

Company Registration No. 3084447

**Petro-Canada Energy North Sea
Limited**

Report and Financial Statements

31 December 2006



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 2006

Principal activities

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

Business review

As this Company has sold its main asset to Petro-Canada UK Limited on 1 January 2005, there have been no transactions other than inter-company interest payments on two loans. At the balance sheet date, the amount of £200 million remains outstanding on such loans.

The company is exempt from the requirement to prepare an Enhanced Business Review as it meets the small company size criteria specified by the Companies Act 1985.

Future developments

The Company's intention is for the loan to be repaid in 6 equal annual instalments commencing on January 2008.

Results and dividends

The profit for the year after taxation amounted to £6.7 million (2005 – £421.9 million profit).

The Company has paid a dividend of £11.5 million (2005 – £345.1 million).

Directors and their interests

The directors who served during the year were

| | | |
|---------------|------------|----------------------------|
| P. S. Kallos | (British) | |
| G. Kinast | (Austrian) | Resigned 16 February 2006 |
| N. A. Maden | (British) | |
| G. V. Lyon | (British) | |
| G. J. Carrick | (Canadian) | |
| H. J. Wesley | (British) | 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.

Petro-Canada Energy North Sea Limited

Directors' report

Auditors

Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

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

By order of the Board



H J Wesley
Director

1 London Bridge
London
SE1 9BG

28 March 2007

Petro-Canada Energy North Sea Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report including the financial statements. The directors have chosen to prepare the financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the Company and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, 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,
- prepare the financial statements 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 financial statements comply with the Companies Act 1985. They are also responsible 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 2006 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 13. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments 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 the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

United Kingdom

5 April 2007

Petro-Canada Energy North Sea Limited

Profit and loss account

Year ended 31 December 2006

| | Notes | 2006 £million | 2005 £million |
|--|-------|------------------|------------------|
| Administration costs | 2 | - | - |
| Operating loss | | - | - |
| Gain on disposal of assets of discontinued operation | 3 | - | 409.3 |
| Write-off of intercompany debtor | | (1.4) | - |
| Interest receivable and similar income | 4 | 11.7 | 15.5 |
| Interest payable and similar charges | 5 | (0.1) | (0.1) |
| Profit on ordinary activities before taxation | | 10.2 | 424.7 |
| Tax charge on profit on ordinary activities | 6 | (3.5) | (2.8) |
| Profit for the financial year | | 6.7 | 421.9 |
| Dividends paid | 7 | (11.5) | (345.1) |
| Retained (loss)/profit for the year | | (4.8) | 76.8 |
| Retained profit brought forward | | 78.7 | 1.9 |
| Retained profit carried forward | | 73.9 | 78.7 |

There are no recognised gains and losses during the year other than the profit for the year. Accordingly, a statement of total recognised gains and losses is not presented.

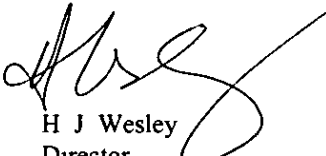
The Company's results for 2006 are all derived from continuing activities. The Company's results for 2005 are all derived from continuing activities with the exception of the gain on disposal which arose from the sale of its assets and liabilities relating to the Buzzard field to its immediate parent company, Petro-Canada UK Limited, effective 1 January 2005.

Petro-Canada Energy North Sea Limited

Balance sheet 31 December 2006

| | Notes | 2006 £million | 2005 £million |
|---|-------|------------------|------------------|
| Current assets | | | |
| Debtors | | | |
| - due within one year | 8 | 11 0 | 12 5 |
| - due after one year | 8 | 200 0 | 200 0 |
| | | <u>211 0</u> | <u>212 5</u> |
| Creditors: amounts falling due within one year | 9 | <u>(6 1)</u> | <u>(2 8)</u> |
| Net current assets | | <u>204 9</u> | <u>209 7</u> |
| Total assets less current liabilities | | <u>204 9</u> | <u>209 7</u> |
| Capital and reserves | | | |
| Called up equity and non-equity share capital | 10 | 1 3 | 1 3 |
| Share premium account | 11 | 129 7 | 129 7 |
| Profit and loss account | 11 | 73 9 | 78 7 |
| Total shareholders' funds (including non-equity interests) | 11 | <u>204 9</u> | <u>209 7</u> |

Approved by the Board of Directors and signed on its behalf on 28 March 2007 by


 H J Wesley
 Director

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2006

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) 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 Company'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

(c) 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 2006

2. Administration costs

The Company has no employees in 2006 (2005 – nil)

The directors received no remuneration for services to the Company during either year

Three directors' exercised stock options in the ultimate parent company during 2006 (2005 one)

Auditors' remuneration

| | 2006 | 2005 |
|---|------|------|
| | £000 | £000 |
| The analysis of the auditors' remuneration in respect of the Company is as follows | | |
| Fees payable to the company's auditors for the audit of the company's annual accounts | 4 | 4 |

The above fees were borne by another group undertaking There were no fees payable for other services in either year

3. Gain on disposal of assets of discontinued operation

This gain is from the sale of assets and liabilities relating to the Buzzard field to the Company's immediate parent, Petro-Canada UK Limited, effective 1 January 2005

4 Interest receivable and similar income

| | 2006 £million | 2005 £million |
|--|------------------|------------------|
| Interest received and receivable from group undertakings | 11.7 | 15.5 |

5. Interest payable and similar charges

| | 2006 £million | 2005 £million |
|--|------------------|------------------|
| Interest on intercompany loans and credit balances | 0.1 | - |
| Exchange losses | - | 0.1 |
| | 0.1 | 0.1 |

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2006

6 Tax charge on profit on ordinary activities

(a) Analysis of tax charge in the year

| | 2006 £million | 2005 £million |
|--|------------------|------------------|
| Current tax | | |
| UK corporation tax for current year | 3 5 | 2 8 |
| Total tax charge on profit on ordinary activities | <u>3 5</u> | <u>2 8</u> |

(b) Reconciliation of current tax charge in the year

| | 2006 £million | 2005 £million |
|--|------------------|------------------|
| Profit on ordinary activities before tax | 10 2 | 424 7 |
| Tax at 30% | 3 1 | 127 4 |
| Effects of | | |
| Gain on disposal of assets, not subject to tax | - | (122 7) |
| Expenses not deductible for tax purposes | 0 4 | (0 1) |
| Loss from Petro-Canada UK Limited | - | (1 0) |
| Loss surrendered | - | (0 8) |
| Current tax charge for the year | <u>3 5</u> | <u>2 8</u> |

7. Dividends paid

The Company paid dividends of £11 5 million representing £49 02 per equity share during the year to its immediate parent company, Petro Canada UK Ltd, (2005 company dividends £345 1 million representing £1,471 18 per equity share)

8. Debtors

| | 2006 £million | 2005 £million |
|--|------------------|------------------|
| Amounts falling due within one year | | |
| Amounts owed by parent undertaking | <u>11 0</u> | <u>12 5</u> |
| Amounts falling due after one year | | |
| Amounts owed by parent undertaking | <u>200 0</u> | <u>200 0</u> |

The above represents an unsecured loan of £200 million which was issued on 18 January 2005 and is expected to be fully repaid in six equal annual instalments commencing on January 2008. The loan carries interest at 5 8125% to be received annually in arrears commencing on the first anniversary of the date of issue.

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2006

9. Creditors falling due within one year

| | 2006 £million | 2005 £million |
|------------------------------------|------------------|------------------|
| Amounts owed to Group undertakings | 4.4 | - |
| Corporation tax | 1.7 | 2.8 |
| | <u>6.1</u> | <u>2.8</u> |

10. Called up equity and non-equity share capital

| | 2006 £'000 | 2005 £'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 (2005– 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

11 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 2006 | 1.3 | 129.7 | 78.7 | 209.7 |
| Profit for the year | - | - | 6.7 | 6.7 |
| Dividends paid | - | - | (11.5) | (11.5) |
| | <u>1.3</u> | <u>129.7</u> | <u>73.9</u> | <u>204.9</u> |
| At 31 December 2006 | 1.3 | 129.7 | 73.9 | 204.9 |

Shareholders' funds at 31 December 2006 includes £1,000 relating to Class B ordinary shares which have been classified as non-equity shares (2005, £1,000)

Petro-Canada Energy North Sea Limited

Notes to the accounts

Year ended 31 December 2006

12. 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.

13. 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.