June 30, 2005, \$48 million in contributions have been made.

**14. FINANCIAL INSTRUMENTS AND DERIVATIVES**

Investment and other income includes unrealized losses for the outstanding derivatives contracts associated with the 2004 acquisition of an interest in the Buzzard field in the U.K. sector of the North Sea. For the three months and six months ended June 30, 2005, the unrealized losses relating to these contracts amounted to \$272 million and \$764 million, respectively (\$93 million for the three and six months ended June 30, 2004).

Unrealized losses on all derivative contracts have decreased investment and other income by \$263 million and \$757 million for the three and six months ended June 30, 2005. As at June 30, 2005 accounts receivable and other liabilities have been increased by \$11 million and \$1,097 million, respectively as result of unrealized mark-to-market amounts on derivative contracts.

**15. VARIABLE INTEREST ENTITIES**

Accounting Guideline 15 (AcG 15), *Consolidation of Variable Interest Entities* (VIEs), provides criteria for the identification of VIEs and further criteria for determining what entity, if any, should consolidate them. Entities in which equity investors do not have the characteristic of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support are subject to consolidation by a company if that company is deemed the primary beneficiary. The primary beneficiary is the party that is subject to a majority of the risk of loss from the variable interest entity's activities, or is entitled to receive a majority of the variable interest entity's residual returns, or both. The Company determined that certain retail licensee agreements would constitute VIEs, even though the Company has no ownership in these entities. The Company, however, is not the primary beneficiary and, therefore, consolidation is not required. In certain of these retail licensee arrangements, the Company has provided loan guarantees. Management is of the opinion that the Company's maximum exposure to loss from these arrangements would not be material.

**16. SUBSEQUENT EVENTS**

On July 26, 2005, the Board of Directors declared a stock-split effected in the form of a dividend. Common shareholders of record at the close of business on September 3, 2005 will receive one additional common share for each common share they hold. The stock dividend is payable on September 14, 2005.

Commencing with the fourth quarter dividend paid on October 1, 2005, the Company will increase the quarterly dividend to \$0.20 per share on a pre-split basis.