



**PETRO-CANADA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

**CONSOLIDATED STATEMENT OF EARNINGS** *(unaudited)***For the period ended December 31, 2005***(millions of Canadian dollars, except per share amounts)*

	Three months ended December 31,		Year ended December 31,	
	2005	2004	2005	2004
		<i>(Note 4)</i>		<i>(Note 4)</i>
Revenue				
Operating	\$ 4,805	\$ 3,710	\$17,585	\$14,270
Investment and other income (Note 6)	33	(87)	(806)	(312)
	4,838	3,623	16,779	13,958
Expenses				
Crude oil and product purchases	2,429	1,794	8,846	6,740
Operating, marketing and general (Note 7)	806	672	2,962	2,572
Exploration	77	76	271	235
Depreciation, depletion and amortization (Note 7)	285	318	1,222	1,256
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	7	(52)	(88)	(77)
Interest	52	34	164	142
	3,656	2,842	13,377	10,868
Earnings from continuing operations before income taxes	1,182	781	3,402	3,090
Provision for income taxes				
Current	377	207	1,794	1,365
Future	137	140	(85)	27
	514	347	1,709	1,392
Net earnings from continuing operations	668	434	1,693	1,698
Net earnings from discontinued operations (Note 4)	46	7	98	59
Net earnings	\$ 714	\$ 441	\$ 1,791	\$ 1,757
Earnings per share from continuing operations (Notes 5 and 8)				
Basic (dollars)	\$ 1.29	\$ 0.83	\$ 3.27	\$ 3.21
Diluted (dollars)	\$ 1.28	\$ 0.82	\$ 3.22	\$ 3.17
Earnings per share (Notes 5 and 8)				
Basic (dollars)	\$ 1.38	\$ 0.85	\$ 3.45	\$ 3.32
Diluted (dollars)	\$ 1.36	\$ 0.83	\$ 3.41	\$ 3.28

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS** *(unaudited)***For the period ended December 31, 2005***(millions of Canadian dollars)*

	Three months ended December 31,		Year ended December 31,	
	2005	2004	2005	2004
Retained earnings at beginning of period	\$ 6,355	\$ 5,006	\$ 5,408	\$ 3,810
Net earnings	714	441	1,791	1,757
Dividends on common shares	(51)	(39)	(181)	(159)
Retained earnings at end of period	\$ 7,018	\$ 5,408	\$ 7,018	\$ 5,408

See accompanying Notes to Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF CASH FLOWS** *(unaudited)***For the period ended December 31, 2005***(millions of Canadian dollars)*

	Three months ended December 31,		Year ended December 31,	
	2005	2004	2005	2004
	<i>(Notes 3 and 4)</i>		<i>(Notes 3 and 4)</i>	
<b>Operating activities</b>				
Net earnings	\$ 714	\$ 441	\$ 1,791	\$ 1,757
Less: Net earnings from discontinued operations	46	7	98	59
Net earnings from continuing operations	668	434	1,693	1,698
Items not affecting cash flow from continuing operating activities:				
Depreciation, depletion and amortization	285	318	1,222	1,256
Future income taxes	137	140	(85)	27
Accretion of asset retirement obligations	9	13	50	50
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	7	(52)	(88)	(77)
Gain on disposal of assets (Note 6)	(25)	-	(48)	(12)
Unrealized (gain) loss associated with the Buzzard derivative contracts (Note 16)	(10)	66	889	333
Other	6	10	14	33
Exploration expenses (Note 3)	39	37	140	117
Proceeds from sale of accounts receivable (Note 9)	-	-	80	399
(Increase) decrease in non-cash working capital related to continuing operating activities	169	(239)	(84)	104
Cash flow from continuing operating activities	1,285	727	3,783	3,928
Cash flow from discontinued operating activities (Note 4)	60	66	204	233
Cash flow from operating activities	1,345	793	3,987	4,161
<b>Investing activities</b>				
Expenditures on property, plant and equipment and exploration (Notes 3 and 10)	(881)	(936)	(3,606)	(3,955)
Proceeds from sale of assets	52	7	81	44
Increase in deferred charges and other assets	(15)	(15)	(70)	(36)
Acquisition of Prima Energy Corporation (Note 11)	-	-	-	(644)
(Increase) decrease in non-cash working capital related to investing activities	35	(10)	237	10
	(809)	(954)	(3,358)	(4,581)
<b>Financing activities</b>				
Increase (decrease) in short-term notes payable	-	85	(303)	314
Proceeds from issue of long-term debt (Note 12)	-	-	762	533
Repayment of long-term debt	(1)	(1)	(6)	(299)
Proceeds from issue of common shares (Note 13)	3	8	64	39
Purchase of common shares (Note 13)	(89)	(159)	(346)	(447)
Dividends on common shares	(51)	(39)	(181)	(159)
Increase in non-cash working capital related to financing activities	-	(8)	-	(26)
	(138)	(114)	(10)	(45)
Increase (decrease) in cash and cash equivalents	398	(275)	619	(465)
Cash and cash equivalents at beginning of period	391	445	170	635
Cash and cash equivalents at end of period	\$ 789	\$ 170	\$ 789	\$ 170
Cash and cash equivalents – discontinued operations (Note 4)	\$ 68	\$ 206	\$ 68	\$ 206
Cash and cash equivalents – continuing operations	\$ 721	\$ (36)	\$ 721	\$ (36)

See accompanying Notes to Consolidated Financial Statements

**CONSOLIDATED BALANCE SHEET** *(unaudited)***As at December 31, 2005***(millions of Canadian dollars)*

	December 31, 2005	December 31, 2004
		<i>(Note 4)</i>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 721	\$ -
Accounts receivable (Note 9)	1,617	1,086
Inventories	596	549
Assets of discontinued operations (Note 4)	237	387
	3,171	2,022
Property, plant and equipment, net	15,921	14,318
Goodwill	737	853
Deferred charges and other assets	415	345
Assets of discontinued operations (Note 4)	411	598
	\$ 20,655	\$ 18,136
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Outstanding cheques less cash and cash equivalents	\$ -	\$ 36
Accounts payable and accrued liabilities	2,854	2,188
Income taxes payable	82	272
Liabilities of discontinued operations (Note 4)	102	133
Short-term notes payable	-	299
Current portion of long-term debt	7	6
	3,045	2,934
Long-term debt (Note 12)	2,906	2,275
Other liabilities	1,888	646
Asset retirement obligations	923	834
Future income taxes	2,405	2,708
Shareholders' equity		
Common shares (Note 13)	1,362	1,314
Contributed surplus (Note 13)	1,422	1,743
Retained earnings	7,018	5,408
Foreign currency translation adjustment	(314)	274
	9,488	8,739
	\$ 20,655	\$ 18,136

See accompanying Notes to Consolidated Financial Statements

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

(millions of Canadian dollars)

## 1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS (Notes 3 and 4)

Three months ended December 31,

	Upstream													
	North American		East Coast		Oil Sands		International		Downstream		Shared Services		Consolidated	
	Natural Gas		Oil											
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Revenue</b>														
Sales to customers	\$ 658	\$ 471	\$ 367	\$ 198	\$ 191	\$ 111	\$ 551	\$ 434	\$3,038	\$2,496	\$ -	\$ -	\$ 4,805	\$ 3,710
Investment and other income	20	1	1	(2)	-	-	16	(86)	(4)	5	-	(5)	33	(87)
Inter-segment sales	113	64	67	115	177	146	-	-	3	5	-	-	-	-
Segmented revenue	791	536	435	311	368	257	567	348	3,037	2,506	-	(5)	4,838	3,623
<b>Expenses</b>														
Crude oil and product purchases	144	85	48	-	166	91	-	-	2,069	1,625	2	(7)	2,429	1,794
Inter-segment transactions	2	4	2	1	27	16	-	-	329	309	-	-	-	-
Operating, marketing and general	116	103	42	27	105	100	97	71	410	353	36	18	806	672
Exploration	20	44	4	-	1	6	52	26	-	-	-	-	77	76
Depreciation, depletion and amortization	89	89	61	58	43	29	40	70	51	72	1	-	285	318
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	7	(52)	7	(52)
Interest	-	-	-	-	-	-	-	-	-	-	52	34	52	34
	371	325	157	86	342	242	189	167	2,859	2,359	98	(7)	3,656	2,842
<b>Earnings (loss) from continuing operations before income taxes</b>	420	211	278	225	26	15	378	181	178	147	(98)	2	1,182	781
<b>Provision for income taxes</b>														
Current	88	52	83	69	(18)	(36)	265	107	(3)	36	(38)	(21)	377	207
Future	34	28	15	3	29	41	(45)	38	70	19	34	11	137	140
	122	80	98	72	11	5	220	145	67	55	(4)	(10)	514	347
<b>Net earnings (loss) from continuing operations</b>	\$ 298	\$ 131	\$ 180	\$ 153	\$ 15	\$ 10	\$ 158	\$ 36	\$ 111	\$ 92	\$ (94)	\$ 12	\$ 668	\$ 434
<b>Expenditures on property, plant and equipment and exploration from continuing operations</b>	\$ 182	\$ 195	\$ 89	\$ 78	\$ 109	\$ 132	\$ 163	\$ 205	\$ 320	\$ 308	\$ 6	\$ 5	\$ 869 <sup>(1)</sup>	\$ 923 <sup>(1)</sup>
<b>Cash flow from continuing operating activities</b>	\$ 482	\$ 231	\$ 165	\$ 243	\$ 120	\$ 141	\$ 235	\$ 154	\$ 324	\$ 193	\$ (41)	\$ (235)	\$ 1,285	\$ 727

<sup>(1)</sup> Expenditures include capitalized interest in the amount of \$8 million for the three months ended December 31, 2005 (\$7 million for the three months ended December 31, 2004).

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

(millions of Canadian dollars)

## 1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS (Notes 3 and 4)

Year ended December 31,

	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
<b>Revenue</b>														
Sales to customers	\$2,073	\$1,770	\$1,284	\$ 914	\$ 749	\$ 412	\$2,183	\$1,767	\$11,296	\$9,407	\$ -	\$ -	\$17,585	\$14,270
Investment and other income	21	3	(2)	(3)	4	-	(851)	(335)	43	13	(21)	10	(806)	(312)
Inter-segment sales	345	215	346	527	660	548	-	-	13	14	-	-	-	-
Segmented revenue	2,439	1,988	1,628	1,438	1,413	960	1,332	1,432	11,352	9,434	(21)	10	16,779	13,958
<b>Expenses</b>														
Crude oil and product purchases	466	359	48	-	571	291	-	-	7,762	6,093	(1)	(3)	8,846	6,740
Inter-segment transactions	7	9	6	5	80	49	-	-	1,271	1,241	-	-	-	-
Operating, marketing and general	426	379	158	120	423	362	364	319	1,436	1,328	155	64	2,962	2,572
Exploration	118	119	4	2	32	16	117	98	-	-	-	-	271	235
Depreciation, depletion and amortization	364	321	259	268	133	69	249	320	216	277	1	1	1,222	1,256
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(88)	(77)	(88)	(77)
Interest	-	-	-	-	-	-	-	-	-	-	164	142	164	142
	1,381	1,187	475	395	1,239	787	730	737	10,685	8,939	231	127	13,377	10,868
<b>Earnings (loss) from continuing operations before income taxes</b>	1,058	801	1,153	1,043	174	173	602	695	667	495	(252)	(117)	3,402	3,090
<b>Provision for income taxes</b>														
Current	311	330	361	323	(45)	(71)	1,015	631	264	226	(112)	(74)	1,794	1,365
Future	73	(29)	17	9	104	124	(304)	(52)	(12)	(45)	37	20	(85)	27
	384	301	378	332	59	53	711	579	252	181	(75)	(54)	1,709	1,392
<b>Net earnings (loss) from continuing operations</b>	\$ 674	\$ 500	\$ 775	\$ 711	\$ 115	\$ 120	\$ (109)	\$ 116	\$ 415	\$ 314	\$ (177)	\$ (63)	\$ 1,693	\$ 1,698
<b>Expenditures on property, plant and equipment and exploration from continuing operations</b>	\$ 713	\$ 666	\$ 314	\$ 275	\$ 772	\$ 397	\$ 696	\$1,707	\$1,053	\$ 839	\$ 12	\$ 9	\$ 3,560 <sup>(1)</sup>	\$ 3,893 <sup>(1)</sup>
<b>Cash flow from continuing operating activities</b>	\$1,219	\$ 899	\$1,002	\$1,018	\$ 340	\$ 384	\$ 722	\$ 789	\$ 663	\$ 879	\$ (163)	\$ (41)	\$ 3,783	\$ 3,928

<sup>(1)</sup> Expenditures include capitalized interest in the amount of \$35 million for the year ended December 31, 2005 (\$20 million for the year ended December 31, 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. 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 \$38 million and \$131 million for the three months and the year ended December 31, 2005, respectively (\$39 million and \$118 million for the three months and the year ended December 31, 2004).

4. DISCONTINUED OPERATIONS

On December 20, 2005, the Company reached an agreement to sell its producing assets in Syria for \$676 million (Euro 484 million) before adjustments. Accordingly, the producing assets in Syria have been classified as held for sale and presented as discontinued operations in the International segment. The sale is expected to close in the first quarter of 2006. The amount of the gain to be recorded will be determined upon closing of the sale.

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,	
	2005	2004	2005	2004
Revenue	\$ 118	\$ 94	\$ 464	\$ 419
Expenses				
Operating, marketing and general	26	30	104	118
Depreciation, depletion and amortization	16	34	145	146
	42	64	249	264
Earnings from discontinued operations before income taxes	76	30	215	155
Provision for income taxes	30	23	117	96
Net earnings from discontinued operations	\$ 46	\$ 7	\$ 98	\$ 59

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

## 4. DISCONTINUED OPERATIONS (continued)

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

	Year ended December 31,	
	2005	2004
Current assets <sup>(1)</sup>	\$ 237	\$ 387
Property, plant and equipment, net	300	465
Goodwill	111	133
Total assets	648	985
Current liabilities	102	133
Net assets of discontinued operations	\$ 546	\$ 852

<sup>(1)</sup> Includes cash and cash equivalents of \$68 million as at December 31, 2005 (December 31, 2004 - \$206 million).

## 5. 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.

## 6. INVESTMENT AND OTHER INCOME

Investment and other income includes a net gain of \$2 million and a net loss of \$882 million on derivative contracts (see Note 16) for the three months and the year ended December 31, 2005, respectively (a net loss of \$75 million and a net loss of \$345 million for the three months and the year ended December 31, 2004) and net gains on disposal of assets of \$25 million and \$48 million for the three months and the year ended December 31, 2005, respectively (\$nil and \$12 million for the three months and the year ended December 31, 2004).



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

7. ASSET WRITE-DOWNS

Petro-Canada announced in September 2003 it would cease the Oakville refining operations and expand the existing terminalling facilities. The shutdown of the refinery was completed in April 2005. The total charge to earnings related to the shutdown over the three years was \$195 million after-tax. The following expenses have been recorded in the Downstream segment:

	Three months ended December 31,				Year ended December 31,			
	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)	\$ -	\$ -	\$ 1	\$ 1	\$ (4)	\$ (2)	\$ 3	\$ 2
Depreciation and amortization expenses (asset write-downs and increased depreciation)	-	-	16	10	1	-	71	44
	\$ -	\$ -	\$ 17	\$ 11	\$ (3)	\$ (2)	\$ 74	\$ 46

8. EARNINGS PER SHARE

The following table provides the common shares used in calculating earnings per share from continuing operations and earnings per share:

(millions)	Three months ended December 31,		Year ended December 31,	
	2005	2004	2005	2004
Weighted-average number of common shares outstanding – basic	516.2	521.2	518.4	529.3
Effect of dilutive stock options	6.9	7.0	7.0	6.9
Weighted-average number of common shares outstanding – diluted	523.1	528.2	525.4	536.2

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 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, 2005, \$480 million (December 31, 2004 - \$400 million) of outstanding accounts receivable had been sold under the program.

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

10. FORT HILLS OIL SANDS MINING PROJECT

In June 2005, the Company acquired a 60% interest in the Fort Hills oil sands mining project for \$300 million, which was previously wholly-owned by UTS Energy Corporation (UTS). As part of the acquisition, Petro-Canada became the project operator. To pay for their investment, Petro-Canada will fund a portion of UTS' share of next \$2.5 billion of development capital.

In November 2005, the Company and UTS finalized agreements with Teck Cominco Limited (Teck Cominco) whereby Teck Cominco acquired a 15% interest in the Fort Hills oil sands mining project with Petro-Canada and UTS holding interests of 55% and 30%, respectively. Petro-Canada remains the project operator.

11. ACQUISITION OF PRIMA ENERGY CORPORATION

On July 28, 2004, Petro-Canada acquired all 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 using 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
<b>Total assets acquired</b>	<b>919</b>
Current liabilities	41
Future income taxes	217
Asset retirement obligations and other liabilities	17
<b>Total liabilities assumed</b>	<b>275</b>
<b>Net assets acquired</b>	<b>\$ 644</b>

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

12. LONG-TERM DEBT

	Maturity	December 31, 2005
Debtures and notes		
5.95% unsecured senior notes (\$600 million US) <sup>(1)</sup>	2035	\$ 700
5.35% unsecured senior notes (\$300 million US)	2033	350
7.00% unsecured debentures (\$250 million US)	2028	292
7.875% unsecured debentures (\$275 million US)	2026	321
9.25% unsecured debentures (\$300 million US)	2021	350
5.00% unsecured senior notes (\$400 million US)	2014	466
4.00% unsecured senior notes (\$300 million US)	2013	350
Capital leases	2007-2017	77
Retail licensee trust loans	2012-2014	7
		2,913
Current portion		(7)
		<b>\$ 2,906</b>

<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)

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	3,544,282	64	-
Repurchased under normal course issuer bid	(8,333,400)	(22)	(324)
Stock-based compensation	-	6	3
Balance at December 31, 2005	515,138,904	\$ 1,362	\$ 1,422

In June 2005, the Company renewed its normal course issuer bid to repurchase up to 26 million of its common shares during the period from June 22, 2005 to June 21, 2006, subject to certain conditions. The Company purchased 2,000,000 shares at a cost of \$89 million and 8,333,400 shares at a cost of \$346 million during the three months and the year ended December 31, 2005, respectively (4,806,376 shares at a cost of \$159 million and 13,736,164 shares at a cost of \$447 million during the three months and the year ended December 31, 2004). The excess of the purchase price over the carrying amount of the shares purchased, which totaled \$83 million and \$324 million for the three months and the year ended December 31, 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	4,185,800	35	642,940
Exercised	(3,544,282)	18	-
Cancelled	(354,599)	29	(49,833)
Balance at December 31, 2005	18,361,617	\$ 24	1,158,967

The total stock-based compensation expense recorded was \$13 million and \$99 million during the three months and the year ended December 31, 2005, respectively (\$1 million and \$12 million for the three months and the year ended December 31, 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 December 31,						
	2005		2004		2004		
	Net earnings		Earnings per share (dollars)				
				Basic	Diluted	Basic	Diluted
Net earnings as reported	\$ 714	\$ 441	\$ 1.38	\$ 1.36	\$ 0.85	\$ 0.83	
Pro forma adjustment	2	2	-	-	0.01	-	
Pro forma net earnings	\$ 712	\$ 439	\$ 1.38	\$ 1.36	\$ 0.84	\$ 0.83	

	Year ended December 31,						
	2005		2004		2004		
	Net earnings		Earnings per share (dollars)				
				Basic	Diluted	Basic	Diluted
Net earnings as reported	\$ 1,791	\$ 1,757	\$ 3.45	\$ 3.41	\$ 3.32	\$ 3.28	
Pro forma adjustment	8	9	0.01	0.02	0.02	0.02	
Pro forma net earnings	\$ 1,783	\$ 1,748	\$ 3.44	\$ 3.39	\$ 3.30	\$ 3.26	

**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 December 31,		Year ended December 31,	
	2005	2004	2005	2004
Pension Plans:				
Defined benefit plans				
Employer current service cost	\$ 12	\$ 12	\$ 36	\$ 31
Interest cost	23	21	86	81
Expected return on plan assets	(23)	(22)	(88)	(79)
Amortization of transitional assets	(3)	(2)	(6)	(5)
Amortization of net actuarial losses	8	7	34	30
	17	16	62	58
Defined contribution plan	5	4	16	13
	\$ 22	\$ 20	\$ 78	\$ 71
Other post-retirement plans:				
Employer current service cost	\$ 1	\$ 1	\$ 4	\$ 4
Interest cost	3	4	12	13
Amortization of transitional obligation	1	-	2	3
	\$ 5	\$ 5	\$ 18	\$ 20

The Company contributed \$112 million to its pension plans in 2005.

16. 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 a gain of \$10 million and a loss of \$889 million for the three months and the year ended December 31, 2005, respectively (a loss of \$66 million and a loss of \$333 million for the three months and the year ended December 31, 2004).

Unrealized gains and losses on all derivative contracts increased investment and other income by \$1 million and decreased investment and other income by \$889 million for the three months and the year ended December 31, 2005, respectively (decreased investment and other income by \$72 million and \$338 million for the three months and the year ended December 31, 2004). As at December 31, 2005, accounts receivable, accounts payable and accrued liabilities, and other liabilities have been increased by \$5 million, \$1 million, and \$1,222 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.