

Company Registration No. 3084447

**Petro-Canada Energy North Sea
Limited**

Report and Financial Statements

31 December 2005



Petro-Canada Energy North Sea Limited

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Petro-Canada Energy North Sea Limited

Directors' report

The directors present their annual report and the audited accounts for the year ended 31 December 2005.

Principal activities

The Company now has no trading activities and only generates income from a loan to its parent company.

Business review

On 1 January 2005, the Company's 29.89% interest in the Buzzard field was sold to Petro-Canada UK Limited generating a gain of £409.3m. The consideration received for this sale was two inter-company loans (£338 million and £200 million). At balance sheet date the amount of £200 million remains outstanding.

Future developments

As this Company has sold its main asset, it is not intending to have any significant oil and gas activities in the near term.

Results and dividends

The profit for the year after taxation amounted to £421.9 million (2004 – £11.8 million profit).

The Company has paid a dividend of £345.1 million (2004 - £35.6 million).

Directors and their interests

The directors who served during the year were:

| | | |
|---------------|------------|----------------------------|
| P. S. Kallos | (British) | |
| G. Kinast | (Austrian) | Resigned 16 February 2006 |
| Y. Ghoniem | (German) | Resigned 19 May 2005 |
| N. A. Maden | (British) | Appointed 19 May 2005 |
| G. V. Lyon | (British) | Appointed 19 May 2005 |
| G. J. Carrick | (Canadian) | Appointed 19 May 2005 |
| H. J. Wesley | (Canadian) | Appointed 16 February 2006 |

The directors who held office at the end of the financial year do not have any interests in the shares of the Company or any other UK company, nor received any remuneration from the Company. P. Kallos and G. Kinast have been granted stock options in the ultimate parent company, Petro-Canada, during the year.

Petro-Canada Energy North Sea Limited

Directors' report

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to appoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



P S Kallos
Managing Director

1 London Bridge
London
SE1 9BG

23 March 2006

Petro-Canada Energy North Sea Limited

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Petro-Canada Energy North Sea Limited

Statement of Corporate responsibility

Petro-Canada world-wide is deeply committed to responsible business practices. This commitment extends to corporate governance practices, environment, health and safety performance and involvement in communities where our employees live and work. To review our performance in these areas in more detail, we publish an annual Report to the Community. You can review the report on our website www.petro-canada.com.

Corporate Governance

Petro-Canada strives to maintain the highest standards of corporate governance, with a focus on a strong and diligent Board of Directors and transparency for shareholders. Petro-Canada has solid governance and disclosure practices, and an ethical corporate culture.

Environment, Health and Safety

Strong environment, health and safety performance is fundamental to our business as an energy company. Underpinning our drive to consistently improve performance is the Total Loss Management system, which provides clear management expectations, details employee responsibilities and serves as a mechanism for ongoing stewardship and continuous improvement through a programme of regularly scheduled facility audits. We also use a Life-Cycle Value Assessment tool to help us identify opportunities to improve technical designs, reduce environmental impacts and reduce costs.

The safety and well-being of our employees and those working on our behalf is an absolute business priority for Petro-Canada. To support them, Petro-Canada provides a wide range of programmes, training and policies related to employee well-being. We believe that all workplace injuries and illnesses are preventable and that a "Zero Harm" workplace is possible and is our goal.

Community investment

As a responsible corporate citizen, Petro-Canada works hard to develop relationships of trust and respect, and contribute to community well-being in the areas where we operate.

Independent auditors' report to the members of Petro-Canada Energy North Sea Limited

We have audited the financial statements of Petro-Canada Energy North Sea Limited for the year ended 31 December 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report, operational report and statement of corporate responsibility for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

United Kingdom

23 March 2006

Petro-Canada Energy North Sea Limited

Profit and loss account

Year ended 31 December 2005

| | Notes | 2005 £million | 2004 £million |
|--|-------|------------------|------------------|
| Administration costs | 2 | - | (2.3) |
| Operating loss | | - | (2.3) |
| Loss on disposal of subsidiary undertaking | 3 | - | (3.2) |
| Gain on disposal of assets of discontinued operation | 4 | 409.3 | - |
| Interest receivable and similar income | 5 | 15.5 | 19.3 |
| Interest payable and similar charges | 6 | (0.1) | (3.5) |
| Profit on ordinary activities before taxation | | 424.7 | 10.3 |
| Tax (charge)/credit on profit on ordinary activities | 7 | (2.8) | 1.5 |
| Profit for the financial year | | 421.9 | 11.8 |
| Dividends paid | 8 | (345.1) | (35.6) |
| Retained profit/(loss) for the year | | 76.8 | (23.8) |
| Retained profit brought forward | | 1.9 | 25.7 |
| Retained profit carried forward | | 78.7 | 1.9 |

The Company's operating results are all derived from discontinued activities, following the disposal described in note 4.

Petro-Canada Energy North Sea Limited

Statement of total recognised gains and losses Year ended 31 December 2005

| | 2005 £million | 2004 £million |
|---|--------------------------|--------------------------|
| Profit for the financial year | 421.9 | 11.8 |
| Foreign exchange translation differences | - | (0.5) |
| Total recognised gains and losses relating to the year | 421.9 | 11.3 |

Petro-Canada Energy North Sea Limited

Balance sheet 31 December 2005

| | Notes | 2005 £million | 2004 £million |
|---|-------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | 9 | - | 219.2 |
| Current assets | | | |
| Debtors | | | |
| - due within one year | 10 | 12.5 | 12.8 |
| - due after one year | 10 | 200.0 | - |
| Cash at bank and in hand | | - | 6.1 |
| | | 212.5 | 18.9 |
| Creditors: amounts falling due within one year | 11 | (2.8) | (44.0) |
| Net current assets/(liabilities) | | 209.7 | (25.1) |
| Total assets less current liabilities | | 209.7 | 194.1 |
| Provisions for liabilities and charges | 12 | - | (61.2) |
| Net assets | | 209.7 | 132.9 |
| Capital and reserves | | | |
| Called up equity and non-equity share capital | 13 | 1.3 | 1.3 |
| Share premium account | 14 | 129.7 | 129.7 |
| Profit and loss account | 14 | 78.7 | 1.9 |
| Total shareholders' funds (including non-equity interests) | 14 | 209.7 | 132.9 |

These financial statements were approved by the Board of Directors on 23 March 2006.

Signed on behalf of the Board of Directors



P S Kallos
Managing Director

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below:

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Under the provisions of FRS 1 (Revised 1996) "Cash flow statements", the Company has not presented a cash flow statement because it is a wholly owned subsidiary of Petro-Canada UK Limited which itself is a wholly owned subsidiary of Petro-Canada. The consolidated accounts of Petro-Canada are publicly available.

b) Accounting for joint arrangements

The Company's activities are conducted through joint arrangements, that are not entities, with other companies. The accounts reflect the Company's share of the assets, liabilities and cash flows in the joint arrangements.

c) Oil and gas assets

Oil and gas assets are accounted for using the full cost method of accounting. All exploration and appraisal costs are initially capitalised as incurred as intangible oil and gas assets. Following technical and commercial evaluation, all costs are transferred to the tangible oil and gas assets pool which the directors consider to be a single income generating unit. Acquisition and development costs are capitalised directly as tangible oil and gas assets. Following the commencement of production, tangible oil and gas assets, together with anticipated future capital costs relating to commercial reserves, are written off on a unit of production basis over the remaining life of the pool using commercial reserves.

d) Commercial reserves

Commercial reserves are proved developed and undeveloped oil and gas reserves as defined in the Oil and Gas SORP.

e) Impairment of value

Each year, management reviews the recoverable amount of its fixed assets based upon projections of discounted future net revenues and compares that amount with the carrying amount of those assets. To the extent that the carrying amount exceeds the recoverable amount, management provides for the impairment identified; should conditions change such that the recoverable amount exceeds the carrying amount, then the carrying amount is written up to the lesser of the depreciated original cost and the recoverable amount.

f) Changes in estimates

The effect of revisions to estimates affecting unit of production calculations for depletion, decommissioning and petroleum revenue tax are accounted for prospectively over estimated remaining commercial reserves.

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

1. Accounting policies (continued)

g) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Amounts surrendered to or from other group undertakings are paid for in full.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

h) Foreign currencies

Transactions in foreign currencies are recorded at the relevant rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

2. Administration costs

| | 2005 £million | 2004 £million |
|----------------------------|------------------|------------------|
| Management fees | - | 1.7 |
| Other administration costs | - | 0.6 |
| | <u>-</u> | <u>2.3</u> |

The Company has no employees in 2005 (2004 – nil).

Auditors' remuneration was £nil (2004 - £nil) for audit services and £nil (2004 - £nil) for non-audit services. All such costs in 2005 were borne by another group undertaking.

3. Loss on disposal of subsidiary undertaking

| | 2005 £million | 2004 £million |
|--|------------------|------------------|
| Loss on disposal of subsidiary undertaking | - | (3.2) |

The 2004 loss comprises the loss on sale of Intrepid Energy Beta Limited to the Company's then parent, Intrepid Energy North Sea (Holdings) Limited.

4. Gain on disposal of assets of discontinued operation

The Company sold its assets and liabilities relating to the Buzzard field to its immediate parent, Petro-Canada UK Limited, effective 1 January 2005. The following table sets out the book values of the identifiable assets and liabilities disposed of:

| | Book Value £million |
|--|---------------------------|
| Tangible fixed assets | 219.2 |
| Debtors | 10.1 |
| Cash at bank | 6.1 |
| Creditors | (44.0) |
| Provision for deferred corporation tax | (61.2) |
| Total | <u>130.2</u> |
| Satisfied by: | |
| - amount owed by parent undertaking | (1.4) |
| - loan | (538.1) |
| Gain on disposal | <u>409.3</u> |

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

5. Interest receivable and similar income

| | 2005 £million | 2004 £million |
|--|------------------|------------------|
| Interest received and receivable from group undertakings | 15.5 | 1.5 |
| Dividends received | - | 17.8 |
| | <u>15.5</u> | <u>19.3</u> |

6. Interest payable and similar charges

| | 2005 £million | 2004 £million |
|--------------------------------|------------------|------------------|
| Bank interest paid and payable | - | 0.2 |
| Other finance charges | - | 3.1 |
| Exchange losses | 0.1 | 0.2 |
| | <u>0.1</u> | <u>3.5</u> |

7. Tax charge/(credit) on profit on ordinary activities

(a) Analysis of tax charge/(credit) in the year

| | 2005 £million | 2004 £million |
|---|------------------|------------------|
| Current tax | | |
| UK corporation tax for current year | 2.8 | (27.9) |
| Deferred tax | | |
| Origination and reversal of timing differences | - | 26.4 |
| Total deferred tax charge (note 12) | <u>-</u> | <u>26.4</u> |
| Total tax charge/(credit) on profit on ordinary activities | <u>2.8</u> | <u>(1.5)</u> |

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

7. Tax on profit on ordinary activities (continued)

(b) Reconciliation of current tax charge/(credit) in the year

| | 2005 £million | 2004 £million |
|--|------------------|------------------|
| Profit on ordinary activities before tax | 424.7 | 10.3 |
| Dividends not subject to tax | - | (17.8) |
| Profit/(loss) after dividends | 424.7 | (7.5) |
| Tax at 30% | 127.4 | (2.2) |
| Tax at 10% | - | (0.8) |
| Effects of: | | |
| Gain on disposal of assets, not subject to tax | (122.7) | - |
| Expenses not deductible for tax purposes | (0.1) | 0.2 |
| Capital allowances in excess of depreciation | - | (50.0) |
| Loss on disposal of assets | - | 1.3 |
| Losses available for future years | - | 23.6 |
| Loss from Petro-Canada UK Limited | (1.0) | - |
| Loss surrendered | (0.8) | - |
| Current tax charge/(credit) for year | 2.8 | (27.9) |

The applicable tax rate for 2004 included the 10% Supplementary Corporation Tax applicable to "ring fence" North Sea activities. This has been excluded from the 2005 rate, following the transfer of all North Sea (ring fence) assets to Petro-Canada UK Limited from 1 January 2005. Profit for 2005 relates to non-ring fence activities only.

8. Dividends paid

The Company paid dividends of £345.1 million representing £1,471.18 per equity share during the year to its immediate parent company, Petro Canada UK Ltd, (2004 company dividends £35.6 million representing £151.74 per equity share).

9. Tangible Assets

| | Oil and gas assets £million |
|--------------------------------|-----------------------------------|
| Cost and net book value | |
| At 1 January 2005 | 219.2 |
| Disposal (see note 4) | (219.2) |
| At 31 December 2005 | - |

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

10. Debtors

| | 2005 £million | 2004 £million |
|--|------------------|------------------|
| Amounts falling due within one year | | |
| Amounts owed by parent undertaking | 12.5 | 7.3 |
| Amounts owed by Group undertakings | - | 5.4 |
| Other debtors including taxation | - | 0.1 |
| | <u>12.5</u> | <u>12.8</u> |
| | | |
| | 2005 £million | 2004 £million |
| Amounts falling due after one year | | |
| Amounts owed by parent undertaking | <u>200.0</u> | <u>-</u> |

11. Creditors: amounts falling due within one year

| | 2005 £million | 2004 £million |
|------------------------------------|------------------|------------------|
| Amounts owed to operators | - | 12.6 |
| Amounts owed to parent undertaking | - | 2.8 |
| Operator accruals | - | 28.5 |
| Corporation tax | 2.8 | - |
| Other creditors and accruals | - | 0.1 |
| | <u>2.8</u> | <u>44.0</u> |

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

12. Provisions for liabilities and charges

| Company | Deferred taxation 2005 £million | Deferred taxation 2004 £million |
|---------------------------------|--|--|
| At 1 January | 61.2 | 35.4 |
| Provided in the year | - | 26.4 |
| Disposal to Petro-Canada UK Ltd | (61.2) | - |
| Translation differences | - | (0.6) |
| At 31 December | - | 61.2 |
| | 2005 £million | 2004 £million |
| Accelerated capital allowances | - | 85.8 |
| Taxation losses | - | (24.6) |
| Provision for deferred tax | - | 61.2 |

13. Called up equity and non-equity share capital

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Authorised: | | |
| 300,000 equity Class A ordinary shares of US\$10 each | 1,634 | 1,634 |
| 10,000 non-equity Class B ordinary shares of £1 each | 10 | 10 |
| | <u>1,644</u> | <u>1,644</u> |
| Called up, allotted and fully paid | | |
| 234,588 (2004– 234,588) equity Class A ordinary shares of US\$10 each | 1,277 | 1,277 |
| 1,000 non-equity Class B ordinary shares of £1 each | 1 | 1 |
| | <u>1,278</u> | <u>1,278</u> |

Class B ordinary shares carry full voting rights; however, they carry no right to receive dividends from the Company and their economic worth is limited to the nominal value of the shares. As a result, the Class B ordinary shares have been classified as non-equity shares in accordance with FRS 25 "Financial Instruments, Disclosure and Presentation".

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2005

14. Reconciliation of movement in shareholders' funds

| | Equity share capital £million | Share premium £million | Profit and loss account £million | Total Shareholders' funds/(deficit) £million |
|---------------------|--|------------------------------|---|---|
| At 1 January 2005 | 1.3 | 129.7 | 1.9 | 132.9 |
| Profit for the year | - | - | 421.9 | 421.9 |
| Dividends paid | - | - | (345.1) | (345.1) |
| At 31 December 2005 | <u>1.3</u> | <u>129.7</u> | <u>78.7</u> | <u>209.7</u> |

Shareholders' funds at 31 December 2005 includes £1,000 relating to non-equity interests (2004, £1,000).

15. Commitments and contingencies

The company does not have any capital commitments at the end of the year, (2004 - £122.9 million).

16. Related party transactions

The Company has taken advantage of the exemption available under Financial Reporting Standard 8 "Related Party Disclosures" and has not disclosed details of transactions with other group undertakings as it is a wholly owned subsidiary of Petro-Canada UK Ltd which itself is a wholly owned subsidiary of Petro-Canada. The consolidated accounts of Petro-Canada are publicly available.

17. Ultimate parent company

Petro-Canada UK Limited is the immediate parent company. The ultimate parent company and controlling entity is Petro-Canada, a company incorporated in Canada. The consolidated accounts of the Petro-Canada Group, the largest to include the accounts of the Company, are available from Petro-Canada at 150 – 6th Avenue SW, Calgary, Alberta, Canada T2P 3ES. Petro-Canada UK Limited is a 100% subsidiary of Petro-Canada UK Holdings Limited, which heads the smallest group in which the results of the Company are consolidated.