



PETRO-CANADA

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenue				
Operating	\$ 4,964	\$ 3,788	\$13,130	\$10,880
Investment and other income (Note 5)	(119)	(166)	(843)	(220)
	4,845	3,622	12,287	10,660
Expenses				
Crude oil and product purchases	2,469	1,807	6,417	4,946
Operating, marketing and general (Note 6)	780	664	2,234	1,988
Exploration	54	49	194	159
Depreciation, depletion and amortization (Note 6)	369	352	1,066	1,050
Unrealized gain on translation of foreign currency denominated long-term debt	(90)	(67)	(95)	(25)
Interest	39	33	112	108
	3,621	2,838	9,928	8,226
Earnings before income taxes	1,224	784	2,359	2,434
Provision for income taxes				
Current	612	412	1,504	1,231
Future (Note 7)	(2)	(38)	(222)	(113)
	610	374	1,282	1,118
Net earnings	\$ 614	\$ 410	\$ 1,077	\$ 1,316
Earnings per share (Notes 4 and 8)				
Basic (dollars)	\$ 1.19	\$ 0.77	\$ 2.07	\$ 2.47
Diluted (dollars)	\$ 1.17	\$ 0.76	\$ 2.05	\$ 2.44

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Retained earnings at beginning of period	\$ 5,793	\$ 4,636	\$ 5,408	\$ 3,810
Net earnings	614	410	1,077	1,316
Dividends on common shares	(52)	(40)	(130)	(120)
Retained earnings at end of period	\$ 6,355	\$ 5,006	\$ 6,355	\$ 5,006

See accompanying Notes to Consolidated Financial Statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004 <i>(restated)</i>	2005	2004 <i>(restated)</i>
Operating activities				
Net earnings	\$ 614	\$ 410	\$ 1,077	\$ 1,316
Items not affecting cash flow from operating activities:				
Depreciation, depletion and amortization	369	352	1,066	1,050
Future income taxes	(2)	(38)	(222)	(113)
Accretion of asset retirement obligations	12	13	41	37
Unrealized gain on translation of foreign currency denominated long-term debt	(90)	(67)	(95)	(25)
Gain on disposal of assets (Note 5)	(9)	(2)	(23)	(12)
Unrealized loss associated with the Buzzard derivative contracts (Note 16)	135	174	899	267
Other	6	4	7	22
Exploration expenses (Note 3)	28	23	101	80
Proceeds from sale of accounts receivable (Note 9)	-	-	80	399
(Increase) decrease in non-cash working capital related to operating activities	5	266	(289)	347
Cash flow from operating activities	1,068	1,135	2,642	3,368
Investing activities				
Expenditures on property, plant and equipment and exploration (Notes 3 and 10)	(770)	(752)	(2,725)	(3,019)
Proceeds from sale of assets	8	5	29	37
Increase in deferred charges and other assets	(14)	(7)	(55)	(21)
Acquisition of Prima Energy Corporation (Note 11)	-	(644)	-	(644)
(Increase) decrease in non-cash working capital and other related to investing activities	(8)	24	202	20
	(784)	(1,374)	(2,549)	(3,627)
Financing activities				
Increase (decrease) in short-term notes payable	(24)	(57)	(303)	229
Proceeds from issue of long-term debt (Note 12)	-	533	762	533
Repayment of long-term debt	(2)	(2)	(5)	(298)
Proceeds from issue of common shares (Note 13)	16	7	61	31
Purchase of common shares (Note 13)	(115)	(278)	(257)	(288)
Dividends on common shares	(52)	(40)	(130)	(120)
(Increase) decrease in non-cash working capital related to financing activities	1	-	-	(18)
	(176)	163	128	69
Increase (decrease) in cash and cash equivalents	108	(76)	221	(190)
Cash and cash equivalents at beginning of period	283	521	170	635
Cash and cash equivalents at end of period	\$ 391	\$ 445	\$ 391	\$ 445

See accompanying Notes to Consolidated Financial Statements

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

	September 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	\$ 391	\$ 170
Accounts receivable (Note 9)	1,700	1,254
Inventories	554	549
Prepaid expenses	44	13
	2,689	1,986
Property, plant and equipment, net	15,865	14,783
Goodwill	864	986
Deferred charges and other assets	405	345
	\$ 19,823	\$ 18,100
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,392	\$ 2,223
Income taxes payable	376	370
Short-term notes payable	-	299
Current portion of long-term debt	7	6
	2,775	2,898
Long-term debt (Note 12)	2,896	2,275
Other liabilities	1,843	646
Asset retirement obligations	833	834
Future income taxes	2,451	2,708
Shareholders' equity		
Common shares (Note 13)	1,364	1,314
Contributed surplus (Note 13)	1,504	1,743
Retained earnings	6,355	5,408
Foreign currency translation adjustment	(198)	274
	9,025	8,739
	\$ 19,823	\$ 18,100

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(millions of Canadian dollars)

1. SEGMENTED INFORMATION

Three months ended September 30,

	Upstream												Consolidated	
	North American		East Coast		Oil Sands		International		Downstream		Shared Services			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue														
Sales to customers	\$ 532	\$ 434	\$ 321	\$ 212	\$ 261	\$ 121	\$ 728	\$ 569	\$3,122	\$2,452	\$ -	\$ -	\$ 4,964	\$ 3,788
Investment and other income	-	1	(3)	(1)	4	-	(133)	(173)	19	3	(6)	4	(119)	(166)
Inter-segment sales	83	53	103	171	202	147	-	-	3	4	-	-	-	-
Segmented revenue	615	488	421	382	467	268	595	396	3,144	2,459	(6)	4	4,845	3,622
Expenses														
Crude oil and product purchases	121	88	-	-	163	75	-	-	2,188	1,643	(3)	1	2,469	1,807
Inter-segment transactions	1	2	1	2	21	11	-	-	368	360	-	-	-	-
Operating, marketing and general	109	98	36	32	119	90	109	106	354	322	53	16	780	664
Exploration	34	27	-	-	-	1	20	21	-	-	-	-	54	49
Depreciation, depletion and amortization	91	83	62	68	40	16	117	116	60	69	(1)	-	369	352
Unrealized gain on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(90)	(67)	(90)	(67)
Interest	-	-	-	-	-	-	-	-	-	-	39	33	39	33
	356	298	99	102	343	193	246	243	2,970	2,394	(2)	(17)	3,621	2,838
Earnings (loss) before income taxes	259	190	322	280	124	75	349	153	174	65	(4)	21	1,224	784
Provision for income taxes														
Current	75	96	106	91	(5)	(8)	361	199	96	48	(21)	(14)	612	412
Future	28	(23)	(2)	(1)	44	32	(52)	(32)	(24)	(25)	4	11	(2)	(38)
	103	73	104	90	39	24	309	167	72	23	(17)	(3)	610	374
Net earnings (loss)	\$ 156	\$ 117	\$ 218	\$ 190	\$ 85	\$ 51	\$ 40	\$ (14)	\$ 102	\$ 42	\$ 13	\$ 24	\$ 614	\$ 410
Expenditures on property, plant and equipment and exploration	\$ 151	\$ 166	\$ 98	\$ 76	\$ 117	\$ 100	\$ 147	\$ 193	\$ 255	\$ 215	\$ 2	\$ 2	\$ 770 ⁽¹⁾	\$ 752 ⁽¹⁾
Cash flow from operating activities	\$ 247	\$ 218	\$ 395	\$ 285	\$ 110	\$ 93	\$ 208	\$ 217	\$ 66	\$ 159	\$ 42	\$ 163	\$ 1,068	\$ 1,135

⁽¹⁾ Expenditures include capitalized interest in the amount of \$10 million for the three months ended September 30, 2005 (\$8 million for the three months ended September 30, 2004).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(millions of Canadian dollars)

1. SEGMENTED INFORMATION

Nine months ended September 30,

	Upstream												Consolidated	
	North American		East Coast		Oil Sands		International		Downstream		Shared Services			
	Natural Gas		Oil											
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue														
Sales to customers	\$1,415	\$1,299	\$ 917	\$ 716	\$ 558	\$ 301	\$1,982	\$1,653	\$8,258	\$6,911	\$ -	\$ -	\$13,130	\$10,880
Investment and other income	1	2	(3)	(1)	4	-	(871)	(244)	47	8	(21)	15	(843)	(220)
Inter-segment sales	232	151	279	412	483	402	-	-	10	9	-	-	-	-
Segmented revenue	1,648	1,452	1,193	1,127	1,045	703	1,111	1,409	8,315	6,928	(21)	15	12,287	10,660
Expenses														
Crude oil and product purchases	322	274	-	-	405	200	-	-	5,693	4,468	(3)	4	6,417	4,946
Inter-segment transactions	5	5	4	4	53	33	-	-	942	932	-	-	-	-
Operating, marketing and general	310	276	116	93	318	262	345	336	1,026	975	119	46	2,234	1,988
Exploration	98	75	-	2	31	10	65	72	-	-	-	-	194	159
Depreciation, depletion and amortization	275	232	198	210	90	40	338	362	165	205	-	1	1,066	1,050
Unrealized gain on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(95)	(25)	(95)	(25)
Interest	-	-	-	-	-	-	-	-	-	-	112	108	112	108
	1,010	862	318	309	897	545	748	770	7,826	6,580	133	134	9,928	8,226
Earnings (loss) before income taxes	638	590	875	818	148	158	363	639	489	348	(154)	(119)	2,359	2,434
Provision for income taxes														
Current	223	278	278	254	(27)	(35)	837	597	267	190	(74)	(53)	1,504	1,231
Future	39	(57)	2	6	75	83	(259)	(90)	(82)	(64)	3	9	(222)	(113)
	262	221	280	260	48	48	578	507	185	126	(71)	(44)	1,282	1,118
Net earnings (loss)	\$ 376	\$ 369	\$ 595	\$ 558	\$ 100	\$ 110	\$ (215)	\$ 132	\$ 304	\$ 222	\$ (83)	\$ (75)	\$ 1,077	\$ 1,316
Expenditures on property, plant and equipment and exploration	\$ 531	\$ 471	\$ 225	\$ 197	\$ 663	\$ 265	\$ 567	\$1,551	\$ 733	\$ 531	\$ 6	\$ 4	\$ 2,725 ⁽¹⁾	\$ 3,019 ⁽¹⁾
Cash flow from operating activities	\$ 737	\$ 668	\$ 837	\$ 775	\$ 220	\$ 243	\$ 631	\$ 802	\$ 339	\$ 686	\$ (122)	\$ 194	\$ 2,642	\$ 3,368

⁽¹⁾ Expenditures include capitalized interest in the amount of \$27 million for the nine months ended September 30, 2005 (\$13 million for the nine months ended September 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 \$26 million and \$93 million for the three and nine months ended September 30, 2005, respectively (\$26 million and \$79 million for the three and nine months ended September 30, 2004).

4. STOCK DIVIDEND

In July 2005, the Company effected a two-for-one stock-split in the form of a stock dividend. Common shareholders of record at the close of business on September 3, 2005 received one additional common share for each common share held. Information related to common shares, stock options and performance share units has been restated to reflect the above.

5. INVESTMENT AND OTHER INCOME

Investment and other income includes net losses on derivative contracts (see Note 16) of \$125 million and \$884 million for the three and nine months ended September 30, 2005, respectively (\$180 million and \$270 million for the three and nine months ended September 30, 2004) and net gains on disposal of assets of \$9 million and \$23 million for the three and nine months ended September 30, 2005, respectively (\$2 million and \$12 million for the three and nine months ended September 30, 2004).

6. 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:

	Three months ended September 30,				Nine months ended September 30,			
	2005		2004		2005		2004	
	Pre-Tax	After-Tax	Pre-Tax	After-Tax	Pre-Tax	After-Tax	Pre-Tax	After-Tax
Operating, marketing and general expenses (de-commissioning and employee related costs)	\$ (5)	\$ (3)	\$ -	\$ -	\$ (4)	\$ (2)	\$ 2	\$ 1
Depreciation and amortization expenses (asset write-downs and increased depreciation)	-	-	15	9	1	-	55	34
	\$ (5)	\$ (3)	\$ 15	\$ 9	\$ (3)	\$ (2)	\$ 57	\$ 35

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

7. INCOME TAXES

The provision for future income taxes for the nine months ended September 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.

8. EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
<i>(millions)</i>	2005	2004	2005	2004
Weighted-average number of common shares outstanding - basic	518.1	531.7	519.2	532.0
Effect of dilutive stock options	7.3	7.1	7.0	7.0
Weighted-average number of common shares outstanding - diluted	525.4	538.8	526.2	539.0

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 nine months ended September 30, 2005, the Company sold an additional \$80 million of outstanding receivables for net proceeds of \$80 million.

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

10. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

11. ACQUISITION OF PRIMA ENERGY CORPORATION

On July 28, 2004, Petro-Canada acquired all of the common shares of Prima Energy Corporation, an oil and gas company with operations in the U.S. Rockies, for a total acquisition cost of \$644 million, net of cash acquired. The results of operations were included in the Consolidated Financial Statements from the date of acquisition.

The acquisition was accounted for by the purchase method of accounting. The allocation of fair value to the assets acquired and liabilities assumed was:

Property, plant and equipment	\$ 688
Goodwill	193
Current assets, excluding cash of \$74 million	36
Deferred charges and other assets	2
Total assets acquired	919
Current liabilities	41
Future income taxes	217
Asset retirement obligations and other liabilities	17
Total liabilities assumed	275
Net assets acquired	\$ 644

Goodwill, which is not tax deductible, was assigned to Petro-Canada's North American Natural Gas business segment.

12. LONG-TERM DEBT

	Maturity	September 30, 2005
Debentures and notes		
5.95% unsecured senior notes (\$600 million US) ⁽¹⁾	2035	\$ 697
5.35% unsecured senior notes (\$300 million US)	2033	348
7.00% unsecured debentures (\$250 million US)	2028	290
7.875% unsecured debentures (\$275 million US)	2026	320
9.25% unsecured debentures (\$300 million US)	2021	348
5.00% unsecured senior notes (\$400 million US)	2014	465
4.00% unsecured senior notes (\$300 million US)	2013	348
Capital leases	2007-2017	78
Retail licensee trust loans	2012-2014	9
		2,903
Current portion		(7)
		\$ 2,896

⁽¹⁾ 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)

13. SHAREHOLDERS' EQUITY

Changes in common shares and contributed surplus were as follows:

	Shares	Amount	Contributed Surplus
Balance at January 1, 2005	519,928,022	\$ 1,314	\$ 1,743
Issued under employee stock option and share purchase plans	3,347,132	61	-
Repurchased under normal course issuer bid	(6,333,400)	(16)	(241)
Stock-based compensation	-	5	2
Balance at September 30, 2005	516,941,754	\$ 1,364	\$ 1,504

In June 2005, the Company renewed its normal course issuer bid to repurchase up to 26 million of its common shares, on a restated basis (Note 4), during the period from June 22, 2005 to June 21, 2006, subject to certain conditions. The Company purchased 2,400,000 shares at a cost of \$115 million and 6,333,400 shares at a cost of \$257 million during the three and nine months ended September 30, 2005, respectively (8,597,788 shares at a cost of \$278 million and 8,929,788 shares at a cost of \$288 million during the three and nine months ended September 30, 2004). The excess of the purchase price over the carrying amount of the shares purchased, which totaled \$109 million and \$241 million for the three and nine months ended September 30, 2005, respectively, was recorded as a reduction of contributed surplus.

14. STOCK-BASED COMPENSATION

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

	Stock Options		PSUs
	Number	Weighted-Average Exercise Price (dollars)	Number
Balance at January 1, 2005	18,074,698	\$ 21	565,860
Granted	4,004,800	34	640,556
Exercised	(3,347,132)	18	-
Cancelled	(297,449)	29	(47,762)
Balance at September 30, 2005	18,434,917	\$ 24	1,158,654

The total stock-based compensation expense recorded was \$49 million and \$86 million during the three and nine months ended September 30, 2005, respectively (\$6 million and \$11 million for the three and nine months ended September 30, 2004).

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 September 30,					
	2005		2004		2004	
	Net earnings		Earnings per share (dollars)			
	2005	2004	Basic	Diluted	Basic	Diluted
Net earnings as reported	\$ 614	\$ 410	\$ 1.19	\$ 1.17	\$ 0.77	\$ 0.76
Pro forma adjustment	2	2	0.01	0.01	-	-
Pro forma net earnings	\$ 612	\$ 408	\$ 1.18	\$ 1.16	\$ 0.77	\$ 0.76

	Nine months ended September 30,					
	2005		2004		2004	
	Net earnings		Earnings per share (dollars)			
	2005	2004	Basic	Diluted	Basic	Diluted
Net earnings as reported	\$ 1,077	\$ 1,316	\$ 2.07	\$ 2.05	\$ 2.47	\$ 2.44
Pro forma adjustment	6	7	0.01	0.01	0.01	0.01
Pro forma net earnings	\$ 1,071	\$ 1,309	\$ 2.06	\$ 2.04	\$ 2.46	\$ 2.43

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

15. 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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Pension Plans:				
Defined benefit plans				
Employer current service cost	\$ 8	\$ 6	\$ 24	\$ 19
Interest cost	21	20	63	60
Expected return on plan assets	(22)	(19)	(65)	(57)
Amortization of transitional asset	(1)	(1)	(3)	(3)
Amortization of net actuarial losses	9	8	26	23
	15	14	45	42
Defined contribution plan	4	3	11	9
	\$ 19	\$ 17	\$ 56	\$ 51
Other post-retirement plans:				
Employer current service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	3	3	9	9
Amortization of transitional obligation	-	1	1	3
	\$ 4	\$ 5	\$ 13	\$ 15

The Company expects to contribute \$95 million to its pension plans in 2005. As at September 30, 2005, \$70 million in contributions have been made.

16. FINANCIAL INSTRUMENTS AND DERIVATIVES

Investment and other income includes unrealized losses on the outstanding derivative contracts associated with the 2004 acquisition of an interest in the Buzzard field in the U.K. sector of the North Sea. Unrealized losses relating to these contracts amounted to \$135 million and \$899 million for the three and nine months ended September 30, 2005, respectively (\$174 million and \$267 million for the three and nine months ended September 30, 2004).

Unrealized losses on all derivative contracts have decreased investment and other income by \$133 million and \$890 million for the three and nine months ended September 30, 2005, respectively (\$167 million and \$266 million for the three and nine months ended September 30, 2004). As at September 30, 2005, accounts receivable and other liabilities have been increased by \$13 million and \$1,232 million, respectively as a result of unrealized mark-to-market amounts on derivative contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

17. 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.