



**PETRO-CANADA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

**CONSOLIDATED STATEMENT OF EARNINGS** *(unaudited)***For the periods ended December 31, 2006***(millions of Canadian dollars, except per share amounts)*

	Three months ended December 31,		Year ended December 31,	
	2006	2005	2006	2005
Revenue				
Operating	\$ 4,595	\$ 4,805	\$ 18,911	\$ 17,585
Investment and other income (expense) <i>(Note 5)</i>	(45)	33	(242)	(806)
	4,550	4,838	18,669	16,779
Expenses				
Crude oil and product purchases	2,226	2,429	9,649	8,846
Operating, marketing and general	835	806	3,180	2,962
Exploration	107	77	339	271
Depreciation, depletion and amortization	407	285	1,365	1,222
Unrealized loss (gain) on translation of foreign currency denominated long-term debt	69	7	(1)	(88)
Interest	37	52	165	164
	3,681	3,656	14,697	13,377
Earnings from continuing operations before income taxes	869	1,182	3,972	3,402
Provision for income taxes				
Current <i>(Note 6)</i>	455	377	2,073	1,794
Future <i>(Note 6)</i>	30	137	311	(85)
	485	514	2,384	1,709
Net earnings from continuing operations	384	668	1,588	1,693
Net earnings from discontinued operations <i>(Note 4)</i>	-	46	152	98
Net earnings	\$ 384	\$ 714	\$ 1,740	\$ 1,791
Earnings per share from continuing operations <i>(Note 7)</i>				
Basic	\$ 0.77	\$ 1.29	\$ 3.15	\$ 3.27
Diluted	\$ 0.76	\$ 1.28	\$ 3.11	\$ 3.22
Earnings per share <i>(Note 7)</i>				
Basic	\$ 0.77	\$ 1.38	\$ 3.45	\$ 3.45
Diluted	\$ 0.76	\$ 1.36	\$ 3.41	\$ 3.41

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS** *(unaudited)***For the periods ended December 31, 2006***(millions of Canadian dollars)*

	Three months ended December 31,		Year ended December 31,	
	2006	2005	2006	2005
Retained earnings at beginning of period	\$ 8,223	\$ 6,355	\$ 7,018	\$ 5,408
Net earnings	384	714	1,740	1,791
Dividends on common shares	(50)	(51)	(201)	(181)
Retained earnings at end of period	\$ 8,557	\$ 7,018	\$ 8,557	\$ 7,018

See accompanying Notes to Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF CASH FLOWS** *(unaudited)***For the periods ended December 31, 2006***(millions of Canadian dollars)*

	Three months ended		Year ended	
	December 31,		December 31,	
	2006	2005	2006	2005
<b>Operating activities</b>				
Net earnings	\$ 384	\$ 714	\$ 1,740	\$ 1,791
Less: Net earnings from discontinued operations	-	46	152	98
Net earnings from continuing operations	384	668	1,588	1,693
Items not affecting cash flow from continuing operating activities:				
Depreciation, depletion and amortization	407	285	1,365	1,222
Future income taxes	30	137	311	(85)
Accretion of asset retirement obligations	13	9	54	50
Unrealized loss (gain) on translation of foreign currency denominated long-term debt	69	7	(1)	(88)
Gain on disposal of assets	(6)	(25)	(30)	(48)
Unrealized loss (gain) associated with the Buzzard derivative contracts <i>(Note 13)</i>	49	(10)	259	889
Other	(5)	6	18	14
Exploration expenses	50	39	123	140
Proceeds from sale of accounts receivable <i>(Note 8)</i>	-	-	-	80
(Increase) decrease in non-cash working capital related to continuing operating activities	(27)	169	(79)	(84)
Cash flow from continuing operating activities	964	1,285	3,608	3,783
Cash flow from discontinued operating activities <i>(Note 4)</i>	-	60	15	204
Cash flow from operating activities	964	1,345	3,623	3,987
<b>Investing activities</b>				
Expenditures on property, plant and equipment and exploration	(1,156)	(881)	(3,435)	(3,606)
Proceeds from sale of assets <i>(Note 4)</i>	13	52	688	81
Increase in deferred charges and other assets	(9)	(15)	(50)	(70)
Decrease in non-cash working capital related to investing activities	102	35	59	237
Cash flow from investing activities	(1,050)	(809)	(2,738)	(3,358)
<b>Financing activities</b>				
Decrease in short-term notes payable	-	-	-	(303)
Proceeds from issue of long-term debt	-	-	-	762
Repayment of long-term debt	(2)	(1)	(7)	(6)
Proceeds from issue of common shares <i>(Note 10)</i>	7	3	44	64
Purchase of common shares <i>(Note 10)</i>	(50)	(89)	(1,011)	(346)
Dividends on common shares	(50)	(51)	(201)	(181)
Cash flow from financing activities	(95)	(138)	(1,175)	(10)
Increase (decrease) in cash and cash equivalents	(181)	398	(290)	619
Cash and cash equivalents at beginning of period	680	391	789	170
Cash and cash equivalents at end of period	\$ 499	\$ 789	\$ 499	\$ 789
Cash and cash equivalents - discontinued operations <i>(Note 4)</i>	\$ -	\$ 68	\$ -	\$ 68
Cash and cash equivalents - continuing operations	\$ 499	\$ 721	\$ 499	\$ 721

See accompanying Notes to Consolidated Financial Statements

**CONSOLIDATED BALANCE SHEET** *(unaudited)*  
**As at December 31, 2006**  
*(millions of Canadian dollars)*

	December 31, 2006	December 31, 2005
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 499	\$ 721
Accounts receivable <i>(Note 8)</i>	1,600	1,617
Inventories	632	596
Future income taxes	95	-
Assets of discontinued operations <i>(Note 4)</i>	-	237
	2,826	3,171
Property, plant and equipment, net	18,577	15,921
Goodwill	801	737
Deferred charges and other assets	442	415
Assets of discontinued operations <i>(Note 4)</i>	-	411
	\$ 22,646	\$ 20,655
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities <i>(Note 13)</i>	\$ 3,319	\$ 2,895
Income taxes payable	22	82
Liabilities of discontinued operations <i>(Note 4)</i>	-	102
Current portion of long-term debt <i>(Note 9)</i>	7	7
	3,348	3,086
Long-term debt <i>(Note 9)</i>	2,887	2,906
Other liabilities <i>(Note 13)</i>	1,826	1,888
Asset retirement obligations	1,170	882
Future income taxes	2,974	2,405
Shareholders' equity		
Common shares <i>(Note 10)</i>	1,366	1,362
Contributed surplus <i>(Note 10)</i>	469	1,422
Retained earnings	8,557	7,018
Foreign currency translation adjustment	49	(314)
	10,441	9,488
	\$ 22,646	\$ 20,655

See accompanying Notes to Consolidated Financial Statements

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

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS (Note 4)  
Three months ended December 31,

	Upstream														Downstream		Shared Services		Consolidated	
	North American Natural Gas		East Coast Oil		Oil Sands		International		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005		
	2006	2005	2006	2005	2006	2005	2006	2005												
<b>Revenue</b>																				
Sales to customers	\$ 352	\$ 658	\$ 534	\$ 367	\$ 143	\$ 191	\$ 644	\$ 551	\$ 2,922	\$ 3,038	\$ -	\$ -	\$ 4,595	\$ 4,805						
Investment and other Income (expense) <sup>(1)</sup>	1	20	1	1	-	-	(63)	16	6	(4)	10	-	(45)	33						
Inter-segment sales	72	113	97	67	213	177	-	-	6	3	-	-								
<b>Segmented revenue</b>	<b>425</b>	<b>791</b>	<b>632</b>	<b>435</b>	<b>356</b>	<b>368</b>	<b>581</b>	<b>567</b>	<b>2,934</b>	<b>3,037</b>	<b>10</b>	<b>-</b>	<b>4,550</b>	<b>4,838</b>						
<b>Expenses</b>																				
Crude oil and product purchases	53	144	114	48	102	166	-	-	1,959	2,069	(2)	2	2,226	2,429						
Inter-segment transactions	2	2	3	2	(5)	27	-	-	388	329	-	-								
Operating, marketing and general	122	116	43	42	142	105	108	97	380	410	40	36	835	806						
Exploration	38	20	11	4	4	1	54	52	-	-	-	-	107	77						
Depreciation, depletion and amortization	104	89	72	61	30	43	116	40	81	51	4	1	407	285						
Unrealized loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	69	7	69	7						
Interest	-	-	-	-	-	-	-	-	-	-	37	52	37	52						
	319	371	243	157	273	342	278	189	2,808	2,859	148	98	3,681	3,656						
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>106</b>	<b>420</b>	<b>389</b>	<b>278</b>	<b>83</b>	<b>26</b>	<b>303</b>	<b>378</b>	<b>126</b>	<b>178</b>	<b>(138)</b>	<b>(98)</b>	<b>869</b>	<b>1,182</b>						
<b>Provision for income taxes</b>																				
Current (Note 6)	101	88	88	83	(46)	(18)	300	265	22	(3)	(10)	(38)	455	377						
Future (Note 6)	(86)	34	40	15	74	29	4	(45)	21	70	(23)	34	30	137						
	15	122	128	98	28	11	304	220	43	67	(33)	(4)	485	514						
<b>Net earnings (loss) from continuing operations</b>	<b>\$ 91</b>	<b>\$ 298</b>	<b>\$ 261</b>	<b>\$ 180</b>	<b>\$ 55</b>	<b>\$ 15</b>	<b>\$ (1)</b>	<b>\$ 158</b>	<b>\$ 83</b>	<b>\$ 111</b>	<b>\$ (105)</b>	<b>\$ (94)</b>	<b>\$ 384</b>	<b>\$ 668</b>						
<b>Expenditures on property, plant and equipment and exploration from continuing operations</b> <sup>(2)</sup>	<b>\$ 303</b>	<b>\$ 182</b>	<b>\$ 68</b>	<b>\$ 89</b>	<b>\$ 89</b>	<b>\$ 109</b>	<b>\$ 293</b>	<b>\$ 163</b>	<b>\$ 394</b>	<b>\$ 320</b>	<b>\$ 9</b>	<b>\$ 6</b>	<b>\$ 1,156</b>	<b>\$ 869</b>						
<b>Cash flow from continuing operating activities</b>	<b>\$ 108</b>	<b>\$ 482</b>	<b>\$ 292</b>	<b>\$ 165</b>	<b>\$ 199</b>	<b>\$ 120</b>	<b>\$ 171</b>	<b>\$ 235</b>	<b>\$ 314</b>	<b>\$ 324</b>	<b>\$ (120)</b>	<b>\$ (41)</b>	<b>\$ 964</b>	<b>\$ 1,285</b>						
<b>Total assets from continuing operations</b>	<b>\$ 4,151</b>	<b>\$ 3,763</b>	<b>\$ 2,465</b>	<b>\$ 2,442</b>	<b>\$ 2,885</b>	<b>\$ 2,623</b>	<b>\$ 6,031</b>	<b>\$ 4,856</b>	<b>\$ 6,649</b>	<b>\$ 5,609</b>	<b>\$ 465</b>	<b>\$ 714</b>	<b>\$ 22,646</b>	<b>\$ 20,007</b>						

<sup>(1)</sup> Investment and other income for the International segment includes unrealized gains (losses) relating to the Buzzard derivative contracts of \$(49) million for the three months ended December 31, 2006 (\$10 million for the three months ended December 31, 2005) (Notes 5 and 13).

<sup>(2)</sup> Consolidated expenditures include capitalized interest in the amount of \$27 million for the three months ended December 31, 2006 (\$8 million for the three months ended December 31, 2005).

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

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS (Note 4)  
Year ended December 31,

	Upstream												Consolidated	
	North American Natural Gas		East Coast Oil		Oil Sands		International		Downstream		Shared Services			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005		
<b>Revenue</b>														
Sales to customers	\$ 1,504	\$ 2,073	\$ 2,004	\$ 1,284	\$ 592	\$ 749	\$ 2,464	\$ 2,183	\$ 12,347	\$ 11,296	\$ -	\$ -	\$ 18,911	\$ 17,585
Investment and other Income (expense) <sup>(1)</sup>	6	21	-	(2)	-	4	(283)	(851)	19	43	16	(21)	(242)	(806)
Inter-segment sales	349	345	298	346	822	660	-	-	15	13	-	-	-	-
<b>Segmented revenue</b>	<b>1,859</b>	<b>2,439</b>	<b>2,302</b>	<b>1,628</b>	<b>1,414</b>	<b>1,413</b>	<b>2,181</b>	<b>1,332</b>	<b>12,381</b>	<b>11,352</b>	<b>16</b>	<b>(21)</b>	<b>18,669</b>	<b>16,779</b>
<b>Expenses</b>														
Crude oil and product purchases	256	466	452	48	425	571	-	-	8,517	7,762	(1)	(1)	9,649	8,846
Inter-segment transactions	5	7	9	6	31	80	-	-	1,439	1,271	-	-	-	-
Operating, marketing and general	462	426	245	158	508	423	350	364	1,495	1,436	120	155	3,180	2,962
Exploration	150	118	12	4	21	32	156	117	-	-	-	-	339	271
Depreciation, depletion and amortization	402	364	237	259	128	133	323	249	262	216	13	1	1,365	1,222
Unrealized gain on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(1)	(88)	(1)	(88)
Interest	-	-	-	-	-	-	-	-	-	-	165	164	165	164
	1,275	1,381	955	475	1,113	1,239	829	730	11,713	10,685	296	231	14,697	13,377
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>584</b>	<b>1,058</b>	<b>1,347</b>	<b>1,153</b>	<b>301</b>	<b>174</b>	<b>1,352</b>	<b>602</b>	<b>668</b>	<b>667</b>	<b>(280)</b>	<b>(252)</b>	<b>3,972</b>	<b>3,402</b>
<b>Provision for income taxes</b>														
Current (Note 6)	351	311	434	361	(53)	(45)	1,248	1,015	141	264	(48)	(112)	2,073	1,794
Future (Note 6)	(172)	73	(21)	17	109	104	310	(304)	54	(12)	31	37	311	(85)
	179	384	413	378	56	59	1,558	711	195	252	(17)	(75)	2,384	1,709
<b>Net earnings (loss) from continuing operations</b>	<b>\$ 405</b>	<b>\$ 674</b>	<b>\$ 934</b>	<b>\$ 775</b>	<b>\$ 245</b>	<b>\$ 115</b>	<b>\$ (206)</b>	<b>\$ (109)</b>	<b>\$ 473</b>	<b>\$ 415</b>	<b>\$ (263)</b>	<b>\$ (177)</b>	<b>\$ 1,588</b>	<b>\$ 1,693</b>
<b>Expenditures on property, plant and equipment and exploration from continuing operations</b> <sup>(2)</sup>	<b>\$ 788</b>	<b>\$ 713</b>	<b>\$ 256</b>	<b>\$ 314</b>	<b>\$ 377</b>	<b>\$ 772</b>	<b>\$ 760</b>	<b>\$ 696</b>	<b>\$ 1,229</b>	<b>\$ 1,053</b>	<b>\$ 24</b>	<b>\$ 12</b>	<b>\$ 3,434</b>	<b>\$ 3,560</b>
<b>Cash flow from continuing operating activities</b>	<b>\$ 651</b>	<b>\$ 1,219</b>	<b>\$ 1,129</b>	<b>\$ 1,002</b>	<b>\$ 499</b>	<b>\$ 340</b>	<b>\$ 840</b>	<b>\$ 722</b>	<b>\$ 835</b>	<b>\$ 663</b>	<b>\$ (346)</b>	<b>\$ (163)</b>	<b>\$ 3,608</b>	<b>\$ 3,783</b>
<b>Total assets from continuing operations</b>	<b>\$ 4,151</b>	<b>\$ 3,763</b>	<b>\$ 2,465</b>	<b>\$ 2,442</b>	<b>\$ 2,885</b>	<b>\$ 2,623</b>	<b>\$ 6,031</b>	<b>\$ 4,856</b>	<b>\$ 6,649</b>	<b>\$ 5,609</b>	<b>\$ 465</b>	<b>\$ 714</b>	<b>\$ 22,646</b>	<b>\$ 20,007</b>

<sup>(1)</sup> Investment and other income for the International segment includes unrealized losses relating to the Buzzard derivative contracts of \$259 million for the year ended December 31, 2006 (\$889 million for the year ended December 31, 2005) (Notes 5 and 13).

<sup>(2)</sup> Consolidated expenditures include capitalized interest in the amount of \$51 million for the year ended December 31, 2006 (\$35 million for the year ended December 31, 2005).

**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 2005 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.

3. CHANGES IN ACCOUNTING POLICIES

*Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date*

The Company has adopted the recommendations of Emerging Issues Committee Abstract 162, "Stock-based compensation for employees eligible to retire before the vesting date" (EIC 162) for the period ended December 31, 2006. The abstract requires that the compensation cost for a stock option attributable to an employee who is eligible to retire at the grant date be recognized on the grant date if the employee can retire from the entity at any point and the ability to exercise the award does not depend on continued service. It further requires that the compensation cost for a stock option award attributable to an employee who will become eligible to retire during the vesting period be recognized over the period from the grant date to the date the employee becomes eligible to retire.

Previously, stock based compensation was recognized over the applicable vesting period, without regard to when an employee was eligible to retire. During the period ended December 31, 2006, the Company recorded a cumulative adjustment of \$5 million to reflect additional stock-based compensation expense upon adoption of EIC 162. Comparative balances have not been restated as the impact on prior periods is not significant.

4. DISCONTINUED OPERATIONS

On January 31, 2006, the Company completed the sale of its producing assets in Syria for net proceeds of \$640 million, resulting in a gain on disposal of \$134 million.

The accounting for discontinued operations results in a reduction of the Consolidated Statement of Earnings balances as follows:

	Three months ended December 31,		Year ended December 31,	
	2006	2005	2006 <sup>(1)</sup>	2005
Revenue	\$ -	\$ 118	\$ 168 <sup>(1)</sup>	\$ 464
Expenses				
Operating, marketing and general	-	26	6	104
Depreciation, depletion and amortization	-	16	-	145
	-	42	6	249
Earnings from discontinued operations before income taxes	-	76	162	215
Provision for income taxes	-	30	10	117
Net earnings from discontinued operations	\$ -	\$ 46	\$ 152	\$ 98

The assets and liabilities of the discontinued operations were comprised of the following:

	Year ended December 31,	
	2006	2005
Current assets	\$ -	\$ 237 <sup>(2)</sup>
Property plant and equipment, net	-	300
Goodwill	-	111
Total Assets	\$ -	\$ 648
Current liabilities	\$ -	\$ 102
Net assets of discontinued operations	\$ -	\$ 546

<sup>(1)</sup> Revenue includes the gain on disposal of \$134 million.

<sup>(2)</sup> Current assets include cash and cash equivalents of \$68 million as at December 31, 2005.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)***5. INVESTMENT AND OTHER INCOME**

Investment and other income includes net gains (losses) on derivative contracts (Note 13) of \$(50) million and \$(257) million for the three months and year ended December 31, 2006, respectively (\$2 million and \$(882) million for the three months and year ended December 31, 2005) and net gains on disposal of assets of \$6 million and \$30 million for the three months and the year ended December 31, 2006, respectively (\$25 million and \$48 million for the three months and the year ended December 31, 2005).

**6. INCOME TAXES**

The provision for future income taxes for the year ended December 31, 2006 includes a \$242 million charge due to the enacted increase in the U.K. supplemental corporate income tax rate. The adjustment was allocated to the Company's International business segment.

The provision for future income taxes for the year ended December 31, 2006 was reduced by \$127 million due to the enacted reduction in Canadian federal and 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 - \$6 million, East Coast Oil - \$37 million, Oil Sands - \$44 million, Downstream - \$41 million and Shared Services - \$(1) million.

The provision for current income taxes for the year ended December 31, 2006 was increased by \$70 million due to the Quebec government enacting retroactive tax legislation. The adjustment was allocated to Shared Services.

**7. EARNINGS PER SHARE**

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

<i>(millions)</i>	Three months ended December 31,		Year ended December 31,	
	2006	2005	2006	2005
Weighted-average number of common shares outstanding - basic	497.9	516.2	503.9	518.4
Effect of dilutive stock options	5.5	6.9	6.0	7.0
Weighted-average number of common shares outstanding - diluted	503.4	523.1	509.9	525.4

**8. SECURITIZATION PROGRAM**

In 2004, the Company entered into a securitization program, expiring in 2009, to sell an undivided interest in 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 year ended December 31, 2005, the Company sold an additional \$80 million of outstanding receivables for net proceeds of \$80 million. As at December 31, 2006, \$480 million of outstanding accounts receivable had been sold under the program.

**9. LONG-TERM DEBT**

	Maturity	December 31, 2006	December 31, 2005
Debentures and notes			
5.95% unsecured senior notes (\$600 million US)	2035	\$ 699	\$ 700
5.35% unsecured senior notes (\$300 million US)	2033	349	350
7.00% unsecured debentures (\$250 million US)	2028	291	292
7.875% unsecured debentures (\$275 million US)	2026	321	321
9.25% unsecured debentures (\$300 million US)	2021	349	350
5.00% unsecured senior notes (\$400 million US)	2014	466	466
4.00% unsecured senior notes (\$300 million US)	2013	349	350
Capital leases	2007-2017	70	77
Retail licensee trust loans		-	7
		2,894	2,913
Current portion		(7)	(7)
		\$ 2,887	\$ 2,906



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)***10. SHAREHOLDERS' EQUITY**

Changes in common shares and contributed surplus were as follows:

	Shares	Amount	Contributed Surplus
Balance at December 31, 2005	515,138,904	\$ 1,362	\$ 1,422
Issued under employee stock option and share purchase plans	2,177,881	57	5
Repurchased under normal course issuer bid	(19,778,400)	(53)	(958)
Balance at December 31, 2006	497,538,385	\$ 1,366	\$ 469

In June 2006, the Company renewed its normal course issuer bid (NCIB) program to repurchase up to 25 million of its outstanding common shares during the period from June 22, 2006 to June 21, 2007, subject to certain conditions. During the three months and year ended December 31, 2006, the Company purchased 1,000,000 common shares at a cost of \$50 million and 19,778,400 common shares at a cost of \$1,011 million, respectively (2,000,000 common shares at a cost of \$89 million and 8,333,400 common shares at a cost of \$346 million during the three months and year ended December 31, 2005). The excess of the purchase price over the carrying amount of the shares purchased was recorded as a reduction of contributed surplus.

**11. 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	Number
Balance at December 31, 2005	18,361,617	\$ 24	1,158,967
Granted	4,911,600	52	385,632
Exercised for common shares	(2,177,881)	20	-
Surrendered for cash payment	(119,710)	31	n/a
Cancelled	(260,893)	41	(61,613)
Balance at December 31, 2006	20,714,733	\$ 31	1,482,986

The total stock-based compensation expense recorded was \$28 million and \$39 million during the three months and year ended December 31, 2006, respectively (\$13 million and \$99 million for the three months and year ended December 31, 2005) (Note 3).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)***12. 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 December 31,		Year ended December 31,	
	2006	2005	2006	2005
<b>Pension Plans:</b>				
<b>Defined benefit plans</b>				
Employer current service cost	\$ 10	\$ 12	\$ 40	\$ 36
Interest cost	23	23	86	86
Expected return on plan assets	(25)	(23)	(99)	(88)
Amortization of transitional asset	-	(3)	(5)	(6)
Amortization of net actuarial losses	12	8	51	34
	20	17	73	62
<b>Defined contribution plans</b>				
	6	5	18	16
	\$ 26	\$ 22	\$ 91	\$ 78
<b>Other post-retirement plans:</b>				
Employer current service cost	\$ 1	\$ 1	\$ 4	\$ 4
Interest cost	2	3	11	12
Amortization of transitional obligation	1	1	4	2
	\$ 4	\$ 5	\$ 19	\$ 18

The Company contributed \$114 million to its pension plans in 2006.

**13. FINANCIAL INSTRUMENTS AND DERIVATIVES**

Investment and other income includes unrealized gains and 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. These contracts resulted in unrealized gains (losses) of \$(49) million and \$(259) million for the three months and year ended December 31, 2006, respectively (\$10 million and \$(889) million for the three months and year ended December 31, 2005).

Investment and other income includes unrealized gains (losses) on all derivative contracts of \$(51) million and \$(268) million for the three months and year ended December 31, 2006, respectively (\$1 million and \$(889) million for the three months and year ended December 31, 2005). As at December 31, 2006, accounts payable and other liabilities include \$233 million and \$1,252 million, respectively, relating to unrealized mark-to-market amounts on derivative contracts.