

SECURITIES AND EXCHANGE COMMISSION

FORM 40-F

Annual reports filed by certain Canadian issuers pursuant to Section 15(d) and Rule 15d-4

Filing Date: **2006-03-01** | Period of Report: **2005-12-31**
SEC Accession No. **0001104659-06-013150**

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FILER

NOVA CHEMICALS CORP /NEW

CIK: **922960** | IRS No.: **000000000** | State of Incorporation: **A0** | Fiscal Year End: **1231**
Type: **40-F** | Act: **34** | File No.: **001-13064** | Film No.: **06655607**
SIC: **2860** Industrial organic chemicals

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United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 40-F

[Check one]

REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2005**

Commission File Number **1-13064**

NOVA Chemicals Corporation

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English (if applicable))

Canada

(Province or other jurisdiction of incorporation or organization)

None

(Primary Standard Industrial Classification Code Number (if applicable))

None

(I.R.S. Employer Identification Number (if applicable))

1000 - 7th Avenue S.W., Calgary, Alberta, Canada T2P 5L5 (403) 750-3600

(Address and telephone number of Registrant's principal executive offices)

NOVA Chemicals Inc., 1550 Coraopolis Heights Road, Moon Township, Pennsylvania, 15108

Attn: J.M. Lipton, President (412) 490-4000

(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Common Shares of no par value

Name of each exchange on which registered

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

Annual information form Audited annual financial statements and related schedules

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2005: 82,364,899 Common Shares were outstanding.

Indicate by check mark whether the Registrant by filing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.

Yes 82- No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The documents (or portions thereof) forming part of this Form 40-F are incorporated by reference into the following registration statements under the Securities Act of 1933, as amended:

Registration Statement on Form S-8 #33-47673
Registration Statement on Form S-8 #333-520
Registration Statement on Form S-8 #333-9076
Registration Statement on Form S-8 #333-9078
Registration Statement on Form S-8 #33-86218
Registration Statement on Form S-8 #33-77308
Registration Statement on Form S-8 #333-11280
Registration Statement on Form S-8 #333-12910
Registration Statement on Form S-8 #333-101793
Registration Statement on Form S-8 #333-109424

UNDERTAKING AND EXHIBITS

A. Undertaking

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises or to transactions in said securities.

B. Exhibits

Attached hereto are:

- 99.1 Annual Information Form
- 99.2 Audited consolidated financial statements and related schedules
- 99.3 Management' s Discussion and Analysis
- 99.4 Consent of Ernst & Young LLP
- 99.5 CEO and CFO Certificates
- 99.6 Certification of principal executive officer pursuant to 18 U.S.C. § 1350
- 99.7 Certification of principal financial officer pursuant to 18 U.S.C. § 1350

CONTROLS AND PROCEDURES

Scope of Management' s Report on Internal Control Over Financial Reporting. Our audited consolidated financial statements include the accounts of NOVA Innovene, our 50:50 joint venture with INEOS, via proportionate consolidation in accordance with Canadian GAAP. Our management has been unable to assess the effectiveness of internal control within NOVA Innovene due to the fact that NOVA Chemicals does not have the ability to dictate or modify the controls of NOVA Innovene and does not have the ability, in practice, to assess those controls. Our management' s conclusion regarding the effectiveness of internal controls does not extend to the internal controls of NOVA Innovene.

Management' s Annual Report on Internal Control Over Financial Reporting. The report of management on our internal control over financial reporting is located under the heading "Management' s Annual Report on Internal Control Over Financial Reporting" in our audited consolidated financial statements, which are filed as Exhibit 99.2 to this annual report on Form 40-F and is incorporated by reference herein.

Attestation Report of the Registered Public Accounting Firm. The attestation report on management' s assessment of our internal control over financial reporting is located under the heading "Independent Auditors' Report on Internal Controls" in the audited consolidated financial statements, which are filed as Exhibit 99.2 to this annual report on Form 40-F and is incorporated by reference herein.

Evaluation of Disclosure Controls and Procedures. Based on our management' s evaluation (with the participation of our principal executive officer and principal financial officer), as of December 31, 2005, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Controls. There were no changes in our internal control over financial reporting identified in connection with the above evaluation that occurred during the period covered by this annual report on Form 40-F that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

AUDIT COMMITTEE FINANCIAL EXPERT

The information required by Item 8 of General Instruction B is located under the heading "Committees of the Board" in the Management Proxy Circular dated February 15, 2006, which is filed as an exhibit to our Report on Form 6-K dated March 1, 2006 and is incorporated by reference herein.

CODE OF ETHICS

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. You can view our Code of Ethics for CEO and Senior Financial Officers on the Corporate Governance page on our website at <http://www.novachemicals.com/governance>.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 10 of General Instruction B is located under the heading “Fees Billed by Ernst & Young LLP” in the Management Proxy Circular dated February 15, 2006, which is filed as an exhibit to our Report on Form 6-K dated March 1, 2006 and is incorporated by reference herein.

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OFF-BALANCE SHEET ARRANGEMENTS

The information required by Item 11 of General Instruction B is located under the heading “Off-Balance Sheet Arrangements-Accounts Receivable Securitization” in Management’s Discussion and Analysis, which is filed as Exhibit 99.3 to this annual report on Form 40-F and is incorporated by reference herein.

CONTRACTUAL OBLIGATIONS

The information required by Item 12 of General Instruction B is located under the heading “Contractual Cash Obligations as of December 31, 2005” in Management’s Discussion and Analysis, which is filed as Exhibit 99.3 to this annual report on Form 40-F and is incorporated by reference herein.

AUDIT COMMITTEE

The information required by Item 14 of General Instruction B is located under the heading “Committees of the Board” in the Management Proxy Circular dated February 15, 2006, which is filed as an exhibit to our Report on Form 6-K dated March 1, 2006 and is incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant	<u>NOVA Chemicals Corporation</u>
By (Signature)	<u>/s/ Jack S. Mustoe</u>
Name and Title	<u>Jack S. Mustoe, Senior Vice-President, Legal, General Counsel and Corporate Secretary</u>
Date	<u>March 1, 2006</u>

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March 1, 2006



NOVA Chemicals Corporation

ANNUAL INFORMATION FORM



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TRADEMARKS

 **NOVA** Chemicals[®] is a registered trademark of NOVA Brands Ltd., authorized use/utilisation autorisée.

Advanced SCLAIRTECH[™], NOVACAT[™] and SCLAIRTECH[™] are trademarks of NOVA Chemicals Corporation.

ARCEL[®], DYLLARK[®], DYLLITE[®], NAS[®] and ZYNTAR[®] are registered trademarks of NOVA Chemicals Inc. and IMAge[™] is a trademark of NOVA Chemicals Inc.

EPS Silver[®] is a registered trademark of NOVA Chemicals (International) S.A. in the European Community and a trademark of NOVA Chemicals Inc. in North America.

SCLAIR[®] is a registered trademark of NOVA Chemicals Corporation in Canada and of NOVA Chemicals (International) S.A. elsewhere; authorized use/utilisation autorisée.

STYROSUN[®] is a registered trademark of NOVA Chemicals Inc. in the United States and Mexico and of NOVA Chemicals (International) S.A. elsewhere.

SURPASS[®] is a registered trademark of NOVA Chemicals Corporation in Canada and of NOVA Chemicals (International) S.A. elsewhere.

ZYLAR[®] is a registered trademark of NOVA Chemicals (Canada) Ltd./NOVA Chimie (Canada) Ltée; authorized use/utilisation autorisée.

Responsible Care[®] is a registered trademark of the Canadian Chemical Producers' Association in Canada and is a registered service mark of the American Chemistry Council in the United States.

INFORMATION CONTAINED IN THIS ANNUAL INFORMATION FORM IS GIVEN AS AT DECEMBER 31, 2005, EXCEPT AS SPECIFICALLY NOTED OTHERWISE.

ALL AMOUNTS IN THIS ANNUAL INFORMATION FORM ARE EXPRESSED IN UNITED STATES DOLLARS, EXCEPT AS SPECIFICALLY NOTED OTHERWISE.

FORWARD-LOOKING INFORMATION

This Annual Information Form contains forward-looking statements with respect to NOVA Chemicals. By their nature, forward-looking statements require NOVA Chemicals to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections will not prove to be accurate, that NOVA Chemicals' assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Forward-looking statements for the time periods beyond 2006 involve longer-term assumptions and estimates than forward-looking statements for 2006 and are consequently subject to greater uncertainty. NOVA Chemicals cautions readers of this Annual Information Form not to place undue reliance on its forward-looking statements as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The words "believe," "expect," "plan," "intend," "estimate," or "anticipate" and similar expressions, as well as future or conditional verbs such as "will," "should," "would," and "could" often identify forward-looking statements. Specific forward-looking statements contained in this Annual Information Form include, among others, statements regarding: changes in the demand for NOVA Chemicals' products; changes in pricing policies by NOVA Chemicals or its competitors; its competitive advantages and ability to compete successfully; the timing for completion of capacity expansions and modernization projects; its reserves for environmental liabilities and its environmental capital expenditures; its level of debt; and general economic conditions.

With respect to forward-looking statements contained in this Annual Information Form, NOVA Chemicals has made assumptions regarding, among other things: future oil, natural gas and benzene prices; its ability to obtain raw materials; its ability to market products successfully to its anticipated customers; the impact of increasing competition; and its ability to obtain financing on acceptable terms. Some of NOVA Chemicals' assumptions are based upon internal estimates and analyses of current market conditions and trends, management plans and strategies, economic conditions and other factors and are necessarily subject to risks and uncertainties inherent in projecting future conditions and results.

Some of the risks that could affect NOVA Chemicals' future results and could cause results to differ materially from those expressed in NOVA Chemicals' forward-looking statements include: commodity chemicals price levels (which depend, among other things, on supply and demand for these products, capacity utilization and substitution rates between these products and competing products); feedstock availability and prices; operating costs; terms and availability of financing; technology developments; currency exchange rate fluctuations; starting up and operating facilities using new technology; realizing synergy and cost savings targets; NOVA Chemicals' ability to implement its business strategy; meeting time and budget targets for significant capital investments; avoiding unplanned facility shutdowns; safety, health and environmental risks associated with the operation of chemical plants and marketing of chemical products, including transportation of these products; public perception of chemicals and chemical end-use products; the impact of competition; changes in customer demand, including customer acceptance of NOVA Chemicals' Performance Products; changes in, or the introduction of new laws and regulations relating to NOVA Chemicals' business, including environmental, competition and employment laws; costs to comply with the Kyoto Protocol; loss of the services of any of NOVA Chemicals' executive officers; uncertainties associated with the North American, South American, European and Asian economies; terrorist attacks; severe weather and other risks detailed from time to time in the publicly filed disclosure documents and securities commission reports of NOVA Chemicals and its subsidiaries or affiliated companies. The information contained in this Annual Information Form, including the information provided under the heading "Risk Factors," identifies additional factors that could affect NOVA Chemicals' operating results and performance.

NOVA Chemicals' forward-looking statements are expressly qualified in their entirety by this cautionary statement. In addition, the forward-looking statements are made only as of the date of this Annual Information Form, and except as required by applicable law,

NOVA Chemicals undertakes no obligation to update publicly these forward-looking statements to reflect new information, subsequent events or otherwise.

THE CORPORATION

NOVA Chemicals' principal business is the production and marketing of plastics and chemicals. NOVA Chemicals operates two plastics and chemicals businesses: olefins/polyolefins and styrenics. The olefins/polyolefins business produces ethylene, polyethylene and a variety of chemical and energy products (commonly known as co-products). The styrenics business produces styrene monomer, polystyrene and expandable polystyrene ("EPS"). NOVA Chemicals also produces and markets higher-value polyethylene and styrenic polymers, which it refers to as "Performance Products". NOVA Chemicals' products are used in a wide range of applications, including rigid and flexible packaging, containers, plastic bags, plastic pipe, electronic appliances, television consoles, building and construction materials, automotive components, housewares and other industrial and consumer goods. NOVA Chemicals' products are manufactured at 14 sites in North America. On October 1, 2005, NOVA Chemicals merged its European styrenic polymers business into a 50:50 joint venture with Innovene, the commodity chemicals business of BP p.l.c. ("BP"). The joint venture, named NOVA Innovene, operates seven facilities in Europe. On December 16, 2005, United Kingdom-based INEOS announced that it had acquired Innovene.

NOVA Chemicals is a global company organized under the federal laws of Canada, with its registered office and Canadian operating center located at 1000 - 7th Avenue S.W., Calgary, Alberta, Canada T2P 5L5, and an executive office and United States operating center located at 1550 Coraopolis Heights Road, Moon Township, Pennsylvania, United States 15108. NOVA Chemicals maintains a website at www.novachemicals.com. The information on NOVA Chemicals' website is not a part of this Annual Information Form.

Where used in this Annual Information Form, "NOVA Chemicals" or "the Corporation" means NOVA Chemicals Corporation alone or together with its subsidiaries and affiliates, depending on the context in which such terms are used.

HISTORICAL DEVELOPMENT

NOVA Chemicals Corporation

NOVA Chemicals' predecessor, NOVA Corporation of Alberta, was incorporated in 1954 by Special Act of the Legislative Assembly of the Province of Alberta. On May 10, 1994, NOVA Corporation of Alberta filed articles of arrangement under the Business Corporations Act of Alberta (the "Act") to complete a reorganization pursuant to which it became a wholly owned subsidiary of NOVA Corporation ("NOVA"), changed its name to NOVA Gas Transmission Ltd. and its common shareholders became the common shareholders of NOVA. At the same time, NOVA also became the parent corporation of NOVA Chemicals Ltd. and NOVA Gas International Ltd.

On July 2, 1998, NOVA and TransCanada PipeLines Limited ("TransCanada") completed a merger of equals by way of a plan of arrangement (the "Arrangement") under the Act. Under the terms of the Arrangement, shareholders of NOVA exchanged each NOVA common share for 0.52 of a TransCanada common share. As part of the Arrangement, TransCanada distributed to its common shareholders, including all of the former common shareholders of NOVA, all of the common shares of NOVA on the basis of 0.2 of a NOVA common share for each TransCanada common share. At the time of the distribution of NOVA common shares, the only material asset of NOVA was all of the common shares of NOVA Chemicals Ltd.

As a result of the Arrangement, NOVA continued to conduct the commodity plastics and chemicals businesses through NOVA Chemicals Ltd., and TransCanada began to conduct the energy services businesses formerly carried on by NOVA, through NOVA's former subsidiaries, NOVA Gas Transmission Ltd. and NOVA Gas International Ltd. The disclosure in this Annual Information Form relates only to the plastics and chemicals businesses currently conducted by NOVA Chemicals and formerly conducted by NOVA.

On December 31, 1998, NOVA Chemicals Ltd. changed its name to NOVA Chemicals Corporation. Effective January 1, 1999, NOVA Chemicals Corporation amalgamated with NOVA under the Act and the resulting corporation adopted the name NOVA Chemicals Corporation.

On April 14, 2004, NOVA Chemicals Corporation was continued under the Canada Business Corporations Act.

Development of the Plastics and Chemicals Businesses

NOVA Chemicals commenced operation of its first ethylene plant (“E1”) in Joffre, Alberta in 1979.

A second ethylene plant (“E2”) commenced operations in Joffre, Alberta in 1984, in tandem with a linear low-density polyethylene facility (“PE1”).

In February 1987, NOVA Chemicals acquired its low-density and high-density polyethylene facility near Mooretown, Ontario from Union Carbide Canada Ltd. and Union Carbide Corporation (“UCC”).

In September 1988, NOVA Chemicals acquired Polysar Energy & Chemical Corporation, a company with significant petrochemical operations. Through this purchase, NOVA Chemicals acquired its Corunna, Ontario olefins facility, its original styrenics business and a rubber business that was subsequently sold to Bayer AG in October 1990.

In January 1994, NOVA Chemicals completed a series of transactions whereby it exchanged its methanol assets for common shares of Methanex Corporation (“Methanex”) and purchased additional Methanex common shares.

In June 1994, NOVA Chemicals acquired its linear low-density and high-density polyethylene facility at the St. Clair River plant site in Corunna, Ontario, as well as the proprietary SCLAIRTECH™ technology and a global SCLAIRTECH technology licensing business, from DuPont Canada Inc. (“DuPont”).

In September 1996, NOVA Chemicals acquired the styrenics business of ARCO Chemical Company (“ARCO”).

In December 1996, NOVA Chemicals announced that it had developed Advanced SCLAIRTECH™ polyethylene technology.

In December 1998, NOVA Chemicals acquired the majority of Huntsman Corporation’s (“Huntsman”) U.S. and European styrenics businesses, excluding Huntsman’s North American EPS assets.

In January 2000, NOVA Chemicals acquired the European polystyrene and EPS assets, Chilean EPS production and molding assets and associated worldwide sales and marketing operations of The Shell Petroleum Company Limited (“Shell”).

In October 2000, NOVA Chemicals and Union Carbide Canada Inc. (now Dow Chemical Canada Inc. (“Dow”)) commenced commercial operations of a jointly owned, third ethylene plant (“E3”) in Joffre, Alberta.

In February 2001, NOVA Chemicals and BP Chemicals Limited (“BP Chemicals”) announced that they had agreed to jointly develop and commercialize NOVA Chemicals’ advanced Ziegler-Natta (“Z-N”) catalysts for license to gas-phase polyethylene producers. In addition, in July 2002, NOVA Chemicals and BP Chemicals entered into an agreement under which NOVA Chemicals granted BP Chemicals the rights to use and sub-license certain of its proprietary single-site catalysts. The companies also agreed to further joint development of metallocene and single-site catalyst technology.

In July 2001, NOVA Chemicals’ second polyethylene plant (“PE2”) at Joffre, Alberta began commercial production using Advanced SCLAIRTECH technology.

In January 2002, NOVA Chemicals sold its 20% interest in the Cochin pipeline system to subsidiaries of BP Chemicals, Conoco Canada Resources Limited and Kinder Morgan Energy Partners, LP.

Developments Since January 1, 2003

In June 2003, NOVA Chemicals completed the sale of its approximately 37% equity interest in Methanex. The Corporation has no remaining equity interest in Methanex.

In June 2003, NOVA Chemicals sold its 50% share of the Fort Saskatchewan Ethylene Storage Facility in Alberta.

In May 2004, NOVA Chemicals shut down its linear low-density polyethylene line ("A-line") at its St. Clair River polyethylene plant site in Corunna, Ontario. The A-line had a nameplate production capacity of 275 million pounds ("mmlbs") per year, or about 8% of NOVA Chemicals' current polyethylene production capacity.

In August 2004, NOVA Chemicals sold its ethylene delivery system in Alberta to Taylor NGL Limited Partnership ("Taylor"). In addition, Taylor agreed to build a feedstock pipeline to the Joffre, Alberta site. In early 2005, construction of the Joffre feedstock pipeline and a pipeline connection to natural gas liquids production and storage facilities in Fort Saskatchewan, Alberta were completed and propane deliveries to the Joffre area ethylene plants commenced in April 2005. NOVA Chemicals operates and is the sole shipper on the Joffre feedstock pipeline. A second pipeline connection to natural gas liquids production and storage facilities in Fort Saskatchewan is expected to be completed in early 2006.

In October 2004, NOVA Chemicals announced that it had been selected by Pemex Petroquímica as a partner in a feasibility study for a potential world-scale ethylene and polyethylene complex in Mexico. During 2005, it was determined that this project, as originally planned, will not proceed due to raw material pricing issues. However, an alternative version of the project has been proposed and NOVA Chemicals is in the process of evaluating and responding to it.

In December 2004, NOVA Chemicals sold its interest in the Alberta Ethane Gathering System ("AEGS") to Fort Chicago Energy Partners LP ("Fort Chicago"). NOVA Chemicals continues to transport ethane on the system and to physically operate and maintain the system.

In January 2005, NOVA Chemicals announced a series of modernization upgrades to its Corunna, Ontario ethylene flexi-cracker to enhance energy efficiency, reduce emissions, strengthen operating reliability, and expand ethylene and propylene capacity. The majority of the upgrades took place in 2005 and the remainder are scheduled for completion by the end of 2006.

In February 2005, in response to increased demand, NOVA Chemicals announced plans for a series of expansions of ARCEL[®] moldable foam resin manufacturing capacity from approximately 30 mmlbs per year in 2005 to 100 mmlbs per year by the end of 2006. As part of this initiative, in September 2005, NOVA Chemicals announced that it entered into a long-term agreement with Loyal Chemical Industrial Corporation to manufacture ARCEL moldable foam resin near Shanghai, China.

In September 2005, NOVA Chemicals completed an expansion and modernization project at its Bayport, Texas styrene monomer plant, which included a 450 mmlbs per year capacity expansion.

In October 2005, Novidesa, S.A. de C.V. ("Novidesa"), a 50:50 joint venture in Mexico formed by NOVA Chemicals and GRUPO IDESA, commenced operations. Novidesa markets high-value EPS for applications such as construction and packaging in the Mexican markets and distributes NOVA Chemicals' solid polystyrene ("SPS") in Mexico. Novidesa does not manufacture EPS or other styrenic polymers. GRUPO IDESA manufactures EPS for Novidesa under an exclusive tolling agreement.

In October 2005, NOVA Innovene, a 50:50 joint venture formed by the merger of the European styrenic polymers business of NOVA Chemicals and Innovene, BP's commodity chemicals business, commenced operations. On December 16, 2005, United Kingdom-based INEOS announced that it had acquired Innovene. NOVA Chemicals does not expect this acquisition to have any immediate effect on NOVA Innovene. NOVA Innovene operates seven manufacturing sites in France, Germany, The Netherlands, Sweden and the United Kingdom.

In October 2005, NOVA Innovene announced its plans to permanently cease EPS production at its Berre, France plant in 2006 and permanently shut down a previously idled EPS plant in Carrington, United Kingdom. The two plants represent nearly 30% of NOVA Innovene's total EPS capacity and more than 10% of Western European industry capacity.

In December 2005, NOVA Chemicals decided to cease production of EPS at its Quilicura, Chile facility effective immediately. NOVA Chemicals will continue to operate its two EPS molding facilities in Quilicura and El Tepual, Chile.

ANTICIPATED DEVELOPMENTS IN 2006

In January 2006, NOVA Chemicals announced that it plans to close its Chesapeake, Virginia, site in 2006. The plant has SPS production capacity of 300 mmlbs per year and compounding capability of 170 mmlbs per year. NOVA Chemicals also announced that it plans to close its Chesapeake Technology Center and consolidate its United States styrenics technology organization at its Beaver Valley site in Monaca, Pennsylvania.

NOVA Chemicals will continue to focus on cost reduction actions, particularly in its styrenics business.

NOVA Chemicals will continue to emphasize production of Performance Products. For example, in response to increased demand, NOVA Chemicals has plans to increase its ARCEL resin manufacturing capacity from approximately 30 mmlbs per year in 2005 to approximately 100 mmlbs per year by the end of 2006.

NOVA Chemicals will continue to evaluate investments in companies or participation in downstream development ventures providing high-value for its end-use consumer and industrial applications. For example, NOVA Chemicals is exploring development ventures with cup and container manufacturers to produce unique thin wall cups with outstanding graphics and hot and cold insulation using NOVA Chemicals' IImage™ technology. In addition to sales of resins, NOVA Chemicals plans to capture margin through royalties and licensing of the IImage technology to these manufacturers.

By the end of 2006, NOVA Chemicals expects to complete the modernization upgrades at its Corunna, Ontario ethylene flexi-cracker that were commenced in 2005. The upgrades are expected to improve the operating efficiency of the flexi-cracker by 15%, reduce emissions, strengthen operating reliability, and expand ethylene and propylene capacity by 250 mmlbs per year and 150 mmlbs per year, respectively, depending on feedstock mix.

NOVA Chemicals' tolling agreement with Lyondell Chemical Company ("Lyondell") (as successor to ARCO) for approximately 400 mmlbs per year of styrene monomer will expire in December 2006.

SUBSIDIARIES OF NOVA CHEMICALS

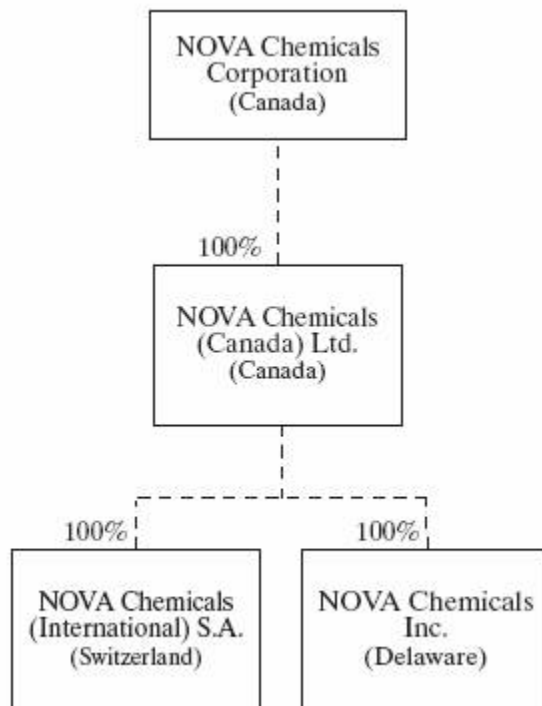
The following list includes all material subsidiaries of NOVA Chemicals and indicates their respective jurisdictions of incorporation, continuance or organization and the percentage of voting securities of each beneficially owned or over which control or direction is exercised by NOVA Chemicals:

Name	Jurisdiction of Incorporation	Percentage of Voting Securities held Directly or Indirectly
NOVA Chemicals (Canada) Ltd./NOVA Chimie (Canada) Ltée	Canada	100%
NOVA Chemicals Inc.(1)	Delaware, U.S.A.	100%
NOVA Chemicals (International) S.A.	Switzerland	100%
Novacor Chemicals Investments B.V.	The Netherlands	100%
NOVA Chemicals Quimica Holdings, S.L.	Spain	100%
NOVA Investments (U.S.) Inc.	Delaware, U.S.A.	100%
NOVA Petrochemicals Ltd.	Alberta, Canada	100%

Note:

- (1) Information with respect to the preferred shares issued in connection with the December 31, 1998 Huntsman acquisition is described in Note 8 in the Consolidated Financial Statements included in NOVA Chemicals' 2005 Annual Report.

The following chart summarizes NOVA Chemicals' simplified corporate structure showing principal operating entities and jurisdictions of incorporation, continuance or organization (dotted lines signify an indirect holding):



BUSINESS

General

NOVA Chemicals operates two plastics and chemicals businesses: olefins/polyolefins and styrenics. The olefins/polyolefins business produces ethylene, polyethylene and co-products. The styrenics business produces styrene monomer, which is also referred to in this Annual Information Form as styrene, and styrenic polymers. NOVA Chemicals operates major olefins/polyolefins production facilities near Joffre, Alberta and Corunna, Ontario. It has major styrene monomer plants located at Bayport, Texas and Sarnia, Ontario and has styrenic polymer manufacturing facilities at various sites in the United States and Canada.

Ethylene and styrene are basic petrochemicals used to manufacture a wide variety of polymers and other chemical products. In North America, NOVA Chemicals produces polyethylene and styrenic polymers, primarily from its internal ethylene and styrene production. NOVA Chemicals also has an equity interest and long-term tolling arrangements to acquire styrene from Lyondell on the U.S. Gulf Coast, and styrene purchase arrangements with Shell and other parties in Europe. Ethylene and styrene production in excess of NOVA Chemicals' internal consumption requirements is sold to third parties. In addition, NOVA Chemicals is engaged in various swap transactions with other producers of ethylene and styrene where it has limited or no ethylene or styrene monomer production capability.

NOVA Chemicals produces high-density polyethylene ("HDPE"), low-density polyethylene ("LDPE") and linear low-density polyethylene ("LLDPE"). The styrenic polymers that NOVA Chemicals produces include SPS and EPS. In addition, NOVA Chemicals develops and markets Performance Products. These Performance Products include SCLAIR[®] and SURPASS[®] polyethylene resins made with Advanced SCLAIRTECH technology and ARCEL, DYLARK[®] and ZYLAR[®] styrenic polymers resins. Polyethylene and styrenic polymers

are used in a wide range of applications including rigid and flexible packaging, containers, plastic bags, plastic pipe, electronic appliances, television consoles, building and construction materials, automotive components, housewares and other industrial and consumer goods.

Properties and Production Facilities

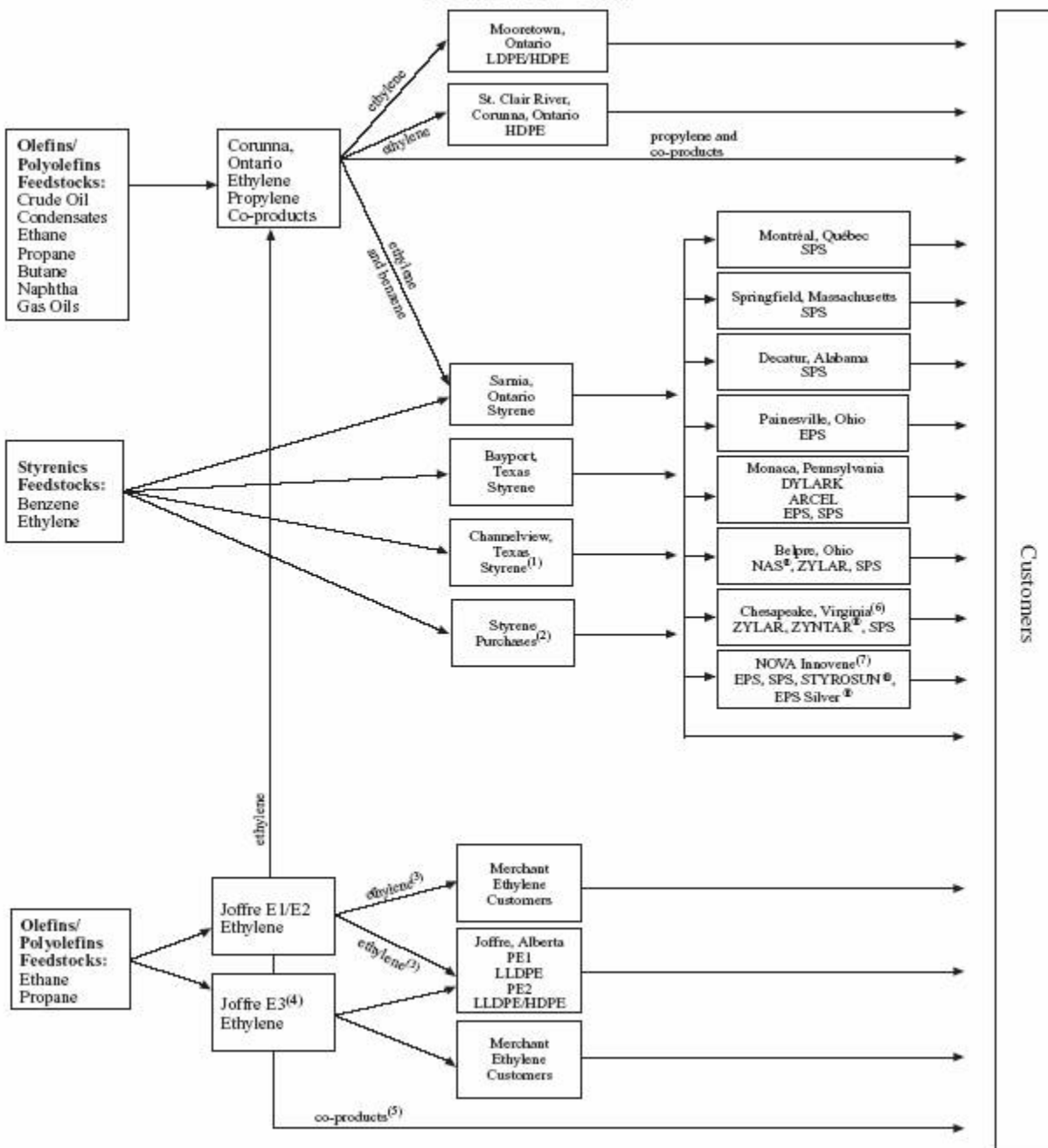
NOVA Chemicals' products are manufactured at 14 sites in North America. All production facilities are owned by NOVA Chemicals (except the Channelview, Texas facility, in which NOVA Chemicals only has an equity position, and the E3 production facility at Joffre, Alberta, in respect of which NOVA Chemicals and Dow each own 50%). With the exception of its Belpre, Ohio facility and the Channelview facility, NOVA Chemicals owns the land on which its production facilities are located. In addition to NOVA Chemicals' manufacturing sites, NOVA Innovene produces styrenic polymers at seven sites in Europe.

In addition to its production facilities, NOVA Chemicals leases or owns approximately 592,000 square feet of office space in numerous locations, mostly in North America. Its registered office and Canadian operating center is located in Calgary, Alberta. Its United States operating center and an executive office is located in Moon Township, Pennsylvania.

The following three pages show NOVA Chemicals' plastics and chemicals product flow and production facilities as of December 31, 2005.

Product Flow Chart

Product Flow Chart



Notes:

- (1) NOVA Chemicals owns an equity interest in this Lyondell propylene oxide/styrene monomer facility. NOVA Chemicals provides its share of ethylene and benzene to this facility and receives only styrene from the facility pursuant to a long-term tolling arrangement.
- (2) Global styrene supply pool consists of long-term purchase agreements and product swaps with other producers of styrene.
- (3) PE1 and PE2 purchase approximately 42% of E1, E2 and NOVA Chemicals' share of E3 ethylene production capacity.
- (4) E3 is a joint venture between NOVA Chemicals and Dow. Nameplate capacity is 2.8 billion pounds per year. NOVA Chemicals' share of the production capacity is 50% and is used internally or sold to merchant customers.
- (5) A portion of Joffre co-products is provided to Corunna for feedstock.
- (6) In January 2006, NOVA Chemicals announced that it plans to close its Chesapeake, Virginia site in 2006.
- (7) In October 2005, NOVA Chemicals entered into a contract to supply NOVA Innovene with 50% of its requirements for styrene monomer.

Facility Profile (Olefins/Polyolefins)

Site	Feedstocks	Main Products	2005 Rated Capacity(1)	
			(mmlbs/year)	(kilotonnes/ year)
Olefins/polyolefins				
1. Joffre, Alberta	Ethane/Propane	Ethylene (E1)	1,600	726
	Ethane/Propane	Ethylene (E2)	1,800	817
	Ethane	Ethylene (E3)(2)	1,400	635
		Co-products(3)	830(4)	377
	Ethylene	LLDPE (PE1)	1,310	594
		LLDPE & HDPE (PE2)	850	386
Olefins/polyolefins				
2. Corunna, Ontario	Crude oil, condensates, ethane, butane, propane, naphtha, gas oils	Ethylene	1,600(5)	726
		Co-products(6)	4,550(4)(5)	2,064
3. St. Clair River, Corunna, Ontario	Ethylene	HDPE	395	179
4. Mooretown, Ontario	Ethylene	HDPE	505	229
		LDPE	325	147
TOTAL ETHYLENE PRODUCTION CAPACITY (Design Production)			6,400	2,904
TOTAL POLYETHYLENE PRODUCTION CAPACITY			3,385	1,535

Notes:

- (1) Capacity at December 31, 2005.
- (2) The annual design production capacity of E3 totals 2.8 billion pounds and is divided between Dow and NOVA Chemicals. NOVA Chemicals' share of the production capacity is 50%.
- (3) Co-products include crude C4 hydrocarbons, pyrolysis gasoline, hydrogen, propylene, carbon dioxide, dicyclopentadiene and other hydrocarbons.
- (4) Production capacity is variable and depends on the feedstock used.
- (5) As part of a series of modernization upgrades, to be completed in the period from the third quarter of 2005 through the end of 2006, ethylene design capacity is expected to increase to approximately 1.85 billion pounds per year and propylene design capacity is expected to increase to approximately 900 mmlbs per year, resulting in approximately 4,700 mmlbs/year of co-product capacity. In both cases, capacity will be dependent on feedstock mix.
- (6) Co-products include propylene, crude C4 hydrocarbons, C5 dienes, dicyclopentadiene, aromatics, C9 resin oils, hydrogen and fuels.

Facility Profile (Styrenics)

Site	Feedstocks	Main Products	2005 Rated Capacity(1)	
			(mmlbs/year)	(kilotonnes/ year)
Styrene Monomer				
1. Bayport, Texas	Benzene, ethylene	Styrene	1,700(2)	771
2. Sarnia, Ontario	Benzene, ethylene	Styrene	950	431
3. Channelview, Texas(3)	Benzene, ethylene	Styrene	400	181

TOTAL STYRENE PRODUCTION CAPACITY				3,050	1,383
Styrenic Polymers					
1.	Monaca, Pennsylvania	Styrene	ARCEL, EPS, DYLLARK and SPS	435	197
2.	Belpre, Ohio	Styrene	NAS, SPS and ZYLAR	340	155
3.	Chesapeake, Virginia(4)	Styrene	SPS, ZYLAR and ZYNTAR	300	136
4.	Decatur, Alabama	Styrene	SPS	425	193
5.	Montréal, Québec	Styrene	SPS	120	54
6.	Painesville, Ohio	Styrene	EPS	85	39
7.	Springfield, Massachusetts	Styrene	SPS	330	150
TOTAL STYRENIC POLYMERS PRODUCTION CAPACITY(5)				2,035	924
NOVA INNOVENE Styrenic Polymers(6)					
1.	Berre, France(7)	Styrene	EPS	143	65
2.	Breda, The Netherlands	Styrene	EPS, SPS and STYROSUN	397	180
3.	Carrington, United Kingdom(7)	Styrene	SPS	397	180
4.	Marl, Germany	Styrene	EPS and SPS	584	265
5.	Ribécourt, France	Styrene	EPS and EPS Silver	198	90
6.	Trelleborg, Sweden	Styrene	SPS	187	85
7.	Wingles, France(8)	Styrene	EPS and SPS	595	270
TOTAL NOVA INNOVENE STYRENIC POLYMERS				2,502*	1,135

Notes:

- (1) Capacity at December 31, 2005.
 - (2) During 2005, NOVA Chemicals completed an expansion and modernization project at this facility that resulted in approximately 450 mmlbs per year of additional production capacity. Approximately 220 mmlbs per year of this capacity is committed to BASF Corporation as part of a capacity reservation arrangement made to partly finance the modernization project.
 - (3) This represents an equity position in the Lyondell Channelview, Texas facility and the long-term tolling arrangement associated with that interest. It does not include a long-term tolling arrangement for an additional 400 mmlbs.
 - (4) In January 2006, NOVA Chemicals announced that it plans to close its Chesapeake, Virginia site.
 - (5) During 2005, NOVA Chemicals produced EPS at its facility located in Quilicura, Chile. The rated capacity for this facility was 7 mmlbs/year or 3 kilotonnes/year. NOVA Chemicals decided to cease production of EPS at this facility in December 2005. NOVA Chemicals still operates two EPS molding plants in Quilicura and El Tepual, Chile.
 - (6) NOVA Chemicals' owns 50% of NOVA Innovene.
 - (7) On October 11, 2005, NOVA Innovene announced plans to permanently cease EPS production at its Berre, France plant and permanently shut down a previously idled EPS plant in Carrington, United Kingdom.
 - (8) Under the joint venture agreement with Innovene, the Wingles, France facility will not be transferred to NOVA Innovene until at least 2007. In the meantime, NOVA Innovene will supply all of the styrene monomer required for the operation of the Wingles facility and will be the sole distributor of all styrenic polymers produced at the Wingles facility.
- * Difference between total and individual plant values attributable to rounding.

Olefins/Polyolefins

The olefins/polyolefins business produces ethylene and polyethylene. As part of NOVA Chemicals' ethylene production process, and in the preparation of feedstocks for this process, NOVA Chemicals also produces a number of co-products.

The Joffre, Alberta site is integrated with the AEGS, which connects large-scale ethane extraction plants to NOVA Chemicals' ethylene crackers. The recently completed Joffre feedstock pipeline is also integrated with the Joffre site and connects natural gas liquids production and storage facilities in Fort Saskatchewan, Alberta to the Joffre site. Ethylene is fed directly to onsite polyethylene production.

The Corunna, Ontario ethylene facility is connected to multiple pipeline systems that, in conjunction with the facility's flexi-cracker capabilities, enable NOVA Chemicals to optimize its feedstock slate. The Corunna facility provides ethylene by pipeline to NOVA Chemicals' polyethylene production facilities in Mooretown, Ontario and Corunna, Ontario and to its styrene monomer plant in Sarnia, Ontario. In addition, NOVA Chemicals utilizes rail and marine transport to transport feedstocks.

Olefins/polyolefins revenue was \$3.6 billion in 2005, which represented approximately 61% of NOVA Chemicals' total 2005 revenue (before intersegment eliminations). Olefins/polyolefins revenue for 2004 was \$3.2 billion, which represented approximately 58% of NOVA Chemicals' total 2004 revenue (before intersegment eliminations).

Ethylene

NOVA Chemicals has an annual production capacity of approximately 6.4 billion pounds of ethylene (excluding Dow's share of E3). Ethylene is a commodity chemical that NOVA Chemicals produces through thermal cracking of various feedstocks, a process which uses high temperatures to break down the carbon chains. The feedstocks used to produce ethylene are natural gas liquids and crude oil derived feedstocks including ethane, propane, butane, naphtha or gas oil. The two most common feedstocks used by NOVA Chemicals are ethane and, to a lesser extent, naphtha. Ethylene is used in the manufacture of polyethylene, styrene, styrenic polymers and polyvinyl chloride, as well as chemical intermediates such as ethylene oxide, ethylene glycol, ethylene dichloride and vinyl acetate.

NOVA Chemicals produces ethylene at two locations, Joffre, Alberta and Corunna, Ontario.

Joffre, Alberta Facility

NOVA Chemicals has three ethylene production facilities at Joffre, Alberta: E1, E2 and E3 (E3 is 50% owned by Dow). Since July 2004, NOVA Chemicals has shared the ethylene produced at E3 with Dow at a 50:50 ratio. These three plants have an annual production capacity of approximately 1.6, 1.8 and 2.8 billion pounds of ethylene (including Dow's share of E3 production), respectively, for a total combined capacity of 6.2 billion pounds. The combined co-product production capacity of E1, E2 and E3 is approximately 830 mmlbs per year.

Approximately 42% of the ethylene produced at these facilities is used internally to support NOVA Chemicals' Joffre polyethylene production and the rest is sold to third parties. Third party sales are facilitated through a variety of medium to long-term contracts. These contracts typically contain pricing mechanisms that include a cost recovery component and a market based component. NOVA Chemicals has also entered into a tolling arrangement that permits a third party to use a portion of its ethylene production capacity at E1 until the end of 2008.

All of the ethylene plants at the Joffre, Alberta site use ethane as their primary feedstock. Ethane is typically supplied under contracts with the owners of natural gas liquids extraction and fractionation plants located in Alberta. Most of these supply agreements have 10 to 20 years remaining on the initial term with the possibility of renewal by the parties. The price NOVA Chemicals pays under these agreements consists of two components: (1) a fee to cover an agreed upon portion of the costs of plant operation and return on invested capital (this component may be fixed or vary with production), and

(2) the cost to replace the energy content of the ethane extracted from the gas stream (this component varies with the price of natural gas; NOVA Chemicals may pay the owner for replacement natural gas or purchase or swap natural gas to physically replace the energy content of the ethane). NOVA Chemicals supplements its ethane supplies through spot purchases.

NOVA Chemicals has enhanced its feedstock availability through the development of new third party sources of ethane. One third party source of ethane is from the Joffre, Alberta ethane extraction facility adjacent to the Joffre site, which is designed to extract natural gas liquids from the natural gas used as fuel for both NOVA Chemicals' Joffre site and Dow' s Prentiss, Alberta site. A second source of ethane is from modifications made to existing extraction plants. These modifications enable the extraction of additional volumes of ethane from the same volume of natural gas, which increases the recovery efficiency.

In addition to ethane, NOVA Chemicals has the flexibility to use propane and other natural gas liquids for a portion of the Joffre feedstock requirements. This enables the Joffre, Alberta site to optimize feedstock cost and supply. Propane and other natural gas liquids are transported to Joffre by the recently completed Joffre feedstock pipeline owned by Taylor.

NOVA Chemicals continuously looks for opportunities to expand feedstock flexibility and supply to enhance operational flexibility and support longer-term growth opportunities.

Virtually all of the ethane requirements for the Joffre, Alberta site are transported via the AEGS. Under a long-term transportation agreement, NOVA Chemicals has the right to ship ethane on the AEGS. NOVA Chemicals has also signed an operating agreement with Fort Chicago. Under this agreement, NOVA Chemicals is responsible for the physical operation of the AEGS, while Fort Chicago has responsibility for all commercial aspects of the AEGS operations.

As part of the ethylene production process at Joffre, Alberta, NOVA Chemicals produces about 830 mmlbs of co-products. Co-products include hydrogen, propylene, crude C4 hydrocarbons, pyrolysis gasoline and carbon dioxide. Co-products, other than hydrogen and carbon dioxide, are shipped by railcar from Joffre to markets in Alberta, Ontario and the U.S. Gulf Coast.

NOVA Chemicals manages part of its ethylene supply balance by transferring ethylene from Joffre, Alberta to Corunna, Ontario via the Cochin pipeline, an open access multi-product common carrier liquids pipeline.

Corunna, Ontario Facility

The Corunna, Ontario olefins facility, located near Sarnia, Ontario, has an annual production capacity of approximately 1.6 billion pounds of ethylene. As part of a series of modernization upgrades to the Corunna ethylene flexi-cracker, ethylene design capacity is expected to increase to approximately 1.85 billion pounds per year and propylene design capacity is expected to increase to approximately 900 mmlbs per year. In both cases, capacity will be dependent on feedstock mix. NOVA Chemicals expects to complete the modernization upgrades by the end of 2006. The Corunna olefins facility has the flexibility to process a wide range of hydrocarbon feedstocks including crude oil, condensates, ethane, propane, butane, naphtha and gas oils to produce primary petrochemicals for use by NOVA Chemicals' downstream operations and for sale to third parties. The feedstock chosen depends on market conditions and is determined by using a model that calculates the most profitable mix of co-products that can be produced from the most optimal feedstock slate. Virtually all ethylene production from the Corunna olefins facility is used internally by NOVA Chemicals to produce polyethylene and styrene.

The blend of feedstocks processed in the Corunna, Ontario olefins facility determines the range of co-products obtained, with heavier feedstocks such as naphtha producing more co-products. Co-products include benzene (used by NOVA Chemicals in the production of styrene), propylene, crude C4 hydrocarbons, C5 dienes, dicyclopentadiene, aromatics, C9 resin oils, hydrogen and fuels. The facility has a current production capacity of approximately 4.6 billion pounds of co-products per year.

Feedstocks for the Corunna, Ontario olefins facility are obtained from a wide variety of sources. A substantial proportion of crude oil, the main feedstock, is sourced from western Canadian and United States domestic producers and delivered via the Enbridge Inc. ("Enbridge") pipeline system. Condensate, a lighter feedstock than crude oil, yields a higher proportion of olefins feedstocks versus fuel oil co-products. Crude oil and condensate feedstocks are also sourced from

outside Canada with delivery via pipeline from Portland, Maine connecting to Enbridge's line No. 9 in Montréal, Québec, providing Corunna with purchasing flexibility and less reliance on western Canadian crude and condensates. Ethane, propane, butane and naphtha are sourced from western Canadian and local producers as well as United States sources, principally by pipeline.

Co-Products

Through NOVA Chemicals' production of ethylene, a significant amount of co-products are produced that are sold to a variety of customers for use in a broad range of applications. Chemical co-products that are produced include benzene, propylene, crude C₄ hydrocarbons, C₅ dienes, carbon dioxide, dicyclopentadiene, aromatics, C₉ resin oils and hydrogen. Energy co-products that are produced include diesel fuel, gasoline components, home heating oils and industrial fuels. NOVA Chemicals has agreements with Alberta-based customers for the sale of carbon dioxide. The sale of carbon dioxide under these agreements helps NOVA Chemicals' reduce its carbon dioxide emissions. Total capacity volumes of co-products are approximately 5.4 billion pounds per year and vary depending on feedstock.

Polyethylene

NOVA Chemicals has an annual production capacity of approximately 3.4 billion pounds of polyethylene. Polyethylene is produced through the polymerization of ethylene. NOVA Chemicals produces polyethylene from ethylene supplied from its Joffre, Alberta and Corunna, Ontario facilities at three locations in Canada: Joffre, Alberta; Corunna, Ontario; and Mooretown, Ontario.

NOVA Chemicals' first polyethylene plant, PE1, located at Joffre, Alberta has an annual production capacity of approximately 1.3 billion pounds and produces LLDPE from ethylene supplied from E1, E2 and E3. The plant utilizes gas-phase process technology originally licensed from UCC.

NOVA Chemicals' two polyethylene plants located near Mooretown, Ontario have an annual production capacity of approximately 830 mmlbs and produce both LDPE and HDPE. Ethylene feedstock is supplied from the Corunna, Ontario olefins facility and from Joffre, Alberta via the Cochin pipeline. One of these plants uses the gas-phase process technology originally licensed from UCC to produce HDPE and the other plant uses high pressure process technology, also originally licensed from UCC, to produce LDPE. The licenses from UCC are fully paid up. Accordingly, NOVA Chemicals pays no royalties for the use of this technology and independently sustains and develops this technology as used in NOVA Chemicals' facilities.

In June 1994, NOVA Chemicals purchased DuPont's Canadian polyethylene business. Assets of the business included a polyethylene plant located at the St. Clair River site in Corunna, Ontario, the proprietary SCLAIRTECH technology and a global SCLAIRTECH technology licensing business. Ethylene feedstock is supplied from the Corunna olefins facility and from Joffre, Alberta via the Cochin pipeline. In May 2004, NOVA Chemicals shut down the A-line at this facility, which eliminated LLDPE capacity of 275 mmlbs per year. The remaining line, B-line, currently has an annual HDPE production capacity of approximately 395 mmlbs.

NOVA Chemicals further developed SCLAIRTECH technology and in December 1996 announced that it had developed Advanced SCLAIRTECH technology. Advanced SCLAIRTECH solution-phase technology yields products that NOVA Chemicals believes provide several advantages over standard polyethylene resins. These Performance Products offer value-added benefits such as clarity and toughness for NOVA Chemicals' customers end-use applications. In July 2001, a second polyethylene plant, PE2, at Joffre, Alberta began commercial production using Advanced SCLAIRTECH technology. The plant has a design capacity of 850 mmlbs per year. Advanced SCLAIRTECH technology at Joffre, Alberta includes two proprietary catalyst systems. The Z-N catalyst introduced in 2001 is used to make NOVA Chemicals' SCLAIR line of polyethylene products. These are octene-based polyethylene grades for film applications. In 2003, NOVA Chemicals commercialized a single-site catalyst using Advanced SCLAIRTECH technology and introduced a series of new polyethylene products under the brand SURPASS. SURPASS products have been commercialized for film, rotational molding and thin wall injection molding applications. By the end of 2005, sales of Performance Product grades of SCLAIR and SURPASS represented approximately 52% of NOVA Chemicals' Advanced SCLAIRTECH technology plant production capacity with the balance of polyethylene production being sold into commodity applications.

Other Olefin Related Business Interests

Joffre, Alberta Linear Alpha Olefins Plant

In the third quarter of 2001, a predecessor of Innovene Canada Partnership commissioned a linear alpha olefins plant on NOVA Chemicals' Joffre, Alberta site. NOVA Chemicals supplies ethylene to the linear alpha olefins plant and receives linear alpha olefins for use by NOVA Chemicals' polyethylene facilities at a competitive cost, contributing to the cost efficiencies of the large-scale Joffre site. On December 16, 2005, United Kingdom-based INEOS announced that it had acquired Innovene, which includes Innovene Canada Partnership. NOVA Chemicals does not expect this acquisition to have any effect on the operation of the linear alpha olefins plant at the Joffre site.

Joffre, Alberta Cogeneration Plant

In June 2000, ATCO Power Canada Ltd. ("ATCO"), EPCOR Power Development Corporation ("EPCOR") and NOVA Chemicals opened a natural gas-fired cogeneration power plant with a nominal installed peak capacity of 450 megawatts at NOVA Chemicals' production site at Joffre, Alberta. The power plant supplies the electrical and steam needs for the entire Joffre petrochemical site, with excess power sold to Alberta's provincial power grid. The three companies jointly own the cogeneration facility, with ATCO serving as the facility operator. The respective equity interests of the parties are 40% for each of ATCO and EPCOR and 20% for NOVA Chemicals.

Styrenics

The styrenics business produces styrene monomer and styrenic polymers. The Sarnia, Ontario styrene facility is supplied ethylene and a portion of its benzene requirements by pipeline from the Corunna, Ontario ethylene flexi-cracker. NOVA Chemicals engages in transatlantic styrene swap and purchase arrangements with other styrene producers to meet its European styrene obligations to supply NOVA Innovene.

Styrenics revenue was \$2.3 billion in 2005, which represented approximately 39% of NOVA Chemicals' total 2005 revenue (before intersegment eliminations). Styrenics revenue for 2004 was \$2.3 billion, which represented approximately 42% of NOVA Chemicals' total 2004 revenue (before intersegment eliminations).

Styrene Monomer

Styrene is produced from benzene and ethylene. NOVA Chemicals produces styrene monomer by the process of alkylation of ethylene with benzene to produce ethylbenzene and then dehydrogenation of ethylbenzene. With two wholly owned styrene monomer plants, and an equity position in Lyondell's propylene oxide/styrene monomer facility at Channelview, Texas, which produces styrene monomer as a co-product of propylene oxide, NOVA Chemicals has the capacity to produce and toll 3.1 billion pounds of styrene annually. Approximately 73% of this styrene is used internally, and the remainder is sold to third parties in the merchant market. In October 2005, NOVA Chemicals entered into a contract to supply NOVA Innovene with 50% of its requirements for styrene monomer. While NOVA Chemicals does not produce styrene monomer in Europe, NOVA Chemicals obtains a portion of its European styrene monomer feedstock required to supply NOVA Innovene at a cost comparable with the local costs of production through swap agreements with major European styrene producers who have a requirement for styrene monomer feedstock in North America but do not have sufficient styrene monomer production capabilities in North America. NOVA Chemicals obtains the remainder of its European styrene monomer feedstock required to supply NOVA Innovene through a purchase agreement with Shell for approximately 525 mmlbs per year. This agreement expires in December 2007.

NOVA Chemicals has a total rated production capacity of 3.1 billion pounds of styrene monomer per year at sites in Sarnia, Ontario; Bayport, Texas (each wholly owned by NOVA Chemicals); and Channelview, Texas (equity position in one of the two facilities located at Lyondell's Channelview site). The Sarnia facility has a rated capacity of 950 mmlbs per year of styrene production. Bayport has a rated capacity of 1,700 mmlbs per year and Channelview provides 400 mmlbs of annual capacity. In addition, as part of the acquisition of ARCO's styrenics business in 1996, NOVA Chemicals entered into a tolling agreement with Lyondell (as successor to ARCO) for approximately 400 million additional pounds per year of

styrene monomer from the Channelview facilities. This tolling agreement expires in December 2006. NOVA Chemicals' current annual styrene monomer production capacity, together with supply contracts, exceeds its annual internal requirements by approximately one billion pounds. This excess is sold to third parties primarily under short-term supply agreements in the merchant market. Until the expiration of the purchase agreement with Shell and the tolling agreement with Lyondell, NOVA Chemicals will continue to have more styrene monomer than it requires for its own styrenic polymer products.

NOVA Chemicals supplies a portion of its internal requirements for ethylene and benzene and enters into other arrangements with third parties for the remainder. All of the ethylene and approximately half of the benzene requirements for the Sarnia, Ontario styrene facility are supplied from NOVA Chemicals' Corunna, Ontario olefins facility. The balance of the benzene feedstock is obtained from nearby petroleum refineries. Except for some ethylene obtained through swaps, the balance of ethylene and all benzene for the Bayport, Texas and Channelview, Texas facilities are obtained from external sources.

Styrenic Polymers

Styrenic polymers, or polystyrene, are manufactured by the polymerization of styrene monomer and in some cases, comonomers. NOVA Chemicals produces SPS (which comes in various forms including crystal and high-impact), EPS (foamable resin beads) and styrenic polymer Performance Products.

North American Solid Polystyrene

NOVA Chemicals' SPS business has a total of six manufacturing facilities in North America: Belpre, Ohio; Chesapeake, Virginia; Decatur, Alabama; Montréal, Québec; Monaca, Pennsylvania; and Springfield, Massachusetts. NOVA Chemicals' total SPS production capacity for North America is 1.5 billion pounds per year, consisting of crystal and impact polystyrene.

Crystal polystyrene end-use applications include CD jewel boxes, food packaging, one-time-use foodservice ware (cups/plates/bowls/utensils), medical applications, fast-food/convenience packaging and insulation. Impact polystyrene resins are used in applications such as office/desk supplies, small appliances, industrial spools, bathroom accessories, electronics housings, food packaging and one-time-use foodservice ware.

North American Expandable Polystyrene

NOVA Chemicals produces EPS at its Beaver Valley site at Monaca, Pennsylvania and at its Painesville, Ohio facility. Total rated production capacity of 370 mmlbs per year ranks NOVA Chemicals as the largest EPS producer in North America. EPS resins are used in applications such as disposable foam cups, noodle bowls, takeout and ice cream containers, insulation board, cushions and foam packaging. NOVA Chemicals' EPS cup and container grade is sold under the trademark DYLITE[®].

North American Styrenic Polymer Performance Products

NOVA Chemicals produces styrenic polymer Performance Products at its Monaca, Pennsylvania, Belpre, Ohio and Chesapeake, Virginia facilities. In addition to being the research and technology center for Performance Products, compounding assets at the Chesapeake site allows NOVA Chemicals to produce clear, custom colour and flame retardant resins. NOVA Chemicals also uses two third party compounders to manufacture styrenic polymer Performance Products. NOVA Chemicals announced in January 2006 that it plans to close its Chesapeake, Virginia, site in 2006 but remains committed to its styrenic polymer Performance Products and will identify production alternatives for impacted products. In addition to ARCEL and DYLARK resins that are discussed below, current sales in the styrenic polymer Performance Products business are in ignition resistant products used primarily for television cabinets and marketed under the trademark ZYNTAR; additive modified polystyrene grades used in applications requiring consistent colour, U.V. or other properties; and NAS and ZYLAR (high-clarity styrene acrylic copolymers and blends or alloys thereof, respectively).

NOVA Chemicals' Beaver Valley site in Monaca, Pennsylvania produces ARCEL moldable foam resins that contain polystyrene and an ethylene-based polymer. This expandable bead is sold primarily into the protective packaging market. NOVA Chemicals expanded the capacity to produce ARCEL moldable foam resin at its Beaver Valley site in 2004 and 2005 and plans additional production capacity expansions during 2006, 2007 and 2008. In addition to producing ARCEL moldable foam resins at its Beaver Valley site, in September 2005, NOVA Chemicals entered into a long-term agreement with Loyal Chemical Industrial Corporation to manufacture ARCEL moldable foam resin near Shanghai, China.

The Beaver Valley site also produces DYLARK resins that are a modified styrenic based polymer that provides ease of processing, performance at elevated temperatures and foam adhesion for use in instrument panels, as well as other parts, in the global automotive industry. In addition, NOVA Chemicals recently introduced DYLARK FG resin, which the Corporation believes provides significant opportunities in the food packaging and food service industries. DYLARK FG resin, which is currently produced at NOVA Chemicals' Beaver Valley site and which NOVA Chemicals plans to produce at its Belpre, Ohio site beginning in 2006, combines low-temperature toughness with high-temperature rigidity for superior freezer-to-microwave performance.

Chile

As part of the Shell acquisition in January 2000, NOVA Chemicals acquired an EPS production plant and two EPS molding plants in Chile. The plants produce small volumes of products for the South American fish packaging, housing and construction markets. NOVA Chemicals decided to cease production of EPS at its Quilicura, Chile facility in December 2005. NOVA Chemicals still operates EPS molding plants in Quilicura and El Tepual, Chile.

Europe

On October 1, 2005, NOVA Chemicals merged its European styrenic polymers business into a 50:50 joint venture with Innovene, BP's commodity chemicals business. The new joint venture is named NOVA Innovene. On December 16, 2005, United Kingdom-based INEOS announced that it had acquired Innovene. NOVA Chemicals does not expect this acquisition to have any immediate effect on NOVA Innovene. NOVA Innovene operates seven facilities in Europe with total rated annual European styrenic polymer production capacity of 2.5 billion pounds. NOVA Innovene is the largest producer of SPS in Europe, with an aggregate capacity of 1.6 billion pounds per year produced at facilities in Breda, The Netherlands, Carrington, United Kingdom, Marl, Germany, Wingles, France (this facility is still owned by BP and will not be legally transferred to NOVA Innovene until at least 2007) and Trelleborg, Sweden.

NOVA Innovene has the capability to produce EPS at six of its seven European sites, with aggregate annual capacity of approximately 900 mmlbs, making it the top European EPS producer. On October 11, 2005, NOVA Innovene announced plans to permanently cease EPS production at its Berre, France plant in 2006 and permanently shut down an EPS plant in Carrington, United Kingdom, representing nearly 30% of NOVA Innovene's total EPS capacity and more than 10% of Western European industry capacity.

Styrenic Polymer Feedstock Requirements

NOVA Chemicals' styrenic polymer feedstock requirements can currently be satisfied through internal styrene monomer production. Where styrene monomer is geographically dislocated, the Corporation may use a series of swap arrangements with other producers to position the styrene monomer where NOVA Chemicals needs it.

In August 2002, NOVA Chemicals and BASF Corporation signed a long-term styrene monomer supply contract. This contract gives both producers secure supply of styrene monomer to their downstream businesses at producer economics in both North America and Europe. NOVA Chemicals meets its contractual supply requirement from existing facilities in North America, including the 450 mmlb expansion of its Bayport, Texas plant, which was completed in the third quarter of 2005. This approach helps two major styrenic polymer producers meet their regional feedstock needs while adding only minimal new capacity to the industry.

DISTRIBUTION OF PRODUCTS

NOVA Chemicals' products are marketed primarily through its sales force, with support from established distributors, agents and traders. Canadian products are sold into the United States primarily through NOVA Chemicals' wholly owned subsidiary, NOVA Chemicals Inc., for resale through distribution arrangements. NOVA Chemicals' wholly owned subsidiary, NOVA Chemicals (International) S.A., sells in Europe and Asia either directly or through distribution arrangements. Distribution agreements among NOVA Chemicals' affiliates provide for arm's length pricing.

The following table summarizes, for the years ended December 31, 2005, 2004 and 2003, the geographic segments in which NOVA Chemicals sells its products and the percentage of sales in such segments:

Geographic Segment	Percentage of Sales, Year Ended December 31		
	2005	2004	2003
Canada	36%	33%	36%
United States	44%	45%	45%
Europe and Others	20%	22%	19%

No significant portion of NOVA Chemicals' business is dependent upon a single customer. Sales to Canadian and United States federal, state, provincial and local governmental bodies account for less than 1% of annual sales.

In total, NOVA Chemicals has negotiated contracts that contain cost-recovery mechanisms and a market-indexed component, for approximately 2.0 billion pounds of ethylene.

As part of NOVA Chemicals' ethylene production process, and in the preparation of feedstocks for this process, a number of co-products are also manufactured, including propylene, crude C₄ hydrocarbons, C₅ dienes, aromatics, C₉ resin oils, dicyclopentadiene, hydrogen, fuels and carbon dioxide. NOVA Chemicals has agreements with Alberta-based customers for the sale of carbon dioxide. Co-products are shipped to markets in Alberta, Ontario and the U.S. Gulf Coast.

Effective April 2003, NOVA Chemicals and Helm AG entered into a sales and marketing agreement for styrene monomer in Europe. The medium-term agreement includes the transfer to Helm AG of all sales and marketing activities for NOVA Chemicals' existing European styrene monomer merchant sales.

In connection with the joint venture agreement with Innovene, NOVA Chemicals entered into a non-competition agreement and an exclusive distribution agreement with NOVA Innovene effective October 1, 2005. These agreements require all sales in Europe of NOVA Chemicals' styrenic polymers, including Performance Products (excluding DYLARK automotive resins), be made through NOVA Innovene. NOVA Chemicals and NOVA Innovene also have reciprocal agreements that require all sales in North America of NOVA Innovene's styrenic polymers be made through NOVA Chemicals.

NOVA Chemicals leases approximately 4,700 railcars from various companies for use in transportation and delivery of its polyethylene and styrenic polymer products to customers in North America. NOVA Chemicals also owns approximately 150 railcars. Trucks are used for distributing products sold in bags and boxes and smaller loads of bulk products. Transport ships are used to transport bulk product, mostly to Asia. NOVA Chemicals does not own or lease trucks or ships, but does pay transportation fees under short-term arrangements.

NOVA Chemicals' feedstocks and co-products are produced in liquid or gaseous form, and are transported primarily by pipeline, but also in significant quantity by ship, truck and in rail tank cars. NOVA Chemicals leases approximately 1,400 rail tank cars from various companies in order to transport feedstocks, co-products and styrene monomer.

COMPETITION

NOVA Chemicals competes with other chemical producers on the basis of price, service, product quality, performance and deliverability. Among NOVA Chemicals' competitors are some of the world's largest plastics and chemicals companies and major integrated oil companies that are larger and have greater financial resources. Some also have their own raw material resources. The keys to competing successfully in this industry are scale of facilities, low-cost feedstocks and differentiated product and process technologies.

Prices for NOVA Chemicals' standard petrochemical and polymer products are determined by market factors such as supply/demand balances and feedstock costs that are beyond NOVA Chemicals' control. NOVA Chemicals generally sells these products at prevailing market prices but, on occasion, products are sold based on negotiated prices.

CYCLICALITY

NOVA Chemicals' historical operating results reflect the cyclical and volatile nature of the commodity plastics and chemicals businesses. The markets for the Corporation's olefins/polyolefins and styrenics businesses historically experience alternating periods of inadequate capacity and tight supply, causing prices and profit margins to increase, followed by periods of oversupply resulting from capacity additions. The oversupply leads to declining capacity utilization rates, prices and profit margins. Currently, known ethylene and styrene chain capacity additions in North America over the next several years are limited. The primary driver of a cyclical upswing in the ethylene and styrenics sectors is generally the combination of limited supply growth and improved demand growth, which is driven by sustained Gross Domestic Product and industrial production growth.

The markets for ethylene, polyethylene, styrene and styrenic polymers are also highly cyclical, resulting in volatile profits and cash flow over the business cycle. Because NOVA Chemicals derives nearly all of its revenue from sales of these products, its operating results are more sensitive to this cyclical nature than many of its competitors that have more diversified businesses.

This cyclicity is exacerbated by recent volatility in feedstock prices. As a result of many factors, feedstock and energy prices rose significantly throughout 2004 and 2005 to levels above the historical average. In response to higher feedstock prices and other market factors, commodity plastics and chemicals producers announced multiple price increases.

PATENTS, LICENSES AND TRADEMARKS

NOVA Chemicals owns directly, or licenses from affiliates, a large number of patents in Canada, the United States and other countries. NOVA Chemicals also owns, or licenses through a wholly owned subsidiary, a number of trademarks, which are used to identify various petrochemical products. While these patents and trademarks constitute valuable assets, NOVA Chemicals does not regard any single patent or trademark as being material to its operations as a whole.

During 2005, 116 patent applications were filed in the name of NOVA Chemicals or its subsidiaries worldwide. These include divisional and continuation patent applications as well as national and regional patent applications (which may result in more than one issued patent). 51 of the applications were in the olefins/polyolefins field and 65 were in the styrenics field. Worldwide, during 2005, 111 patents were issued to NOVA Chemicals or its subsidiaries, 53 in the olefins/polyolefins field and 58 in the styrenics field.

In connection with the NOVA Innovene joint venture, NOVA Chemicals granted a royalty-free license to NOVA Innovene for all of the intellectual property that NOVA Chemicals used to manufacture its products in Europe before NOVA Innovene began operations. The license generally covers all of NOVA Chemicals' commodity SPS and EPS products and related technologies that it manufactured or had under development in Europe. With the exception of EPS Silver resins and STYROSUN polystyrene, NOVA Chemicals' Performance Products are not licensed to the NOVA Innovene joint venture.

TECHNOLOGY AND LICENSING

NOVA Chemicals actively supports all of its technologies to maintain its competitive position, including technologies developed by NOVA Chemicals and those licensed from third parties. Some of the technologies licensed from third parties are subject to certain restrictions on use.

NOVA Chemicals was initially a licensee of the technology used in its operations. Over the past decade, NOVA Chemicals has acquired a variety of business units with associated technology assets in areas including process and catalyst technology, as well as polymer technologies. In addition, NOVA Chemicals has expanded its research and development activities. The result is a technology portfolio with over 700 patents, the development of new margin enhancing process technologies such as Advanced SCLAIRTECH technology, new proprietary single-site catalyst positions and a wide range of new Performance Products in both styrenic polymers (such as ARCEL resins) and polyethylene (such as SURPASS resins).

Polyethylene Technologies and Products

NOVA Chemicals has two key, internally developed, technologies for the production of polyethylene – SCLAIRTECH technology and Advanced SCLAIRTECH technology. In addition to these technologies, NOVA Chemicals conducts research and development on other polyethylene technologies including gas-phase and high pressure technology.

NOVA Chemicals acquired its proprietary SCLAIRTECH technology and a global SCLAIRTECH technology licensing business from DuPont in 1994. NOVA Chemicals operates one production facility utilizing SCLAIRTECH technology near Corunna, Ontario that produces HDPE grades under the SCLAIR brand. In addition, NOVA Chemicals currently licenses its SCLAIRTECH technology to numerous chemical companies that utilize it at 11 plants worldwide.

In 2001, NOVA Chemicals began commercial operation of its new, proprietary Advanced SCLAIRTECH technology for the production of polyethylene. This first step in the introduction of this technology utilized a proprietary Z-N catalyst to manufacture new polyethylene products. In 2002, a line of new, Z-N catalyzed, octene-based Performance Products for film applications were launched under the SCLAIR brand.

In April 2003, NOVA Chemicals announced the commercial introduction of its first polyethylene resins produced with Advanced SCLAIRTECH technology and utilizing its new proprietary single-site catalyst. NOVA Chemicals manufactures and sells these polyethylene Performance Products under the brand name SURPASS. SURPASS products have been commercialized for film, rotational molding and thin wall injection molding applications.

During 2005, NOVA Chemicals focused on developing and commercializing Performance Products using Advanced SCLAIRTECH technology, including those used in film, injection molding and rotational molding. A total of five new grades were developed and commercialized during 2005, including three SURPASS film grades and one SURPASS injection molding grade. Customer interest in these grades is high, due to the unique combination of polymer properties afforded through the Advanced SCLAIRTECH technology. NOVA Chemicals continues to evolve both short and longer term SURPASS resin development work to exploit fully the process and catalyst capabilities of Advanced SCLAIRTECH technology.

Catalysts

NOVA Chemicals has developed three key proprietary families of catalyst technology. The first is a family of proprietary single-site catalysts for Advanced SCLAIRTECH and other polymer technologies including gas-phase polyethylene. These single-site catalysts impart unique properties and create products that compete with many metallocene-based polyethylenes. The second family of catalysts includes proprietary Z-N catalysts used for SCLAIRTECH technology and Advanced SCLAIRTECH technologies. Finally, the NOVACAT™ family of catalysts was developed by NOVA Chemicals and its catalyst development partner, INEOS (formerly BP Chemicals), for use in gas-phase polyethylene. NOVACAT catalysts have been commercialized on NOVA Chemicals' gas-phase plant, PE1, in Joffre, Alberta. NOVACAT catalysts provide enhanced throughput, product range and properties when compared to traditional Z-N catalysts in commercial

gas-phase polyethylene production facilities. The NOVACAT family of catalysts is currently being run on several different gas-phase technologies.

During 2005, NOVA Chemicals and INEOS continued their work on the NOVACAT catalyst and successfully developed and demonstrated variants of the catalyst targeted towards use in butene LLDPE and narrow molecular weight HDPE markets. In May 2005, NOVA Chemicals (International) S.A., a wholly owned subsidiary of NOVA Chemicals, announced it had entered into a license and sales agreement with Westlake Petrochemicals LP for NOVACAT polyethylene catalysts.

In 2005, NOVA Chemicals also entered into a research development collaboration with Edmonton-based Quantium Technologies Inc. to develop coating and catalysts technologies to improve furnace operations in the hydrocarbon steam cracking manufacturing process. If developed, these technologies will complement the ANK400 anti-coking technology that NOVA Chemicals previously developed and licensed to Kubota Corporation in 2002 and which are now used in eight manufacturing facilities throughout the world.

Styrenic Polymers Technologies and Products

NOVA Chemicals owns or has the rights to a significant portfolio of styrenics technology, both in the fields of polymer production and styrenics polymer applications. Prior to 1999, NOVA Chemicals licensed technology from a number of other companies and developed its own technology for the polymerization of styrene. As part of the Huntsman and Shell acquisitions, NOVA Chemicals acquired additional access to a broad range of styrenics product and process technology, as well as knowledge in polystyrene and high performance styrenics products. The technologies acquired include the one-step Shell process technology for EPS and polystyrene process and compounding technology relating to several polystyrene Performance Products.

NOVA Chemicals key polystyrene Performance Products include foamed styrenic polymers and rigid styrenic polymers. The foamed styrenic polymers include ARCEL moldable foam resins that are sold primarily into the protective packaging market, EPS Silver resins that are sold primarily into the European construction and building marketplace and DYLLITE premium cup and container grade resins used for EPS cups and, with NOVA Chemicals' IMage technology, to make unique thin wall cups with outstanding graphics. The rigid styrenic polymers include ZYLAR clear acrylic copolymer resins for use in the food packaging and consumer goods industries and DYLLARK resins for use in the automotive industry and food packaging and food services industry.

In May 2005, NOVA Chemicals announced the commercial introduction of two new DYLLARK high-impact engineering resins, DYLLARK 510XT and 520XT. The new DYLLARK 500XT series of resins for use in automotive instrument panels and other interior applications provide enhanced stiffness and dimensional stability. In June 2005, NOVA Chemicals introduced ZYLAR 631 resin, a clear, tough resin for injection molding, with the added benefit of energy, labour costs and cycle time reduction to the molder. Potential applications include appliances and medical. In September 2005, NOVA Chemicals announced the launch of ZYLAR EX 720 resins, the newest addition to the ZYLAR suite of clear acrylic copolymers. ZYLAR EX 720 resins have excellent low-temperature toughness and clarity for applications such as refrigerated or frozen food packaging. In September 2005, NOVA Chemicals also announced the introduction of DYLLARK FG 2500 styrenic copolymer for microwavable food packaging applications, which combines low-temperature toughness with high-temperature rigidity for superior freezer-to-microwave performance. In October 2005, NOVA Chemicals announced that it had acquired the exclusive rights to an EPS cup manufacturing technology from Autonational BV. This technology, which will be marketed as IMage technology, is used to manufacture cups and containers that offer both enhanced graphics and superior hot and cold insulation.

RESEARCH AND DEVELOPMENT

NOVA Chemicals spent \$38 million in each of 2005 and 2004 and \$35 million in 2003 on research and development activities. NOVA Chemicals also spent \$12 million in 2005 and \$10 million in each of 2004 and 2003 on technical support and activities relating to improvements of existing products. NOVA Chemicals' operating budget for 2006 is \$43 million for research and development and \$11 million for technical support.

Olefins/Polyolefins

NOVA Chemicals olefins/polyolefins business conducts research at the NOVA Chemicals Research & Technology Center (“NRTC”) and the NOVA Chemicals Technical Center, both located in Calgary, Alberta. Both centers are equipped with state of the art test facilities for the development of new catalysts, olefin and polyolefin processes as well as full scale testing of new products. The demonstration plant for the Advanced SCLAIRTECH technology is located at the St. Clair River site in Corunna, Ontario and is capable of testing new catalysts, new polyethylene products, mixing methods in reactors and solvent separation processes.

Styrenics

NOVA Chemicals’ styrenics business currently operates two technical centers located at the Beaver Valley site in Monaca, Pennsylvania and at Chesapeake, Virginia. NOVA Chemicals announced in January 2006 that it plans to close its Chesapeake Technology Center and consolidate its United States styrenics technology organization at its Beaver Valley site in 2006. The styrenics business also operates a pilot plant at the Beaver Valley site. This pilot plant is capable of simulating mass and suspension polymerization, as well as synthesis of EPS and the compounding of specialty blends and alloys. The styrenics business also provides computer-aided design engineering resources in Southfield, Michigan and Chesapeake to support Performance Products, automotive applications and customers.

In December 2003, NOVA Chemicals opened a new styrenics research lab at the NRTC located in Calgary, Alberta. This research lab focuses on the development of new technology platforms for styrenics by leveraging the skills and capabilities already in existence at NRTC.

ENVIRONMENTAL REGULATION AND THE RESPONSIBLE CARE[®] PROGRAM

Like other companies in its industry, NOVA Chemicals is subject to extensive environmental laws and regulations at all levels of government concerning the manufacture, processing and importation of certain petrochemical substances, discharges or releases (whether to air, land or water) and the generation, handling, storage, transportation, treatment, disposal and clean-up of regulated materials.

Although NOVA Chemicals believes that its businesses, operations and facilities are being operated in material compliance with applicable environmental laws and regulations, the operation of any petrochemical facility and the distribution of petrochemical products involve the risks of accidental discharges of hazardous materials, personal injury and property and environmental damage. Furthermore, applicable environmental laws and regulations provide for substantial fines, regulatory penalties and criminal sanctions in the event of non-compliance. There can be no assurance that NOVA Chemicals will not incur material costs or liabilities as a result of such occurrences or the enforcement of environmental laws.

Risk of substantial environmental costs and liabilities is inherent in particular operations and products of NOVA Chemicals, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities, including uninsured liabilities, will not be incurred with respect to future operations.

United States and Canadian generally accepted accounting principles require companies to record liabilities associated with future plant decommissioning and site restoration costs on both active and inactive plants at their fair value based on a discounted value of the expected costs to be paid when the assets are retired. At December 31, 2005, NOVA Chemicals had \$26 million of accumulated reserve for these activities. This accumulated reserve is comprised of approximately \$18 million anticipated to be required for the future decommissioning and site restoration of currently active plant sites, approximately \$3 million anticipated to be required for the decommissioning and site restoration of plant sites that have been divested or are no longer in use and approximately \$5 million for ongoing environmental management and the planned dismantling of currently operating plant sites.

NOVA Chemicals reviews its accumulated reserves for decommissioning and site restoration quarterly to determine if adjustments are required. The reserved amount for future decommissioning and site restoration does not include any deduction for salvage or land value that may be realized, however these will be taken into consideration as the assets are depreciated. Because these plants may be in operation in

excess of 40 years, significant uncertainty exists concerning the nature of the decommissioning and site restoration activities that may be required. Furthermore, significant judgement is

involved in the estimation process, since the degree of natural attenuation, evolution of new technologies and potential future land uses may mitigate future environmental liabilities and potential costs.

From time to time NOVA Chemicals has entered into various consent agreements or been subject to administrative orders for pollution abatement or remedial action in connection with its businesses. NOVA Chemicals is currently involved in investigations and clean-ups under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and comparable state laws at four sites in connection with hazardous substances that in the past had been transported to third-party disposal sites. NOVA Chemicals does not believe that its share of response costs at any of such sites will, individually or in the aggregate, result in a material liability for NOVA Chemicals. It is possible that, based upon the nature of the hazardous substances generated at existing and discontinued operations, NOVA Chemicals may be involved in investigations and clean-ups at additional sites in the future.

NOVA Chemicals has operated an environmental audit program to determine regulatory compliance by its operating facilities since 1990. In September 1995, NOVA Chemicals adopted the Responsible Care program as the basis for its overall safety, health, environment and risk program. The Responsible Care program is a comprehensive program which was initiated by the Canadian Chemical Producers' Association ("CCPA") and has since been adopted by the American Chemistry Council ("ACC") in the United States as well as by chemical industry associations in over 52 countries worldwide. The Responsible Care program requires program participants to commit to the responsible management of the total life cycle of their products. NOVA Chemicals has implemented the Responsible Care program in all its Canadian and United States operations.

NOVA Chemicals' Responsible Care Audit Program was evaluated by a leading international environment, health and safety consulting firm in January 2002 and December 2004. On the basis of its review the consultant found that the Audit Program was progressive, soundly designed and effectively implemented, and concluded that it was highly rated when compared to other programs with which the consultant was familiar. In the second quarter of 2003, the CCPA released its final report for the Responsible Care re-verification for NOVA Chemicals' Canadian locations based on their 2002-2005 protocol. According to the CCPA's final report, the re-verification team is satisfied with the approach used by the Corporation to apply and meet the requirements of the Responsible Care initiative. NOVA Chemicals' next CCPA Responsible Care re-verification audit is scheduled for April 2006.

In the fourth quarter of 2004, NOVA Chemicals was one of the first member companies of the ACC to participate in an ACC-mandated series of audits of member company Responsible Care Management Systems ("RCMS"). The audit was conducted by an external accredited audit firm and focused on corporate level (headquarters) Responsible Care systems, procedures and documentation. The audit concluded that NOVA Chemicals is in compliance with corporate level RCMS requirements and NOVA Chemicals' corporate level was officially certified as RCMS compliant in January 2005. Subsequent audits are focusing on conformance with RCMS requirements at operating facilities and manufacturing plants. In October 2005, NOVA Chemicals' Chesapeake, Virginia operating facility was audited by an external accredited audit firm and the audit concluded that the facility is in compliance with RCMS requirements. All ACC member companies will be required to participate in and to pass such audits as a condition of ACC membership.

NOVA Chemicals is active in a number of voluntary environmental initiatives to reduce emissions and wastes from its facilities. In addition to participation in the CCPA's National Emissions Reduction Masterplan, NOVA Chemicals is also participating in Canada's Accelerated Reduction and Elimination of Toxics, and greenhouse gas emissions management programs. Through an aggressive greenhouse gas emissions management program and its participation in Canada's Voluntary Climate Change Challenge and Registry Program, NOVA Chemicals is committed to economically viable solutions to climate change concerns, including, for example, NOVA Chemicals' participation in the joint venture with ATCO and EPCOR to construct a natural-gas-fired cogeneration power plant at its production site at Joffre, Alberta. This project has substantially reduced greenhouse gas emissions when compared with continuing to supply the electrical needs of the Joffre site from Alberta's primarily coal fired electrical generation facilities. NOVA Chemicals' agreements with Alberta-based customers for the sale of carbon dioxide also help NOVA Chemicals reduce its carbon dioxide emissions. NOVA Chemicals is also directly

involved in the Canadian Chemical Industry' s Environmental Performance Memoranda of Understanding with the Federal, Ontario and Alberta governments.

NOVA Chemicals is participating in an initiative by the ACC to conduct research into the long range health and environmental impacts of chemicals. This participation is consistent with NOVA Chemicals' Responsible Care commitment,

and the resulting research will enable the chemicals industry to contribute to the scientific and public policy debate which impacts legislation affecting the industry.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change took effect during the first quarter of 2005. As a result of the Canadian government' s decision to ratify the Kyoto Protocol, Canada is required to reduce its greenhouse gas emissions by 6% below 1990 levels during the years 2008 through 2012 and legally binding greenhouse gas emission reduction targets will be imposed on NOVA Chemicals' operations in Canada. In addition, Canada has recently decided to classify carbon dioxide and several other greenhouse gases as toxic substances under the Canadian Environmental Protection Act, which will give the government the ability to legislate reductions in greenhouse gas emissions. Similarly, NOVA Innovene' s European operations are located in countries where greenhouse gas emission targets will be imposed. There is no national greenhouse gas emission reduction program that imposes reduction targets in the United States, but some states have announced an intention to implement such programs and NOVA Chemicals' operations in the United States could also have targets imposed. In view of the uncertainty of how and when implementation will occur, NOVA Chemicals cannot estimate compliance costs or whether they will be material.

Environmental capital expenditures for NOVA Chemicals, including pollution abatement and remedial programs, were \$12 million in 2005, \$17 million in 2004 and \$9 million in 2003 and are estimated to be \$19 million in 2006. Operating expenses relating to environmental protection were \$13 million in 2005, \$15 million in 2004 and \$16 million in 2003 and are estimated to be \$12 million in 2006. Total remedial expenditures to dismantle and remediate discontinued facilities and sites totaled \$1 million in 2005, \$2 million in 2004 and \$1 million in 2003. This figure is expected to be \$1 million in 2006.

EMPLOYEE AND LABOUR RELATIONS

NOVA Chemicals currently employs approximately 3,600 full-time employees globally.

Collective bargaining agreements with various unions, covering approximately 500, or 14%, of the approximately 3,600 North American employees, are in place at certain plants located in Ontario, Massachusetts and Pennsylvania. A collective bargaining agreement involving approximately 48 employees at NOVA Chemicals' styrene plant in Sarnia, Ontario was negotiated in 2004 and will expire on January 31, 2007. A collective bargaining agreement involving approximately 225 employees at NOVA Chemicals' olefins plant in Corunna, Ontario was negotiated in 2004 and will expire on March 31, 2007. The terms of collective bargaining agreements involving approximately 30 employees at the polystyrene plant at Springfield, Massachusetts and approximately 200 employees at the polystyrene plant at the Beaver Valley site in Monaca, Pennsylvania will expire on September 30, 2007 and May 12, 2006, respectively. NOVA Chemicals engages in continuous dialogue with the unions to address current issues and proactively address potential bargaining items.

NOVA Chemicals provides medical, health, life insurance, pension plans and other benefits to its employees, which are comparable with other companies in the chemicals industry where its operations are located.

FOREIGN OPERATIONS

Foreign operations are subject to various risks differing from those in Canada and the United States including political events, tax changes, labour difficulties, price controls and other governmental actions. NOVA Chemicals actively addresses these risks as part of its risk management system.

NOVA Chemicals sells its products worldwide. NOVA Chemicals has established its international commercial headquarters in Switzerland to coordinate commercial activities outside of North America and maintains sales support operations in five countries.

LEGAL PROCEEDINGS

NOVA Chemicals is involved in litigation from time to time in the ordinary course of its business. In management's opinion none of the litigation that NOVA Chemicals is currently involved in is material to NOVA Chemicals' financial condition or results of operations.

RISK FACTORS

The cyclical nature of commodity plastics and chemicals businesses may cause significant fluctuation in NOVA Chemicals' income and cash flow.

NOVA Chemicals' historical operating results reflect the cyclical and volatile nature of commodity plastics and chemicals businesses. The olefins/polyolefins and styrenics businesses historically experience alternating periods of inadequate capacity and tight supply, causing prices and profit margins to increase, followed by periods of oversupply, resulting from capacity additions. The oversupply leads to declining capacity utilization rates, prices and profit margins. The markets for ethylene, polyethylene, styrene and styrenic polymers are also highly cyclical, resulting in volatile profits and cash flow over the business cycle. Because NOVA Chemicals derives nearly all of its revenue from sales of these products, its operating results are more sensitive to this cyclical nature than many of its competitors who have more diversified businesses. This cyclical nature is exacerbated by volatility in feedstock prices. NOVA Chemicals cannot provide assurance that pricing or profitability in the future will be comparable to any particular historical period, including the most recent period shown in its operating results.

Excess industry capacity, especially at times when demand is weak, has in the past and may in the future cause NOVA Chemicals and other industry participants to lower production rates, which can reduce its margins, income and cash flow.

Rising costs of raw materials and energy may result in increased operating expenses and reduced results of operations.

NOVA Chemicals purchases large amounts of raw materials, including natural gas and benzene, and energy for its businesses, representing a substantial portion of its operating expenses. The prices of raw materials and energy generally follow price trends of, and vary with market conditions for, crude oil and natural gas, which have historically been highly volatile and cyclical. NOVA Chemicals' raw material costs have fluctuated significantly in the last few years. Although certain of NOVA Chemicals' customer contracts are based on changes in feedstock costs or provide for surcharges if feedstock costs change, many contracts are tied to market prices and therefore do not necessarily allow for the immediate flow through of rising feedstock costs. NOVA Chemicals cannot predict whether and to what extent feedstock or energy prices will rise in the future or whether and to what extent it will be able to pass on such cost increases to its customers. Any significant feedstock cost increase could have a material adverse effect on NOVA Chemicals' business, results of operations, financial condition and cash flow.

NOVA Chemicals sells commodity products in highly competitive markets and faces significant price pressure.

NOVA Chemicals sells its products in highly competitive markets. Due to the commodity nature of a majority of its products, with the exception to some degree of Performance Products, competition in these markets is based primarily on price and to a lesser extent on product performance, product quality, product deliverability and customer service. As a result, NOVA Chemicals may not be able to protect its market position by product differentiation or pass on cost increases to its customers. Accordingly, increases in raw material costs and other costs may not necessarily correlate with changes in product prices, either in the direction of the price change or in magnitude. Although NOVA Chemicals strives to maintain or increase its profitability by reducing costs through improving production efficiency, emphasizing higher margin products and controlling selling and administration expenses, NOVA Chemicals cannot provide assurance that these efforts will be sufficient to offset fully the effect of any pricing changes on its operating results.

Among NOVA Chemicals' competitors are some of the world's largest chemicals companies and major integrated petroleum companies that have their own raw material resources. Some of these companies may be able to produce products more economically than NOVA Chemicals can. In addition, some of NOVA Chemicals' competitors are larger and have greater financial resources, which may enable them to invest significant capital into their businesses, including expenditures for research and development. If any of NOVA Chemicals' current or future competitors develop proprietary technology that enables them to produce products that compete with those of NOVA Chemicals at a significantly lower cost, segments of NOVA Chemicals' technology could be rendered over time uneconomical or obsolete. The entrance of new competitors into the industry may reduce NOVA Chemicals' ability to capture profit margins in circumstances where capacity utilization in the industry is decreasing. Further, production from low-cost producers in petroleum-rich countries is increasing in the petrochemical industry and may expand significantly in the future. Any of these developments could affect NOVA Chemicals' ability to enjoy higher profit margins during periods of increased demand.

External factors beyond NOVA Chemicals' control can cause fluctuations in demand for NOVA Chemicals' products and in its prices and margins, which may negatively affect income and cash flow.

External factors can cause significant fluctuations in demand for NOVA Chemicals' products and volatility in the price of raw materials and other operating costs. Examples of external factors include general economic conditions, including a prolonged economic downturn, competitor actions, technological developments, unplanned facility shutdowns, international events and circumstances, and governmental regulation.

Demand for NOVA Chemicals' products is influenced by general economic conditions. A number of NOVA Chemicals' products are highly dependent on durable goods markets, which are themselves particularly cyclical. If the global economy does not improve, demand for NOVA Chemicals' products and its income and cash flow would be adversely affected.

NOVA Chemicals may reduce production, idle a facility for an extended period of time, or discontinue certain products because of high raw material prices, an oversupply of a particular product, feedstock unavailability and/or lack of demand for that particular product. When NOVA Chemicals decides to reduce or idle production, reduced operating rates are often necessary for several quarters or, in certain cases, longer and cause NOVA Chemicals to incur costs, including the expenses of the outages and the restart of these facilities.

NOVA Chemicals has a significant amount of debt, which could adversely affect its financial condition.

NOVA Chemicals has a significant amount of indebtedness. As of December 31, 2005, NOVA Chemicals had (a) total indebtedness of approximately \$2.0 billion and (b) additional amounts of approximately \$375 million available for borrowing under its credit facility (before \$87 million in letters of credit), subject to customary conditions. In addition, on January 20, 2006, NOVA Chemicals established a new unsecured revolving credit facility in the amount of \$100 million.

The level of indebtedness could have important consequences, such as limiting cash flow available for general corporate purposes due to debt service requirements, limiting NOVA Chemicals' ability to obtain additional debt financing on advantageous terms in the future, limiting NOVA Chemicals' flexibility in addressing competitive and other changes in its industry and economic conditions generally due to cash flow restrictions, exposing NOVA Chemicals to risks inherent in interest rate fluctuations, and increasing NOVA Chemicals' vulnerability to general economic downturns and adverse competitive and industry conditions. These risks, if realized, could place NOVA Chemicals at a competitive disadvantage compared to any of its competitors that are less leveraged.

In addition, subject to the restrictions in its credit facility and indentures, NOVA Chemicals may incur significant additional indebtedness from time to time. If new debt is added to current debt levels, the related risks described above would intensify. If such debt financing is not available when required or is not available on acceptable terms, NOVA Chemicals may be unable to grow its business, take advantage of business opportunities, respond to competitive pressures or refinance maturing debt, any of which could have a material adverse effect on its operating results and financial condition.

Operating problems in NOVA Chemicals' business may adversely affect NOVA Chemicals' income and cash flow.

The occurrence of material operating problems at NOVA Chemicals' facilities, including any of the events described below, may have a material adverse effect on the productivity and profitability of a particular manufacturing facility, or on NOVA Chemicals' operations as a whole. NOVA Chemicals' income and cash flow are dependent on the continued operation of its various production facilities. NOVA Chemicals' operations are subject to the usual hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes, including pipeline, storage tank and other leaks and ruptures; fires; mechanical failure; labour difficulties; remediation complications; discharges or releases of pollutants, contaminants or toxic or hazardous substances or gases and other environmental risks; explosions; chemical spills; unscheduled downtime; transportation interruptions; and inclement weather and natural disasters.

Some of these hazards may cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage, and may result in suspension of operations and the imposition of civil, regulatory or criminal penalties. Furthermore, NOVA Chemicals is also subject to present and future claims with respect to workplace

exposure, workers' compensation and other matters. NOVA Chemicals carries insurance against potential operating hazards which is consistent with industry norms. If NOVA Chemicals were to incur a significant liability that was not covered by insurance, it could significantly affect NOVA Chemicals' productivity, profitability and financial position.

NOVA Chemicals is exposed to costs arising from environmental compliance, cleanup and adverse litigation, which may have a substantial adverse effect on NOVA Chemicals' business, financial condition, operating results and cash flow.

NOVA Chemicals is subject to extensive federal, provincial, state and local environmental laws and regulations concerning the manufacture, processing and importation of certain petrochemical substances, air emissions, water discharges and the generation, handling, storage, transportation, treatment, disposal and clean up of regulated substances. NOVA Chemicals' operations involve the risk of accidental discharges or releases of toxic or hazardous materials, personal injury, property and environmental damage. Furthermore, applicable environmental laws and regulations are complex, change frequently and provide for substantial fines, regulatory penalties and criminal sanctions in the event of non-compliance. In addition, substantial costs can sometimes result from orders that require rectification of environmental conditions. NOVA Chemicals cannot provide assurance that it will not incur substantial costs or liabilities as a result of such occurrences or the enforcement of environmental laws.

Risk of substantial environmental costs and liabilities is inherent in NOVA Chemicals' business, as it is with other companies engaged in similar businesses. Also, NOVA Chemicals has liabilities and obligations arising in connection with discontinued operations, and has specific contractual obligations with respect to pre-closing environmental conditions at certain facilities divested by predecessor companies. Environmental investigations and remedial work have commenced at most locations and provision has been made in NOVA Chemicals' financial statements to cover the estimated costs of remediation of discontinued sites. NOVA Chemicals has incurred, and may incur in the future, environmental costs and liabilities and has made provisions in its financial statements for known matters. Nevertheless, NOVA Chemicals cannot provide assurance that it will not incur substantial costs and liabilities resulting from future events or unknown circumstances which exceed its reserves or will be material.

From time to time, NOVA Chemicals has entered into consent agreements or been subject to administrative orders for pollution abatement or remedial action. Under some environmental laws, NOVA Chemicals may be subject to strict and under certain circumstances, joint and several liability for the costs of environmental contamination on or from its properties, and at off-site locations where NOVA Chemicals disposed of or arranged for disposal or treatment of hazardous substances, and may also incur liability for related damages to natural resources. NOVA Chemicals has been named as a potentially responsible party under the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or its state equivalents, at four third-party sites. NOVA Chemicals cannot provide assurance that significant costs will not be incurred.

NOVA Chemicals could incur significant costs to comply with the Kyoto Protocol or other greenhouse gas emission reduction requirements, which in turn could reduce NOVA Chemicals' operating results and cash flow.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change took effect during the first quarter of 2005. As a result of the Canadian government's decision to ratify the Kyoto Protocol, Canada is required to reduce its greenhouse gas emissions by 6% below 1990 levels during the years 2008 through 2012 and legally binding greenhouse gas emission reduction targets will be imposed on NOVA Chemicals operations in Canada. In addition, Canada has recently decided to classify carbon dioxide and several other greenhouse gases as toxic substances under the Canadian Environmental Protection Act, which gives the government the ability to legislate reductions in greenhouse gas emissions. Similarly, NOVA Innovene's European operations are located in countries where greenhouse gas emission targets will be imposed. There is no national greenhouse gas emission reduction program that imposes reduction targets in the United States, but some states have announced an intention to implement such programs and NOVA Chemicals' operations in the United States could also have targets imposed. In view of the uncertainty of how and when implementation will occur, NOVA Chemicals cannot estimate compliance costs or whether they will be material.

NOVA Chemicals' business may be adversely affected by risks associated with international operations.

Although NOVA Chemicals reports its results in U.S. dollars, it conducts a significant portion of its business outside the United States, and is subject to risks normally associated with international operations. These risks include the need to

convert currencies that NOVA Chemicals may receive as payment for its products into currencies required to pay its debt, or into currencies with which NOVA Chemicals purchases raw materials or pays for services, which could result in a gain or loss depending on fluctuations in exchange rates. Fluctuations in exchange rates can also affect the relative competitive position of a particular manufacturing facility, as well as NOVA Chemicals' ability to market its products successfully in other markets. Other risks of international operations include trade barriers, tariffs, exchange controls, national and regional labour strikes, social and political risks, general economic risks, required compliance with a variety of foreign laws, including tax laws and the difficulty of enforcing agreements and collecting receivables through foreign legal systems.

Interruptions in NOVA Chemicals' supply of raw materials could adversely affect NOVA Chemicals' business.

NOVA Chemicals purchases large amounts of raw materials, including crude oil, natural gas and benzene, and energy for its businesses. If temporary shortages due to disruptions in supply caused by weather, transportation, production delays or other factors require NOVA Chemicals to secure its raw materials from sources other than its current suppliers, NOVA Chemicals cannot provide assurance that it will be able to do so on terms as favourable as its current terms or at all.

NOVA Chemicals may be subject to losses that are not covered by insurance.

NOVA Chemicals carries comprehensive liability and property (including fire and extended perils) insurance on all of its facilities, with deductibles and other policy specifications and insured limits customarily carried in NOVA Chemicals' industry for similar properties. NOVA Chemicals' insurance costs have increased recently. In addition, some types of losses, such as losses resulting from war or acts of terrorism are not insured. NOVA Chemicals determines coverage limits based on what it believes to be a reasonable maximum foreseeable loss scenario for its operations. In the event that an uninsured loss or a loss in excess of insured limits occurs, NOVA Chemicals may not be reimbursed for the cost to replace capital invested in that property, nor insured for the anticipated future revenues derived from the manufacturing activities conducted at that property, while NOVA Chemicals could remain obligated for any mortgage indebtedness or other financial obligations related to the property. Any such loss could adversely affect NOVA Chemicals' business, results of operations or financial condition.

NOVA Chemicals has made and may continue to make investments in entities that it does not control.

NOVA Chemicals has established joint ventures and made minority interest investments designed to increase its vertical integration, enhance customer service and increase efficiencies in its marketing and distribution in the United States and other markets. NOVA Chemicals' principal joint ventures and minority investments include NOVA Innovene, E3 and the Joffe Co-Generation Plant. NOVA Chemicals does not control these entities.

NOVA Chemicals' inability to control entities in which it invests may affect its ability to receive distributions from those entities or to fully implement its business plan. The incurrence of debt or entry into other agreements by an entity not under NOVA Chemicals' control may result in restrictions or prohibitions on that entity's ability to pay dividends or make other distributions to NOVA Chemicals. Even where these entities are not restricted by contract or by law from making distributions to NOVA Chemicals, NOVA Chemicals may not be able to influence the occurrence or timing of such distributions. In addition, if any of the other investors in a non-controlled entity fails to observe its commitments, that entity may not be able to operate according to its business plan or NOVA Chemicals may be required to increase its level of commitment. If any of these events were to transpire, NOVA Chemicals' business, results of operations and financial condition could be adversely affected.

Labour disputes could have an adverse effect on NOVA Chemicals' business.

As of December 31, 2005, NOVA Chemicals had approximately 3,600 employees globally. Approximately 500, or 14%, of its North American employees are represented by unions under four separate collective bargaining agreements. If NOVA Chemicals is unable to negotiate acceptable contracts with these unions upon expiration of an existing contract or other employees were to become unionized, NOVA Chemicals could experience work stoppages, a disruption in operations or higher labour costs, which could have an adverse effect on business, financial condition, results of operations and cash flow.

NOVA Chemicals' business is dependent on its intellectual property. If NOVA Chemicals' patents are declared invalid or its trade secrets become known to its competitors, its ability to compete may be adversely affected.

Proprietary protection of NOVA Chemicals' processes, apparatuses and other technology is important to NOVA Chemicals' business. Consequently, NOVA Chemicals relies on judicial enforcement for protection of its patents. While a presumption of validity exists with respect to patents issued to NOVA Chemicals in the United States and Canada, there can be no assurance that any of NOVA Chemicals' patents will not be challenged, invalidated or circumvented. Furthermore, if any pending patent application filed by NOVA Chemicals does not result in an issued patent, then the use of any such intellectual property by NOVA Chemicals' competitors could have an adverse effect on NOVA Chemicals' businesses, financial condition, results of operations or cash flow. Additionally, NOVA Chemicals' competitors or other third parties may obtain patents that restrict or preclude NOVA Chemicals' ability to lawfully produce or sell its products in a competitive manner, which could have an adverse effect on business, financial condition, results of operations or cash flow.

NOVA Chemicals also relies upon unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain its competitive position. While it is NOVA Chemicals' policy to enter into confidentiality agreements with its employees and third parties to protect its intellectual property, these confidentiality agreements may be breached and, consequently, may not provide meaningful protection for NOVA Chemicals' trade secrets or proprietary know-how, or adequate remedies may not be available in the event of an unauthorized use or disclosure of such trade secrets and know-how. In addition, others could obtain knowledge of such trade secrets through independent development or other access by legal means. Although NOVA Chemicals does not regard any single patent or trademark as being material to its operations as a whole, the failure of its patents or confidentiality agreements to protect its processes, apparatuses, technology, trade secrets or proprietary know-how could have an adverse effect on its business, financial condition, results of operations or cash flow.

DIVIDENDS

Historically, NOVA Chemicals has paid dividends on its common shares at the rate of Cdn. \$0.10 per quarter. In 2005, NOVA Chemicals paid U.S. \$27 million in dividends on its common shares. There are currently no material contractual restrictions on NOVA Chemicals' ability to declare and pay dividends on its common shares. The declaration and payment of dividends is at the discretion of the Board of Directors of NOVA Chemicals, which will consider earnings, capital requirements, the financial condition of NOVA Chemicals and

other relevant factors. It is, however, the Corporation's current intention to retain most of its earnings to support current operations and reduce debt, and to continue to pay dividends at historic levels.

NOVA Chemicals has paid the following dividends on its common shares during the preceding three years:

		Dividends per share		
		2005	2004	2003
Common Shares	Cdn. \$	0.40	\$ 0.40	\$ 0.40

DESCRIPTION OF CAPITAL STRUCTURE

NOVA Chemicals is authorized to issue an unlimited number of common shares, first preferred shares and second preferred shares. Currently, only common shares are issued and outstanding.

Common Shares

Each common share has one vote. The holders of the common shares are entitled to attend and vote at all meetings of shareholders except meetings of only the holders of another class or series of shares of the Corporation. In addition, subject to the preferential rights attaching to any shares of the Corporation ranking in priority to the common shares, the holders of the common shares are entitled to receive any dividends that may be declared by the Board of Directors on the common shares. Subject to the rights of the holders of shares of the Corporation ranking in priority to the common shares, the holders of the common shares are entitled to participate rateably amongst themselves and rateably with the holders of any shares ranking on a parity with the common shares in any distribution of the remaining property of the Corporation in the event of the dissolution, liquidation or winding-up of NOVA Chemicals or any other distribution of its property amongst its shareholders for the purposes of winding-up its affairs.

In May 1999, NOVA Chemicals' shareholders approved a shareholder rights plan where one right was issued for each outstanding common share. The rights remain attached to the shares and are not exercisable until the commencement or announcement of a takeover bid for NOVA Chemicals' common shares or until a person acquires 20% or more of NOVA Chemicals' common shares. The rights plan, as amended and restated, was reconfirmed by shareholders in April 2005. The plan expires in May 2009.

First Preferred Shares

Subject to the following and to applicable law, the first preferred shares as a class are not entitled to receive notice of, attend or vote at meetings of the shareholders of the Corporation. The first preferred shares may from time to time be issued in one or more series, and the Board of Directors may fix from time to time before such issue the number of first preferred shares that is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series of first preferred shares, including any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion, if any, and any sinking fund or other provisions. If issued, the first preferred shares of each series will, with respect to the payment of dividends and the distribution of assets on return of capital in the event of liquidation, dissolution or winding-up of NOVA

Chemicals, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation amongst its shareholders for the purpose of winding-up its affairs, have preference over the common shares, the second preferred shares and over any other shares of the Corporation ranking by their terms junior to the first preferred shares of the series. The first preferred shares of any series may also be given such other preferences over the common shares, the second preferred shares and any other shares ranking junior to such first preferred shares as may be established by the Board of Directors.

Second Preferred Shares

Subject to the following and to applicable law, the second preferred shares as a class are not entitled to receive notice of, attend or vote at meetings of the shareholders of the Corporation. The second preferred shares may from time to time be issued in one or more series, and the Board of Directors may fix from time to time before such issue the number of second preferred shares that is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series of second preferred shares, including any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion, if any, and any sinking fund or other provisions. The second preferred shares of each series will, with respect to the payment of dividends and the distribution of assets on return of capital in the event of liquidation, dissolution or winding-up of NOVA Chemicals, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation amongst its shareholders for the purpose of winding-up its affairs, have preference over the common shares and over any other shares of the Corporation ranking by their terms junior to the second preferred shares of the series. The second preferred shares of any series may also be given such other preferences over the common shares and any other shares ranking junior to such second preferred shares as may be established by the Board of Directors.

CREDIT RATINGS

NOVA Chemicals has outstanding 7% medium term notes due 2006, 7.4% medium term notes due 2009, 7.85% senior notes due 2010, 6.5% senior notes due 2012, senior floating rate (six-month LIBOR plus 3.125%) notes due 2013, 7.875% debentures due 2025 and 7.25% debentures due 2028. NOVA Chemicals' notes and debentures have been rated BB+ (negative) by Standard & Poor's Corporation ("S&P"), Ba2 (negative) by Moody's Investor Service, Inc. ("Moody's"), BBB (low) (stable) by Dominion Bond Rating Service ("DBRS") and BB+ (stable) by Fitch Ratings Ltd. ("Fitch") (each a "Rating Agency").

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Rating for debt instruments are presented in ranges by each of the Rating Agencies. The highest quality of securities are rated AAA, in the case of S&P, DBRS and Fitch, or Aaa, in the case of Moody's. The lowest quality of securities are rated D, in the case of S&P, DBRS and Fitch, or C, in the case of Moody's.

According to the S&P rating system, notes rated BB, B, CCC, CC, and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such notes will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. Notes rated BB are less vulnerable to nonpayment than other speculative issues. However, the obligor faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

According to the Moody's rating system, notes which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class. Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

According to the DBRS rating system, notes rated BBB are of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

Each rating category from AA to C is denoted by the subcategories high and low. The absence of either a high or low designation indicates the rating is in the middle of the category.

According to the Fitch rating system, notes rated BB indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time. However, business or financial alternatives may be available to allow financial commitments to be met. The ratings from AA to CCC may be modified by a plus (+) or minus (-) sign to show relative standing within the major rating categories.

The credit ratings accorded to the notes by the Rating Agencies are not recommendations to purchase, hold or sell the notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a Rating Agency in the future if in its judgement circumstances so warrant.

MARKET FOR SECURITIES

COMMON SHARES

NOVA Chemicals' outstanding common shares are listed on the Toronto and New York stock exchanges ("TSX" and "NYSE", respectively). The following table sets forth the price range and volume of securities traded on the TSX and NYSE for each month in 2005:

Month	TSX		NYSE	
	Price Range (\$Cdn.)	Volume	Price Range	Volume
January 2005	\$ 50.88 - 58.62	9.0 million	\$ 42.25 - 47.60	9.5 million
February 2005	\$ 55.01 - 62.63	8.1 million	\$ 44.19 - 50.91	7.1 million
March 2005	\$ 50.10 - 64.25	9.1 million	\$ 41.36 - 52.20	12.0 million
April 2005	\$ 39.60 - 53.09	11.8 million	\$ 31.64 - 43.74	14.6 million
May 2005	\$ 36.80 - 43.25	10.5 million	\$ 29.07 - 34.72	11.9 million
June 2005	\$ 36.65 - 43.11	12.7 million	\$ 29.75 - 34.78	10.0 million
July 2005	\$ 37.03 - 44.80	9.2 million	\$ 30.31 - 36.90	9.6 million
August 2005	\$ 37.75 - 43.78	9.1 million	\$ 31.76 - 36.44	7.1 million
September 2005	\$ 37.93 - 43.20	8.2 million	\$ 32.05 - 37.14	11.2 million
October 2005	\$ 40.71 - 45.07	7.8 million	\$ 34.62 - 38.45	11.1 million
November 2005	\$ 41.96 - 46.70	8.2 million	\$ 35.70 - 39.17	10.4 million
December 2005	\$ 38.60 - 45.80	9.6 million	\$ 33.13 - 39.81	13.7 million

Transfer Agents and Registrars

The transfer agent and registrar for NOVA Chemicals' common shares is CIBC Mellon Trust Company at its principal office in Calgary, Alberta.

DEBT SECURITIES

During 2005, NOVA Chemicals issued and sold \$400 million aggregate principal amount of senior floating rate (six-month LIBOR plus 3.125%) notes due 2013. NOVA Chemicals received approximately \$397 million of net proceeds from the sale of the notes (after deducting discounts to the initial purchasers and estimated offering expenses), of which approximately \$286 million was used to repay its obligations under accounts receivable securitization programs. NOVA Chemicals used the balance of the proceeds for general corporate purposes.

DIRECTORS AND OFFICERS

As a group, based on information provided to NOVA Chemicals by each director and executive officer, all directors and executive officers of NOVA Chemicals beneficially owned, directly or indirectly, or exercised control or direction over 792,559 common shares of NOVA Chemicals as at February 15, 2006, representing approximately .96% of the outstanding common shares.

DIRECTORS

The following table sets forth as of February 15, 2006, in alphabetical order, the name of each director of NOVA Chemicals, his or her residence, principal occupation(s) during the five preceding years and the period during which he or she has served as a director of NOVA Chemicals or its predecessors. The terms of office of all of the directors of NOVA Chemicals expire at the termination of the 2006 annual meeting, or until a successor is elected or appointed. Each of the directors has been nominated for election to serve as a director for a further one year period ending at the termination of the 2007 annual meeting.

Name and Residence	Period during which a director of NOVA Chemicals or its predecessor	Principal Occupation During the Preceding Five Years(1)
JERALD ALLEN BLUMBERG(2)(3)(4) Colorado, U.S.A.	Since February 15, 2000	Retired Executive Vice President of E.I. du Pont de Nemours and Company (science company)
DR. FRANK PETER BOER(3)(5) Florida, U.S.A.	Since February 21, 1991	President and Chief Executive Officer, Tiger Scientific Inc. (science and technology, consulting and investments)
JACQUES BOUGIE, O.C.(5)(6)(7) Québec, Canada	Since June 14, 2001	Retired President and Chief Executive Officer, Alcan Inc. (international aluminum company). Prior to June 2001, President and Chief Executive Officer, Alcan Inc.
DR. JOANNE VANISH CREIGHTON(3)(5) Massachusetts, U.S.A.	Since June 14, 2001	President and Professor of English, Mount Holyoke College (higher education)
ROBERT EMMET DINEEN, JR.(2)(6) New York, U.S.A.	Since July 2, 1998	Of counsel, Shearman & Sterling LLP, Attorneys-at-Law. Prior to January 2006, Senior Partner, Shearman & Sterling LLP
LOUIS YVES FORTIER, C.C., Q.C.(2)(5) Québec, Canada	Since July 2, 1998	Chairman and Senior Partner, Ogilvy Renault, Barristers and Solicitors
KERRY LLOYD HAWKINS(3)(6) Manitoba, Canada	Since July 2, 1998	Retired President of Cargill Limited and Chief Executive Officer of Canadian operations, Cargill Limited (grain handling, transportation and processing of agricultural products)
JEFFREY MARC LIPTON Pennsylvania, U.S.A.	Since April 18, 1996	President and Chief Executive Officer, NOVA Chemicals
ARNOLD MARTIN LUDWICK(5)(6) Québec, Canada	Since February 15, 2000	Retired Deputy Chairman, Claridge Inc. (investment holding company). Prior to December 2002, Deputy Chairman, Claridge Inc.
JAMES MALCOLM EDWARD (TED) NEWALL, O.C.(2)(7) Alberta, Canada	Since August 13, 1991	Chairman of the Board, NOVA Chemicals
JANICE GAYE RENNIE, F.C.A.(3)(6) Alberta, Canada	April 1991 – December 2004; since January 1, 2006	Independent investor, director and business advisor. From September 2004 to September 2005, Senior Vice President of Human Resources and Organizational

Effectiveness, EPCOR Utilities Inc. (energy and energy-related services and products). Prior to September 2004, Principal, Rennie and Associates (investment management)

JAMES MARK STANFORD, O.C.(2)(3) Alberta, Canada	Since December 3, 1999	President, Stanford Resource Management Inc. (investment management)
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Notes:

- (1) Information with respect to the principal occupations of each director is based on information furnished to NOVA Chemicals.
- (2) Member of the Corporate Governance Committee of the Board of Directors.
- (3) Member of the Human Resources Committee of the Board of Directors.
- (4) Mr. Blumberg was formerly a director of Burlington Industries Inc., which declared bankruptcy under Chapter 11 of the U.S. Bankruptcy Code in 2001.
- (5) Member of the Public Policy and Responsible Care Committee of the Board of Directors.
- (6) Member of the Audit, Finance and Risk Committee of the Board of Directors.
- (7) Messrs. Bougie and Newall serve as directors of Novelis Inc. (“Novelis”), and in such capacity are subject to management cease trade orders issued by certain of the Canadian provincial securities administrators against the directors and officers of Novelis by reason of Novelis’ default in filing its interim unaudited financial statements for the period ended September 30, 2005. The cease trade orders preclude Messrs. Bougie and Newall from trading in securities of Novelis until the financial statements are filed.

EXECUTIVE OFFICERS

The following table sets forth, in alphabetical order, the name of each executive officer of NOVA Chemicals, his residence, present positions within NOVA Chemicals and his principal occupations during the five preceding years.

Name and Residence	Present Principal Occupation	Principal Occupation During The Preceding Five Years(1)
JEFFREY MARC LIPTON Pennsylvania, U.S.A.	President and Chief Executive Officer	President and Chief Executive Officer, NOVA Chemicals
LAWRENCE ALLAN MACDONALD Pennsylvania, U.S.A.	Senior Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer, NOVA Chemicals; prior to October 2001, Senior Vice President, Manufacturing East, NOVA Chemicals
JACK STEPHEN MUSTOE Pennsylvania, U.S.A.	Senior Vice President, Legal, General Counsel and Corporate Secretary	Senior Vice President, Legal, General Counsel and Corporate Secretary, NOVA Chemicals; prior to April 2004, Senior Vice President, Legal and General Counsel, NOVA Chemicals
CHRISTOPHER DANIEL PAPPAS Pennsylvania, U.S.A.	Senior Vice President and President, Styrenics	Senior Vice President and President, Styrenics, NOVA Chemicals
ALBERT TERENCE POOLE Alberta, Canada	Executive Vice President, Corporate Strategy and Development	Executive Vice President, Corporate Strategy and Development, NOVA Chemicals
DALE HOWARD SPIESS Pennsylvania, U.S.A.	Senior Vice President and President, Olefins/Polyolefins	Senior Vice President and President, Olefins/ Polyolefins, NOVA Chemicals; prior to November 2001, Senior Vice President, Polyethylene Sales and Marketing, NOVA Chemicals
JOHN LAW WHEELER Pennsylvania, U.S.A.	Senior Vice President and Chief Information Officer	Senior Vice President and Chief Information Officer, NOVA Chemicals

Note:

- (1) Information provided with respect to the past principal occupations of each executive officer is based on information furnished to NOVA Chemicals.

REPORT OF THE AUDIT, FINANCE AND RISK COMMITTEE

During 2005 and until the Board of Directors meeting in February 2006, the Audit, Finance and Risk Committee (“AFR Committee”) was composed of Messrs. Hawkins (Chairman), Blumberg, Bougie, Dineen and Ludwick. At its meeting in February 2006, the Board of Directors changed the composition of the Audit, Finance and Risk Committee to include Messrs. Hawkins (Chairman), Bougie, Dineen and Ludwick and Mrs. Rennie. The AFR Committee is governed by a mandate, a copy of which is attached as Annex 1 to this Annual Information Form and which can also be accessed at www.novachemicals.com. NOVA Chemicals has also adopted a Code of Ethics for the Chief Executive Officer and senior financial officers, including the Chief Financial Officer, which can be accessed at www.novachemicals.com. All of the AFR Committee members are “independent” as that term is defined by the Canadian securities administrators’ Multilateral Instrument 52-110 – Audit Committees (“Multilateral Instrument 52-110”), the U.S. Securities and Exchange Commission (the “SEC”) and the New York Stock Exchange listing standards. All members are considered to be “financially literate” for purposes of Multilateral Instrument 52-110, and each of Messrs. Hawkins, Bougie, and Ludwick and Mrs. Rennie have been determined to be an “audit committee financial expert” in accordance with SEC rules. Mrs. Rennie serves on the audit committees of three other public companies. The Board has determined that such service will not impair her ability to serve effectively on the AFR Committee of NOVA Chemicals.

The AFR Committee assists the Board of Directors in fulfilling its oversight responsibilities relating to: the integrity of the Corporation’s financial statements; the financial reporting process; the systems of internal accounting and financial controls; the independent auditor’s qualifications and independence; the performance of the internal and external auditors; risk management processes; pension and savings plans; and compliance by the Corporation with ethics policies and legal and regulatory requirements. In fulfilling its oversight responsibilities, the AFR Committee reviewed the audited financial statements with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgements and the clarity of disclosures in the financial statements. The AFR Committee reviewed with Ernst & Young LLP, the independent auditors, their judgements as to the quality, not just the acceptability, of NOVA Chemicals’ accounting principles and such other matters as are required to be discussed with the AFR Committee under generally accepted auditing standards, including the matters to be discussed in accordance with Statement of Auditing Standards No. 61. In addition, the AFR Committee has discussed with the independent auditors the auditors’ independence from management and NOVA Chemicals including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 and concluded that Ernst & Young LLP is independent in accordance with this standard and the Canadian standards for auditor independence.

The AFR Committee discussed with NOVA Chemicals’ internal and independent auditors the overall scope and plans for their respective audits. The AFR Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of NOVA Chemicals’ internal controls, and the overall quality of NOVA Chemicals’ financial reporting.

In reliance on the reviews and discussions referred to above, the AFR Committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Annual Report on Form 40-F for the year ended December 31, 2005 for filing with the SEC.

BY THE AUDIT, FINANCE AND RISK COMMITTEE

K.L. Hawkins (Chairman)

R.E. Dineen

J.A. Blumberg

A.M. Ludwick

J. Bougie

The above report of the AFR Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Information Form into any filing under the U.S. Securities Act of 1933 or the

U.S. Securities Exchange Act of 1934, except to the extent that NOVA Chemicals specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

Fees Billed by Ernst & Young LLP

The following fees were billed to NOVA Chemicals by Ernst & Young LLP and approved by the Board of Directors during the prior two years:

	<u>2005</u>	<u>2004</u>
Audit Fees	\$ 2,808,386	\$ 2,928,383
Audit-Related Fees	233,308	290,750
Tax Fees	1,758,841	2,331,567
All Other Fees	<u>1,982</u>	<u>975</u>
Total Fees	<u>\$ 4,802,517</u>	<u>\$ 5,551,675</u>

Audit fees include fees for the audit of the consolidated financial statements of NOVA Chemicals, the external auditor's reporting on the effectiveness of internal controls over financial reporting, statutory audits of subsidiaries, review of quarterly reports, provision of consent letters and comfort letters in connection with certain regulatory matters, review of prospectuses and French translation of the consolidated financial statements. Fee amounts are based on invoices relating to the 2005 year end audit that have been received and those expected to be billed.

Audit-related fees include fees for services that are related to the audit of the consolidated financial statements. These services include the audit of financial statements for NOVA Chemicals' pension plans and non-statutory audits of subsidiaries and affiliates, and consultation on accounting and disclosure matters.

Tax fees include fees for the preparation of income tax returns, value-added tax returns, and customs filings for NOVA Chemicals and its subsidiaries, preparation of income tax returns and provision of tax advice to expatriate employees, and advice on tax-related matters.

All other fees consisted primarily of online data base services.

Additional Information Relating to the Audit, Finance and Risk Committee

As noted above, the AFR Committee is composed of Messrs. Hawkins, Bougie, Dineen and Ludwick and Mrs. Rennie. Mr. Hawkins, Chairman of the AFR Committee, graduated from North Dakota State University with a degree in business economics. In December 2005, he retired as the President of Cargill Limited and Chief Executive Officer of its Canadian operations. In his capacity at Cargill Limited, Mr. Hawkins had supervisory responsibility for the finance function. Mr. Bougie graduated from the University of Montreal with a law degree and with a degree in business administration. Mr. Bougie is the past President and Chief Executive Officer of Alcan Inc. In his capacity at Alcan Inc., Mr. Bougie had supervisory responsibility for the finance function. Mr. Dineen graduated cum laude from Syracuse University with an LL.B. and from Brown University with a B.A. He is of counsel to the law firm of Shearman & Sterling LLP and has extensive expertise in public finance transactions and specializes in U.S. and international private banking and financial transactions. Mr. Ludwick graduated from the University of Manitoba with a B.A., was a member of the Institute of Chartered Accountants of Manitoba from 1962-2000, and earned his M.B.A. from the Harvard University Graduate School of Business Administration. Mr. Ludwick is the retired President, Chief Executive Officer and Deputy Chairman of Claridge Inc. Mrs. Rennie graduated with distinction from the University of Alberta with a Bachelor of Commerce and has been a member of the Canadian Institute of Chartered Accounts and the Institute of Chartered Accountants of Alberta since 1981. Mrs. Rennie was elected a fellow of the Institute of Chartered Accountants of Alberta in 1998. Mrs. Rennie has obtained extensive financial expertise through her education and work experiences, including working as a Chartered Accountant for Ernst &

Young LLP (Chartered Accountants) from 1979 to 1985 and as a financial officer of several privately held companies. In addition, Mrs. Rennie has chaired or served on the audit committees of several other publicly traded companies, including West Fraser Timber Co. Ltd., EPCOR Utilities Inc., Canadian Hotel Income Properties Real Estate Investment Trust and Matrikon Inc.

The Board of Directors approves, on the recommendation of the AFR Committee, all fees paid to the external auditors. In addition, in accordance with applicable rules regarding audit committees, including Multilateral Instrument 52-110, the AFR Committee reviews and approves (in advance) the scope and related fees for all non-audit services which are to be provided by the external auditors. In considering whether to approve non-audit services, the AFR Committee considers whether the provision of these non-audit services may impact the objectivity and independence of the external auditor and, in respect of non-audit services provided by Ernst & Young LLP in 2005, the AFR Committee has concluded that it does not.

INTERESTS OF EXPERTS

The audited consolidated financial statements of NOVA Chemicals as at and for the years ended December 31, 2005, 2004 and 2003 filed with Canadian securities administrators were audited by Ernst & Young LLP, Chartered Accountants.

The partners of Ernst & Young LLP, Chartered Accountants, the auditors of NOVA Chemicals, beneficially own, directly or indirectly, no securities of NOVA Chemicals.

ADDITIONAL INFORMATION

Additional information relating to NOVA Chemicals is filed with Canadian securities administrators. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of NOVA Chemicals' securities and securities authorized for issuance under equity compensation plans, is contained in NOVA Chemicals' Management Proxy Circular with respect to the 2006 Annual Meeting of Shareholders. Additional financial information is provided in the audited consolidated financial statements of NOVA Chemicals as at and for the years ended December 31, 2005, 2004 and 2003, together with the auditors' report thereon, and management's discussion and analysis included in NOVA Chemicals' 2005 Annual Report. All of this information can be accessed through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Copies of Board and Committee mandates and other corporate governance documents are available at www.novachemicals.com. In addition, the AFR Committee Mandate is attached to this Annual Information Form as Annex 1.

ANNEX 1

AUDIT, FINANCE AND RISK COMMITTEE MANDATE

Creation

Pursuant to Article Three of the General By-law of NOVA Chemicals Corporation (the "Corporation"), a committee of the directors to be known as the "Audit, Finance and Risk Committee" (the "Committee") is established.

Purpose

The Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the external auditor's qualifications and independence; the performance of the internal and external auditors; risk management processes; pension and savings plans; and compliance by the Corporation with ethics policies and legal and regulatory requirements.

Committee Membership

- Composition of the Committee
- Appointment and Term of Members
- Financial Literacy
- Independence
- Appointment of Chairman and Secretary
- Use of Outside Experts
- a) The Committee must be composed of a minimum of four directors, none of whom may be an officer of the Corporation;
 - b) The members of the Committee must be appointed or reappointed at the organizational meeting of the Board immediately following each Annual Meeting of the shareholders of the Corporation. Each member of the Committee continues to be a Committee member until a successor is appointed, unless he or she resigns or is removed by the Board or ceases to be a director of the Corporation. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board and shall be filled by the Board if the membership of the Committee is less than four directors as a result of the vacancy;
 - c) Each member of the Committee must be financially literate, as the Board interprets such qualification in its business judgment, or must become financially literate within a reasonable period of time after appointment to the Committee. At least one member of the Committee shall be designated as an “audit committee financial expert”, as defined by applicable legislation and regulation. The designation of a person as an audit committee financial expert does not impose on such person any duties, obligation, or liability that are greater than the duties, obligations, or liability imposed on such person as a member of the Committee and the Board in the absence of such designation;
 - d) Each member of the Committee shall be “independent” as defined in the applicable existing listing standards, provided that the Board may appoint one non-independent member to the Committee, if the Board determines, in its business judgment, that it is in the best interests of the Corporation and its shareholders to appoint such non-independent member;
 - e) The Board or, if it does not do so, the members of the Committee, must appoint one of their members as a Chairman. If the Chairman of the Committee is not present at any meeting of the Committee, the Chairman of the meeting must be chosen by the Committee from the Committee members present. The Chairman presiding at any meeting of the Committee has a deciding vote in case of deadlock. The Committee must also appoint a Secretary who need not be a director;
 - f) Where Committee members believe that, to properly discharge their fiduciary obligations to the Corporation, it is necessary to obtain the advice of independent legal, accounting, or other experts, the Chairman shall, at the request of the Committee, engage the necessary experts at the Corporation’s expense. The Board must be kept apprised of both the selection of the experts and the experts’ findings through the Committee’s regular reports to the Board;

Meetings

- Time, Place and
- a) The time, place and procedure of Committee meetings shall be determined by

Procedure of Meetings

- Quorum
- Quarterly Meetings
- Notice of Meetings
- Waiver of Notice
- Attendance of External Auditors
- Committee members, provided that:
- i) a quorum for meetings must be two members, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to communicate with each other;
 - ii) the Committee must meet at least quarterly;
 - iii) notice of the time and place of every meeting must be given in writing or by facsimile to each member of the Committee, the internal auditors and the external auditors of the Corporation at least 24 hours prior to the Committee meeting;
 - iv) a member may waive notice of a meeting, and attendance at the meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called;
 - v) the external auditors are entitled to attend each meeting at the Corporation’s expense;

- Calling a Meeting vi) a meeting of the Committee may be called by the Secretary of the Committee on the direction of the Chairman or Chief Executive Officer of the Corporation, by any member of the Committee, the external auditors or internal auditors;
- Committee Determines Attendees vii) notwithstanding the provisions of this paragraph, the Committee has the right to request any officer or employee of the Corporation or the Corporation's outside counsel or external auditor to be present or not present at any part of the Committee meeting; and
- Reports to the Board b) The Committee shall make regular reports to the Board.

Duties and Responsibilities of the Committee

1. Financial Statements and Disclosure

- Annual Report and Disclosures* a) Review and discuss with management, the external auditor and recommend for approval by the Board, the Corporation's annual report, annual information form (including the audited annual financial statements and disclosures made in management's discussion and analysis), Management Information Circular (including the report of the Committee), any reports on adequacy of internal controls, all financial statements in prospectuses or other offering documents, and any financial statements required by regulatory authorities;
- Prospectuses* b) Review and discuss with management and the external auditor, and recommend for approval by the Board, any prospectuses, but excluding any prospectus supplements issued under a shelf prospectus of the Corporation, and any pricing supplements issued under a medium term note prospectus supplement of the Corporation;
- Quarterly Interim Reports and Disclosures c) Review and discuss with management and the external auditor the Corporation's interim reports, including the quarterly financial statements and press releases on quarterly and year end financial results, prior to public release;
- Accounting Policies and Estimates d) Review and approve all accounting policies that would have a significant effect on the Corporation's financial statements, and any changes to such policies. This review will include a discussion with management and the external auditor concerning:
 - i) any areas of management judgment and estimates that may have a critical effect on the financial statements;
 - ii) the effect of using alternative accounting treatments which are acceptable under Canadian and US GAAP;
 - iii) the appropriateness, acceptability, and quality of the Corporation's accounting policies; and
 - iv) any material written communication between the external auditor and management, such as the annual management letter and the schedule of unadjusted differences;
- Financial Information and Earnings Guidance e) Discuss with management the use of "pro forma" or "adjusted non-GAAP information" in the Corporation's press releases, as well as approval in principle of the process to provide financial information and earnings guidance to analysts and rating agencies;

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- Regulatory and Accounting Initiatives f) Discuss with management and the external auditor the effect of regulatory and accounting initiatives as well as the use of off-balance sheet structures on the Corporation's financial statements;
- Litigation g) Discuss with the Corporation's General Counsel any litigation, claim or other contingency (including tax assessments), that could have a material effect on the financial position or operating results of the Corporation, and the manner in which these matters have been disclosed in the financial statements;
- Financing Plans h) Review the financing plans and objectives of the Corporation, as received from and discussed with management;

2. Risk Management and Internal Control

- Risk Management Policies* a) Review and recommend for approval by the Board changes considered advisable, after consultation with officers of the Corporation, to the Corporation's policies relating to:
 - i) the risks inherent in the Corporation's businesses, facilities and strategic direction;

- ii) the overall risk management strategies (including insurance coverage);
- iii) the risk retention philosophy and the resulting uninsured exposure of the Corporation; and
- iv) the loss prevention policies, risk management and hedging programs, and standards and accountabilities of the Corporation in the context of competitive and operational considerations;

Adequacy of Internal Controls b) Review at least quarterly, the results of management' s evaluation of the adequacy and effectiveness of internal controls within the Corporation in connection with the certifications signed by the CEO and CFO. Management' s evaluation will include a review of:

- i) policies and procedures to ensure completeness and accuracy of information disclosed in the quarterly and annual reports, prevent earnings management and detect financial statement misstatements due to fraud and error; and
- ii) internal control recommendations of the internal and external auditors, including any special steps taken to address material control deficiencies and any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation' s internal controls;

Risk Management Processes c) Review with management at least annually the Corporation' s processes to identify, monitor, evaluate, and address important enterprise-wide business risks;

Financial Risk Management d) Review with management activity related to management of financial risks to the Corporation;

3. External Auditors

Appointment and Remuneration of External Auditors* a) Review and recommend to the Board in accordance with the ultimate authority and responsibility of the Committee and the Board,

- i) the selection, evaluation, reappointment or, where appropriate, replacement of external auditors;
- ii) the nomination and remuneration (including non-audit fees) of external auditors to be appointed at each Annual Meeting of Shareholders;

b) Resolve any disagreements between management and the external auditor regarding financial reporting;

c) The external auditors shall report directly to the Committee;

Independence of External Auditors d) Review a formal written statement requested at least annually from the external auditor describing:

- i) the firm' s internal quality control procedures;
- ii) any material issues raised by the most recent internal quality control review, peer review of the firm or any investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm;
- iii) any steps taken to deal with any such issues; and

iv) all relationships between the external auditors and the Corporation;

The Committee will actively engage in a dialogue with the external auditor with respect to whether the firm' s quality controls are adequate, and whether any of the disclosed relationships or non-audit services may impact the objectivity and independence of the external auditor. The Committee shall present its conclusion with respect to the independence of the external auditor to the Board;

Rotation of Senior Audit Partner e) Ensure the rotation of senior audit personnel who have primary responsibility for the audit work, as required by law;

Remuneration of External Auditors f) Review and approve (in advance) the scope and related fees for all auditing services and non-audit services permitted by regulation which are to be provided by the external auditor for non-audit services which are approved by the Committee prior to completion of the audit;
The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit

services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Committee at its next scheduled meeting;

- Restrictions on Hiring Employees of External Auditor Meeting with Auditors and Management
- g) Ensure the establishment of policies relating to the Corporation's hiring of employees or former employees of the external auditor, if such individuals have participated in the audit of the Corporation, as required by law;
 - h) The Committee should meet with the external and internal auditors without management present and discuss any issues related to performance of the audit work, any restrictions, and any significant disagreement with management. The Committee should also meet separately with management to discuss any issues raised by the auditors;

4. Internal Audit

- Mandate and Appointment of Internal Audit
- a)
 - i) review and approve the mandate of the internal audit function including internal audit's purpose, authority, and responsibility,
 - ii) approve whether the internal audit activity should be outsourced and if outsourced approve the supplier, and
 - iii) review the appointment and replacement of the senior internal audit executive, if there is no outsourced provider;
 - b) Internal Audit Plans Review and approve the annual Internal Audit Plan and objectives, the degree of coordination with the external auditor, and the extent to which the planned audit scope can be relied upon to detect weaknesses in internal controls, fraud, and other illegal acts;
 - c) Internal Audit Responsibilities Discuss with management and the external auditor the internal audit department's responsibilities, budget, and staffing and any recommended changes in the scope of internal audit;
 - d) Audit Findings and Recommendations Review the significant control issues identified in internal audit reports issued to management and the responses and actions taken by management to address weaknesses in controls;

5. Pension and Savings Plans

- Statements of Pension Investment Policy and Procedures
- a) Review and approve the Corporation's Statement of Investment Principles and Beliefs, and the Statements of Investment Procedures;
- Pension Funding
- b) Approve funding decisions for the retirement plans in accordance with actuarial reports and legal requirements in the applicable jurisdictions;
- Amendments to Plans for Changes in Benefit Levels
- c) Review and approve amendments to savings and retirement plans for changes in benefits provided under the plans, other than administrative or legislative changes;
- Appointment of Auditors, Actuaries,
- d) Approve the recommendations of the officers of the Corporation regarding the reappointment or appointment of auditors and recommendations of the Pension and

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- and Investment Managers
- Savings and Retirement Plan Financial Statements
- Pension and Savings Plans Committees Reports*
- Mandates of the Pension and Savings Plan Committees
- e) Savings Plan Committees regarding appointment of investment managers and actuaries of the savings plans and retirement plans, as appropriate;
 - f) Receive confirmation from management that the annual financial statements of the savings plans, retirement plans, and related trust funds, have been prepared and filed as required by applicable regulations;
 - g) Review and recommend for approval by the Board, the annual Pension Committee Reports on the operation and administration of savings and retirement plans and trust funds;
 - h) Review and approve the mandates of the Pension and Savings Plans Committees (to be approved jointly with the Human Resources Committee of the Board), any amendments thereto, and the appointment or re-appointment of pension and savings plan committee members as provided in the mandates;

and Appointment of Members		
Delegation to the Pension and Savings Plan Committees	h)	Approve the delegation of certain responsibilities to members of the Pension and Savings Plans Committees;
Actuarial Reports and Funding Assumptions	i)	Review the actuarial reports on retirement plans as required by applicable regulations, any special actuarial reports, and the funding assumptions to be used in preparing the reports;
Accounting Assumptions	j)	Review and approve, at least annually, the accounting assumptions used for disclosure of liabilities for retirement plans and post-retirement liabilities;
6. General Duties		
Business Conduct Policy Compliance	a)	Obtain reports at least annually from the Chief Compliance Officer on the Corporation' s and its subsidiary/foreign affiliated entities' conformity with applicable legal and ethical compliance programs (e.g., the Corporation' s Business Conduct Policy);
Code of Ethics	b)	Ensure that the Corporation has adopted a code of ethics for senior financial officers and review at least annually a report from the CEO and CFO of their assessment of the ethical culture and control environment in the finance function;
Compliance Reporting Process	c)	Ensure that a process and procedure has been established by the Corporation for receipt, retention and treatment of complaints regarding non-compliance with the Corporation' s Business Conduct Policy, violations of laws or regulations, or concerns regarding accounting, internal accounting controls or auditing matters. The Committee must ensure that procedures for receipt of complaints allow for confidential, anonymous submission of complaints from employees;
Regulatory Matters	d)	Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Corporation' s compliance policies;
Mandate Review*	e)	Review and recommend for approval changes considered advisable based on the Committee' s assessment of the adequacy of this Mandate. Such review will occur on an annual basis and the recommendations, if any, will be made to the Board in accordance with the procedure set out in the Corporate Governance Committee mandate;
Annual Performance Evaluation	f)	The Committee will conduct an annual evaluation of its performance as a committee and report the results to the Board.

* Board approval required

CONSOLIDATED SIX-YEAR REVIEW

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS, RATIOS AND MISCELLANEOUS DATA)

	2005	2004	2003	2002	2001	2000
Operating Results						
Revenue	\$ 5,616	5,270	3,949	3,091	3,194	3,916
Operating income (loss)(1)	\$ (4)	264	(75)	(71)	(195)	414
Net income (loss)(2)	\$ (104)	252	(1)	(112)	(161)	266
Total assets	\$ 5,217	5,047	4,413	4,154	4,359	4,754
Capitalization						
Current bank loans	\$ 1	–	–	3	14	28
Long-term debt(2)	2,038	1,714	1,682	1,793	2,089	2,004
Less: Cash and cash equivalents(3)	(231)	(310)	(277)	(59)	(88)	(27)
Net debt(1)	\$ 1,808	1,404	1,405	1,737	2,015	2,005
Shareholders' equity	1,219	1,493	1,309	980	1,033	1,345
Total capitalization net of cash and cash equivalents	\$ 3,027	2,897	2,714	2,717	3,048	3,350
Cash Flow Data						
Capital expenditures (net of project advances)	\$ 419	227	119	70	168	440
Cash from (used in) operations	\$ 228	334	(26)	314	239	314
Net debt additions (repayments)	\$ 317	15	(157)	(307)	68	(72)
EBITDA(1)	\$ 454	569	238	215	62	720
Data per Common Share						
Net income (loss)						
– Basic	\$ (1.26)	2.91	(0.02)	(1.30)	(1.88)	3.00
– Diluted	\$ (1.26)	2.71	(0.02)	(1.30)	(1.88)	2.84
Common shareholders' equity at year-end(1), (4)	\$ 14.81	19.13	15.76	12.40	13.05	16.52
Ratios						
Return (loss) on average common equity(5)	(7.7)%	19.1%	(0.1)%	(11.1)%	(13.5)%	19.5%
Net debt to total capitalization(1)	59.7%	48.5%	51.8%	63.9%	66.1%	59.9%
Funds flow coverage of financial charges(1), (6)	3.0x	4.5x	1.7x	1.8x	1.2x	4.2x
Miscellaneous Data						
Employees at year-end	3,600	4,100	4,300	4,300	4,600	4,700
Closing share price						
– TSX (\$Cdn)	\$ 38.81	56.70	35.04	28.89	30.75	28.10
– NYSE (\$U.S.)	\$ 33.40	47.30	26.95	18.30	19.27	18.81
Dividends and distributions						
Common shares	\$ 27	28	25	23	23	23

(1) In addition to providing measures in accordance with Canadian GAAP, NOVA Chemicals presents certain supplemental measures. These measures do not have any standardized meaning prescribed by Canadian GAAP, and are, therefore, unlikely to be comparable to measures presented by other companies.

(2) On January 1, 2005, NOVA Chemicals adopted new Canadian Accounting Standards, which require certain preferred shares and securities to be classified as long-term debt as opposed to equity. Related dividends and distributions have been reclassified to interest expense, thereby reducing net income. Prior periods have been restated accordingly. Long-term debt includes current portion of long-term debt.

- (3) As a result of the reclassification of the preferred shares to long-term debt (see (2)), cash and cash equivalents include restricted cash associated with the preferred shares, which is classified in investments and other assets in the Consolidated Balance Sheets. Prior periods have been restated accordingly.
- (4) Common shareholders' equity divided by outstanding common shares. Years prior to 2005 assume the retractable preferred shares were exchanged for common shares, to a maximum of 8.5 million. Effective September 2005, the preferred shares are no longer convertible to common shares.
- (5) Net income (loss) divided by average common equity.
- (6) Funds flow from operations plus interest expense (net) less interest income divided by gross interest expense. As a result of the changes noted in (2), prior periods have been restated.

MANAGEMENT' S REPORT

To the Shareholders of NOVA Chemicals Corporation

The Consolidated Financial Statements and other financial information included in this annual report have been prepared by management. It is management' s responsibility to ensure that sound judgment, appropriate accounting principles and methods and reasonable estimates have been used in the preparation of this information. They also ensure that all information presented is consistent.

Management is also responsible for establishing and maintaining internal controls and procedures over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy that applies to all employees. In addition, the company has adopted a code of ethics that applies to its Chief Executive Officer, Chief Financial Officer and Corporate Controller. The code of ethics can be viewed on NOVA Chemicals' website (www.novachemicals.com). Management believes the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports. Management also believes that NOVA Chemicals' operations are conducted in conformity with the law and with a high standard of business conduct.

Each year we document the design and operating effectiveness of internal control over external financial reporting. The results of this work have been subjected to audit by the shareholders' auditors. As at year end, we have reported that internal control over financial reporting is effective. In compliance with Section 302 of the United States Sarbanes-Oxley Act of 2002, NOVA Chemicals' Chief Executive Officer and Chief Financial Officer will provide to the Securities and Exchange Commission a certification related to NOVA Chemicals' annual disclosure document in the U.S. (Form 40-F). The same certification will be provided to the Canadian Securities Administrators.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit, Finance and Risk Committee. The Committee, which consists solely of independent directors, reviews the financial statements and annual report and recommends them to the Board for approval. The Committee meets with management, internal auditors and external auditors to discuss internal controls, auditing matters, and financial reporting issues. Internal and external auditors have full and unrestricted access to the Audit, Finance and Risk Committee. The Committee also recommends a firm of external auditors to be appointed by the shareholders.



February 15, 2006
Calgary, Canada

**MANAGEMENT' S ANNUAL REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

The following report is provided by management in respect of NOVA Chemicals' internal control over financial reporting (as defined in Rules 13a-15f and 15d-15f under the United States Securities Exchange Act of 1934):

1. NOVA Chemicals' management is responsible for establishing and maintaining adequate internal control over financial reporting for NOVA Chemicals.
2. Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of NOVA Chemicals' internal control over financial reporting. Management believes that the COSO framework is a suitable framework for its evaluation of NOVA Chemicals' internal control over financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of NOVA Chemicals' internal controls, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of NOVA Chemicals' internal controls are not omitted and is relevant to an evaluation of internal control over financial reporting.
3. NOVA Chemicals' Consolidated Financial Statements include the accounts of the NOVA Innovene joint venture via proportionate consolidation in accordance with Canadian GAAP. Management has been unable to assess the effectiveness of internal control within the joint venture due to the fact that NOVA Chemicals does not have the ability to dictate or modify the controls of the joint venture and does not have the ability, in practice, to assess those controls. Management' s conclusion regarding the effectiveness of internal controls does not extend to the internal controls of the joint venture. The 2005 Consolidated Financial Statements of NOVA Chemicals included \$262 million and \$162 million of total and net assets, respectively, as of December 31, 2005, and \$128 million and \$28 million of revenues and net loss, respectively, for the year then ended.
4. Management has assessed the effectiveness of NOVA Chemicals' internal control over financial reporting, as at December 31, 2005, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses in NOVA Chemicals' internal control over financial reporting that have been identified by management.
5. Ernst & Young LLP, who has audited the Consolidated Financial Statements of NOVA Chemicals for the year ended December 31, 2005, has also issued a report on management' s assessment of internal controls over financial reporting under Auditing Standard No. 2 of the Public Company Accounting Oversight Board (United States). This report is located on Page 67 of this Annual Report.



Jeffrey M. Lipton
President & Chief Executive Officer



Larry A. MacDonald
Senior Vice President & Chief Financial Officer

February 15, 2006

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Under Canadian Generally Accepted Auditing Standards and the Standards of the Public Company Accounting Oversight Board (United States)

To the Shareholders of NOVA Chemicals Corporation


We have audited the Consolidated Balance Sheets of NOVA Chemicals Corporation as at December 31, 2005, 2004, and 2003, and the Consolidated Statements of Income (Loss) and Reinvested Earnings and Cash Flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, in 2005, the Corporation changed its method of accounting for financial instruments with characteristics of both debt and equity, and for the measurement date for reporting related to defined benefit plans.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of NOVA Chemicals Corporation as at December 31, 2005, 2004, and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian Generally Accepted Accounting Principles.

We have also audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), the effectiveness of NOVA Chemicals Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2006, expressed an unqualified opinion thereon.



Ernst & Young LLP
Chartered Accountants

February 15, 2006
Calgary, Canada

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

To the Shareholders of NOVA Chemicals Corporation

We have audited management's assessment, included on page 65 of this annual report, that NOVA Chemicals Corporation (NOVA Chemicals) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). NOVA Chemicals' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Generally Accepted Accounting Principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the NOVA Innovene joint venture, included in NOVA Chemicals' 2005 Consolidated Financial Statements and constituting \$262 million and \$162 million of total and net assets, respectively, for the year ended December 31, 2005, and \$128 million and \$28 million of revenues and net loss, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting at the joint venture because NOVA Chemicals does not have the ability to dictate or modify the controls of the joint venture, nor the ability, in practice, to assess those controls. Our audit of internal control over financial reporting of NOVA Chemicals did not include an evaluation of the internal controls over financial reporting of NOVA Innovene.

In our opinion, management's assessment that NOVA Chemicals maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, NOVA Chemicals maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of NOVA Chemicals as at December 31, 2005, 2004 and 2003 and the Consolidated Statements of Income (Loss) and Reinvested Earnings and Cash Flows for each of the years in the three-year period ended December 31, 2005, and our report dated February 15, 2006, expressed an unqualified opinion thereon.

Ernst & Young LLP
Chartered Accountants

February 15, 2006
Calgary, Canada

**CONSOLIDATED STATEMENTS OF INCOME (LOSS)
AND REINVESTED EARNINGS**

YEAR ENDED DECEMBER 31 (MILLIONS OF U.S. DOLLARS, EXCEPT NUMBER OF SHARES AND PER SHARE AMOUNTS)

	2005	2004(1)	2003(1)
Revenue	\$ 5,616	\$ 5,270	\$ 3,949
Feedstock and operating costs	4,911	4,380	3,476
Depreciation and amortization	290	297	298
Selling, general and administrative	201	273	190
Research and development	50	48	45
Restructuring charges (Note 14)	168	8	15
	<u>5,620</u>	<u>5,006</u>	<u>4,024</u>
Operating income (loss)	(4)	264	(75)
Interest expense (net) (Note 8)	(113)	(108)	(130)
Equity in earnings of affiliate (Note 5)	-	-	39
Other gains and losses (net) (Note 15)	8	177	92
	<u>(105)</u>	<u>69</u>	<u>1</u>
Income (loss) before income taxes	(109)	333	(74)
Income tax (expense) recovery (Note 16)	5	(81)	73
Net Income (Loss)	\$ (104)	\$ 252	\$ (1)
Reinvested earnings, beginning of year	633	584	605
Changes in accounting policies (Note 2)	-	(7)	5
Common share repurchases (Note 10)	(107)	(155)	-
Stock options retired for cash (Note 12)	(5)	(13)	-
Common share dividends	(27)	(28)	(25)
Reinvested earnings, end of year	<u>\$ 390</u>	<u>\$ 633</u>	<u>\$ 584</u>
Weighted-average number of common shares outstanding (millions)			
- Basic	83	87	87
- Diluted	83	95	87
Net income (loss) per common share (Note 10)			
- Basic	\$ (1.26)	\$ 2.91	\$ (0.02)
- Diluted	<u>\$ (1.26)</u>	<u>\$ 2.71</u>	<u>\$ (0.02)</u>

See accompanying Notes to Consolidated Financial Statements.

(1) Years 2004 and 2003 have been restated due to a change in accounting policy – see Note 2.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31 (MILLIONS OF U. S. DOLLARS)	2005	2004(1)	2003(1)
Assets			
Current assets			
Cash and cash equivalents	\$ 166	\$ 245	\$ 212
Accounts receivable (Note 3)	564	567	316
Inventories (Note 4)	680	634	392
	<u>1,410</u>	<u>1,446</u>	<u>920</u>
Investments and other assets (Note 5)	181	147	157
Plant, property and equipment, net (Note 6)	3,626	3,454	3,336
	<u>\$ 5,217</u>	<u>\$ 5,047</u>	<u>\$ 4,413</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Bank loans	\$ 1	\$ -	\$ -
Accounts payable and accrued liabilities (Note 7)	996	808	587
Long-term debt due within one year (Note 8)	301	100	-
	<u>1,298</u>	<u>908</u>	<u>587</u>
Long-term debt (Note 8)	1,737	1,614	1,682
Deferred credits and long-term liabilities (Note 9)	318	355	249
Future income taxes (Note 16)	645	677	586
	<u>3,998</u>	<u>3,554</u>	<u>3,104</u>
Shareholders' Equity			
Common shares (Note 10)	494	499	493
Contributed surplus (Note 11)	11	8	-
Cumulative translation adjustment	324	353	232
Reinvested earnings	390	633	584
	<u>1,219</u>	<u>1,493</u>	<u>1,309</u>
	<u>\$ 5,217</u>	<u>\$ 5,047</u>	<u>\$ 4,413</u>
Contingencies and commitments (Notes 8, 20 and 22)			

See accompanying Notes to Consolidated Financial Statements.

(1) Years 2004 and 2003 have been restated due to a change in accounting policy – see Note 2.

On behalf of the board:



Kerry L. Hawkins
Director



Jeffrey M. Lipton
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31 (MILLIONS OF U.S. DOLLARS)	2005	2004(1)	2003(1)
Operating Activities			
Net income (loss)	\$ (104)	\$ 252	\$ (1)
Depreciation and amortization	290	297	298
Future income tax expense (recovery) (Note 16)	(73)	36	(90)
Other gains and losses (net) (Note 15)	(8)	(177)	(92)
Stock option expense (Note 12)	4	4	–
Equity in earnings of affiliate	–	–	(39)
Methanex dividends received	–	–	14
Restructuring charges	161	–	9
Funds flow from operations	270	412	99
Changes in non-cash working capital (Note 17)	(42)	(78)	(125)
Cash from (used in) operations	228	334	(26)
Investing Activities			
Proceeds on sales of assets, investments and other capital transactions	11	225	564
Plant, property and equipment additions	(419)	(242)	(130)
Turnaround costs, long-term investments and other assets	(178)	(9)	(57)
Change in non-cash working capital (Note 17)	110	(110)	7
	(476)	(136)	384
Financing Activities			
Increase (decrease) in current bank loans	1	–	(3)
Long-term debt additions	419	400	–
Long-term debt repayments	(103)	(2)	(152)
Decrease in revolving debt	–	–	(2)
Preferred securities redeemed (Note 8)	–	(383)	–
Common shares issued (Note 10)	13	37	9
Common share repurchases (Note 10)	(125)	(188)	–
Stock options retired for cash (Note 12)	(11)	(18)	–
Common share dividends	(27)	(28)	(25)
Project advances from third parties	–	15	11
Changes in non-cash working capital (Note 17)	2	2	2
	169	(165)	(160)
Increase (decrease) in cash and cash equivalents	(79)	33	198
Cash and cash equivalents, beginning of year	245	212	14
Cash and cash equivalents, end of year	\$ 166	\$ 245	\$ 212
Cash tax payments (receipts)	\$ 55	\$ 11	\$ (28)
Cash interest payments	\$ 131	\$ 107	\$ 142

See accompanying Notes to Consolidated Financial Statements.

(1) Years 2004 and 2003 have been restated due to a change in accounting policy – see Note 2.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in U.S. dollars, unless otherwise noted.

1. Basis of Presentation

NOVA Chemicals Corporation is incorporated under the Canada Business Corporations Act. Where used in these Consolidated Financial Statements, “NOVA Chemicals” or “the Corporation” means NOVA Chemicals Corporation alone or together with its subsidiaries and affiliates, depending on the context in which such terms are used. The Consolidated Financial Statements include the accounts of the Corporation, its subsidiaries and the proportionate share of the accounts of its joint ventures. Where reference is made to balances due to and from, and transactions with, affiliate, “affiliate” means the NOVA Innovene joint venture. These transactions and balances arise from business conducted between NOVA Chemicals and the NOVA Innovene joint venture.

These Consolidated Financial Statements have been prepared by management on the historical cost basis in accordance with Canadian Generally Accepted Accounting Principles (GAAP). These accounting principles are different in some respects from those generally accepted in the United States and the significant differences are described in Note 23, “United States Generally Accepted Accounting Principles” (U.S. GAAP).

The Corporation measures and reports its Consolidated Financial Statements in U.S. dollars.

The preparation of these Consolidated Financial Statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ materially from those estimates due to factors such as fluctuations in commodity prices, foreign exchange rates, interest rates, changes in economic conditions and regulatory changes. Examples of significant estimates include: the estimated useful lives of assets; the recoverability of tangible assets; certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets; and estimates of cash flows related to environmental site restoration and clean-up and the resulting asset retirement obligations.

2. Summary of Significant Accounting Policies

Changes in Accounting Policies

Measurement Date. Effective January 1, 2005, NOVA Chemicals changed the measurement date for reporting related to its defined benefit plans from December 31 to November 30. This change in measurement date will be used consistently in future periods.

Accounting for Financial Instruments with Characteristics of Both Debt and Equity. On January 1, 2005, the Corporation adopted new accounting standards as prescribed by the Canadian Institute of Chartered Accountants (CICA), which harmonize accounting standards with U.S. GAAP for certain types of mandatory redeemable shares and other financial instruments. Beginning on January 1, 2005, these instruments are required to be reclassified, on a retroactive basis, as liabilities rather than equity. As a result, the preferred shares of NOVA Chemicals’ subsidiary, NOVA Chemicals Inc., and the Corporation’ s preferred securities have been reclassified as debt. In addition, dividends and distributions associated with these preferred shares and securities have been reclassified to interest expense, reducing net income by \$10 million in 2004 and \$29 million in 2003 as the presentation for all prior periods was restated.

Stock-Based Incentive Plans. On January 1, 2004, NOVA Chemicals adopted a new accounting standard related to stock-based compensation as prescribed by the CICA. The recommendations require that the fair value of stock options be expensed over their vesting period. Previously, NOVA Chemicals followed the intrinsic-value approach, where the granting and exercising of stock options were accounted for as equity transactions and no amounts were expensed. The Corporation adopted the accounting policy on a retroactive basis with no restatement of prior periods. Accordingly, on January 1, 2004, reinvested earnings was reduced and contributed surplus was increased by \$7 million to account for the stock option expense that would have been charged to income (loss) in 2002 and 2003 with respect to all options granted since January 1, 2002. NOVA Chemicals uses the Black-Scholes option valuation model to calculate the fair value of options at the date of grant.

Derivative Financial Instruments. Effective January 1, 2004, NOVA Chemicals adopted the CICA accounting standard that requires all derivative positions, except those that qualify for hedge accounting treatment, to be marked-to-market at each period end with any resulting

gains or losses recorded in income (loss). NOVA Chemicals adopted the new accounting standard on a prospective basis. In accordance with the transitional provisions of the new accounting standard,

\$10 million of unrealized gains and \$18 million of crystallized losses that existed on January 1, 2004 were deferred on the Consolidated Balance Sheet. These amounts are recognized in income (loss) over the remaining term to maturity of the previously hedged transaction.

Asset Retirement Obligations. On January 1, 2003, NOVA Chemicals adopted the new accounting standard related to asset retirement obligations as prescribed by the CICA. The recommendations changed the method for recognition of liabilities associated with the retirement of plant, property and equipment. The liabilities are initially recorded at their estimated fair value, based on a discounted value of the expected costs to be paid when the assets are retired. The amount is added to the carrying values of the assets and depreciated over the estimated remaining lives of the assets. The liability increases each period as the amount of the discount decreases over time. The resulting expense is referred to as accretion expense and is included in operating expenses. The liability is also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. The Corporation's asset retirement obligations are comprised of expected costs to be incurred upon termination of operations and the closure of active manufacturing plant facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, and remediation and restoration of sites. A change in accounting policy generally requires retroactive restatement of financial statements presented for prior periods, however, as the effect of these recommendations was less than \$1 million for each prior period, reinvested earnings at January 1, 2003, was increased for the \$5 million cumulative effect on adoption.

Cost of Service

Under the terms of certain sales agreements, the Corporation sold ethylene on a take-or-pay basis, for a price determined by a cost-of-service formula that included the cost of fuel and feedstock, operating expenses, depreciation, income taxes, return on capital and realized foreign exchange gains or losses in respect of debt service. The return on capital included a 20% after-tax return on equity based on a deemed debt to equity ratio. NOVA Chemicals' cost-of-service agreements expired on June 30, 2004.

Cash and Cash Equivalents

Short-term investments with initial maturities not greater than 90 days are considered to be cash equivalents, and are recorded at cost, which approximates current market value.

Foreign Currency Translation

The Corporation's foreign operations are considered self-sustaining and are translated into U.S. dollars using the current rate method. Resulting translation gains or losses are deferred in the cumulative translation adjustment account until there is a realized reduction of the investment in the foreign operations.

Derivative Instruments

The Corporation sells petrochemical products at prices denominated in various currencies, purchases energy commodities, invests in foreign operations, issues short- and long-term debt, including amounts in foreign currencies, and utilizes a number of stock-based compensation plans. These activities result in exposures to fluctuations in foreign currency exchange rates, commodity prices, interest rates, and common stock prices. NOVA Chemicals may choose to modify these exposures by entering into contractual arrangements (derivatives), which reduce the exposure by creating offsetting positions. Derivative instruments are used only for economic hedges of foreign exchange rate, commodity price, interest rate and stock price volatility risks. These derivative instruments are not utilized for trading or speculative purposes.

NOVA Chemicals has U.S., Canadian and European-based petrochemical operations. The Corporation periodically manages its exposure to fluctuations in Canadian and Euro dollar exchange rates by using forward exchange contracts.

NOVA Chemicals may choose to use commodity-based derivatives to manage its exposure to price fluctuations on crude oil, refined products and natural gas transactions. The instruments are used to moderate against adverse short-term price movements. Occasionally, longer-term positions will be taken to manage price risk for anticipated supply requirements.

When considered appropriate, NOVA Chemicals enters into interest rate swaps in order to manage the fixed and floating

interest rate mix on its long-term debt portfolio. The interest rate swap agreements generally involve the periodic exchange of payments without the exchange of the notional principal amounts upon which the payments are based.

Equity forward contracts are used to manage exposures to fluctuations in the Corporation's stock-based compensation costs, as the costs of the plans vary with changes in the market price of the underlying common shares.

Unrealized gains or losses on derivative instruments that do not qualify for hedge accounting are reflected in income (loss) each period as a result of the derivatives being marked-to-market. Gains or losses realized on settlement of derivative instruments qualifying for hedge accounting are recognized in income (loss) in the same period and the same Statement of Income (Loss) category as the revenues or expenditures arising from the hedged transaction.

Gains or losses on early termination or liquidation of derivative instruments qualifying for hedge accounting are deferred as current or non-current assets or liabilities on the balance sheet, as appropriate, and are recognized in income (loss) in the period in which the underlying hedged transaction is recognized. Gains or losses on early termination or liquidation of derivative instruments that do not qualify for hedge accounting are recognized in income (loss) on termination or liquidation.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis with no allocation of fixed production overhead.

Investments

Investments in affiliates, over which the Corporation exercises significant influence, but not control, are accounted for by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings, less dividends received. Other investments, except investments in joint ventures, are carried at cost. Investments are assessed annually for potential impairment.

Joint Ventures

NOVA Chemicals applies the proportionate consolidation method of accounting for its investments in joint venture operations. Under this method, NOVA Chemicals records, on a line-by-line basis within its financial statements and notes, its pro rata share of the joint venture's assets, liabilities, revenues, expenses and cash flows.

Plant, Property and Equipment (PP&E)

NOVA Chemicals' PP&E consists primarily of manufacturing equipment, land and buildings for producing petrochemicals. PP&E are valued at historical cost. Financing costs incurred during major construction are capitalized as part of the cost of the asset until the asset is available for use. Costs related to turnaround activities are capitalized and amortized over the period remaining to the next turnaround activity, while maintenance and repair costs are expensed as incurred.

The Corporation periodically reviews the carrying value of PP&E for impairment when circumstances indicate an asset's value may not be recoverable. If it is determined that an asset's undiscounted cash flows are less than its carrying value, the asset is written down to its net realizable value.

Depreciation

Plant and equipment are depreciated on a straight-line basis at annual rates ranging from 3% to 40%. These rates are designed to write-off the assets to their salvage values over their estimated useful lives. The Alberta cost-of-service ethylene plants and the hydrogen plant were depreciated over the lives of the related sales agreements.

Deferred Start-Up Costs

Costs associated with start-up activities on constructed plants are deferred from the date of mechanical completion of the facilities until the date the Corporation is ready to commence commercial service. Any revenues earned during this period are recorded as a reduction in deferred start-up costs. These costs are amortized on a straight-line basis over a five-year period, commencing on the date of commercial service.

Leases

Leases are classified as operating or capital depending upon the terms and conditions of the contracts. Leases that transfer substantially all the benefits and risks of ownership to the Corporation are accounted for as capital leases. Assets under capital leases are amortized on a straight-line basis over the period of expected use and are classified with PP&E. Obligations recorded under capital leases are reduced by lease payments net of imputed interest and are classified with long-term debt.

Income Taxes

Cost-of-service activities operated under billing structures that allowed NOVA Chemicals to recover related income tax costs from customers based on the taxes-payable method. NOVA Chemicals recorded income tax expense on these operations equal to recoverable amounts. All cost-of-service agreements expired on June 30, 2004.

For non-cost-of-service operations, the liability method of tax allocation accounting is used. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Under the liability method, future income taxes are also provided on the difference between the accounting and tax basis of equity investments. One of these differences results from recording equity earnings (losses) for accounting purposes. Accordingly, income tax expense (recovery) is provided on equity earnings (losses).

Employee Future Benefits

Pension Plans. NOVA Chemicals sponsors both defined benefit and defined contribution pension arrangements covering substantially all employees.

The cost of defined benefit pensions is determined using the projected benefit method prorated on employment services and is expensed as the employees provide services. Adjustments arising from plan amendments are amortized on a straight-line basis over the estimated average remaining service lifetime (EARSL). Adjustments arising from changes in assumptions and experience gains and losses are amortized over EARSL when the cumulative unamortized balance exceeds 10% of the greater of accrued obligations or plan assets. Gains or losses arising from plan curtailment and settlements are recognized in the year in which they occur. For purposes of calculating the expected return on plan

assets, pension assets are revalued at fair value. Liabilities are measured at market discount rates that reflect the yield at the latest valuation date on a portfolio of corporate bonds of similar duration as the Corporation's pension liabilities.

The cost of defined contribution benefits is expensed as earned by employees. NOVA Chemicals makes contributions in accordance with all plan agreements.

Post-Retirement Benefits Other Than Pensions. In North America, NOVA Chemicals provides medical care and life insurance benefits to eligible retirees and their dependents. Post-retirement benefit costs are expensed as the employees provide service.

Stock-Based Compensation

The Corporation uses the fair-value method of accounting for equity-settled stock-based compensation awards granted to employees, such as options, where compensation expense is measured and recognized based on the fair value of the stock-based award. Amounts related to compensation costs are initially credited to contributed surplus and then transferred to common shares upon exercise of options, or reinvested earnings upon cancellation or retirement of options.

The Corporation uses the liability method of accounting for cash-settled stock-based compensation awards granted to employees, such as equity appreciation and restricted stock units. Units granted are marked-to-market each period based on the value of NOVA Chemicals common stock as reported on the Toronto or New York Stock Exchanges, as applicable. Changes in value are recorded in income (loss) over the vesting period, or for vested units as such changes arise.

Deferred Share Unit Plans

Units issued under these plans are calculated based on annual management incentive awards or director fees. The cost of the units earned is expensed as employees and directors provide services. Any adjustments to the value of the units as a result of expected changes in NOVA Chemicals' common stock value are amortized on a straight-line basis over the estimated average remaining service lifetime of individuals participating in the plans.

Earnings Per Share

The treasury stock method is used to calculate diluted earnings per share. Under this method, the incremental number of common shares outstanding for the diluted earnings per share calculation is determined assuming that the proceeds from exercise of dilutive options are used to repurchase common shares at the average market price during the period.

Securitizations

Accounts receivable securitization transactions are recorded as sales of assets based on the transfer of control to the purchaser. Transactions recorded in this manner result in the removal of the sold assets from the Corporation's balance sheet. Interest paid, net of servicing fees, on the portfolio of sold receivables is recorded as interest expense.

Revenue Recognition

The Corporation recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer in accordance with the terms of the sales agreement, title or risk of loss has been transferred, and pricing is fixed or determinable. The Corporation accounts for sales incentives as a reduction in revenue at the time revenue is recorded.

Research and Development

Expenditures associated with research and development activities are expensed as incurred.

Investment Tax Credits

The Corporation accounts for investment tax credits using the cost reduction approach. Investment tax credits related to the acquisition of assets are deducted from the related assets with depreciation calculated on the net amount. Investment tax credits related to current expenses are included in the determination of income (loss) for the period.

Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. Accounts Receivable

DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Trade	\$ 350	\$ 382	\$ 239
Affiliate trade	27	-	-
	<u>377</u>	<u>382</u>	<u>239</u>
Allowance for doubtful accounts(1)	(6)	(10)	(7)
	<u>371</u>	<u>372</u>	<u>232</u>
Proceeds receivable(2)	-	110	-
Other	137	79	73
Due from affiliate(3)	52	-	-
	<u>560</u>	<u>561</u>	<u>305</u>
Income taxes receivable	4	6	11
	<u>\$ 564</u>	<u>\$ 567</u>	<u>\$ 316</u>

(1) The Corporation's special purpose entity maintained an allowance for doubtful accounts of \$nil million at December 31, 2005, (2004 - \$nil million and 2003 - \$5 million) related to securitized trade receivables.

(2) In 2004, the Corporation recorded final resolution of a tax dispute related to the deductibility of foreign taxes in certain returns filed with the U. S. Internal Revenue Service prior to 1982. In this regard, \$110 million was received in 2005 from a former affiliate of a company in which the Corporation previously had an interest.

(3) Includes advances and notes receivable from affiliate. \$43 million in unsecured notes receivable bear interest at 4.5% per annum.

Accounts Receivable Securitizations

The Corporation sells undivided interests in certain trade accounts receivable pursuant to revolving securitization transactions in which the Corporation retains servicing responsibilities. The receivables are sold at a discount approximating the purchaser's financing cost of issuing commercial paper backed by the accounts receivable. The Corporation pays a fee on this same basis plus a margin that varies with the Corporation's interest coverage ratio. The sale of receivables is reflected as a reduction of accounts receivable and in operating cash flows. As collections reduce previously sold interests, new accounts receivable are sold, to a maximum amount equal to the lesser of eligible receivables or \$300 million (2004 - \$250 million and 2003 - \$195 million). Recourse on sold receivables is limited to the receivables and certain reserves provided to cover credit losses and dilution (such as discounts, rebates, and other non-cash reductions). During 2005, the Corporation amended its securitization programs to extend the maturity to June 2010 and to increase the size of the programs from \$250 million to \$300 million.

Information regarding the Corporation's securitization programs is as follows:

<u>YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Amount sold at end of year	\$ 153	\$ 250	\$ 177
Loss, dilution and other reserves (as a % of eligible accounts receivable)	16%	16%	18%
Interest expense, net of servicing fees	\$ 8	\$ 4	\$ 3

One of the Corporation's securitization agreements involves the use of a special purpose entity (SPE). Information regarding the cash flows between the Corporation and the SPE are as follows:

<u>YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Proceeds from (repayment of) new securitizations	\$ (97)	\$ 73	\$ 14
Proceeds from collections reinvested in revolving period securitizations(1)	\$ 1,933	\$ 1,646	\$ 1,406
Servicing fees received	\$ 2	\$ 2	\$ 2
Other cash flows received	\$ 547	\$ 452	\$ 306

(1) Collections received by the SPE on accounts receivable previously sold are used to purchase interests in new accounts receivable.

4. Inventories

<u>DECEMBER 31 (MILLIONS OF DOLLARS)</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Materials and supplies	\$ 48	\$ 47	\$ 46
Raw materials	340	255	170
Finished goods	292	332	176
	<u>\$ 680</u>	<u>\$ 634</u>	<u>\$ 392</u>

5. Investments and Other Assets

<u>YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)</u>	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>EQUITY</u>		<u>EQUITY</u>		<u>EQUITY</u>	
	<u>INVESTMENT</u>	<u>EARNINGS</u>	<u>INVESTMENT</u>	<u>EARNINGS</u>	<u>INVESTMENT</u>	<u>EARNINGS</u>
Methanex Corporation(1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39
Other investments(2)	28	-	28	-	28	-
Advances receivable from affiliate(3)	10	-	-	-	-	-
Other assets(4)	143	-	119	-	129	-
	<u>\$ 181</u>	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ -</u>	<u>\$ 157</u>	<u>\$ 39</u>

(1) A total of \$14 million of dividends received in 2003 were recorded as a reduction in the investment.

(2) Includes an investment of \$15 million (2004 and 2003 – \$15 million) in a special purpose entity with respect to the accounts receivable securitization program described in Note 3.

(3) \$8 million of the advances receivable is not scheduled for repayment until 18 months from the date of commencement of the NOVA Innovene joint venture, and is subordinated to certain notes receivable. The advance is repayable upon the achievement of certain accounts receivable performance targets in respect of the NOVA Chemicals trade accounts receivable contributed to the joint venture.

Methanex Corporation

In June 2003, the Corporation sold its equity investment in Methanex Corporation for net proceeds of \$441 million. This resulted in a before-tax gain of \$29 million and an after-tax gain of \$61 million. The sale was completed with no cash taxes payable and accordingly, a previously recorded income tax provision of \$32 million was taken into income at the time of the sale. The Corporation has no remaining equity interest in Methanex.

Other Assets

Other assets are comprised of the following:

DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Restricted cash on Series A preferred shares (Note 8)	\$ 65	\$ 65	\$ 65
Deferred debt issue costs(1)	23	20	18
Deferred start-up costs(2)	27	5	12
Prepaid pension	2	5	–
Other assets and deferred costs	26	24	34
	<u>\$ 143</u>	<u>\$ 119</u>	<u>\$ 129</u>

(1) Debt issue costs are amortized on a straight-line basis over the terms of the related debt instruments.

(2) Start-up costs consist of the unamortized portion of operating costs, net of incidental revenues, incurred during the pre-operating period on constructed assets at Joffre, Alberta, and costs of \$25 million incurred in 2005 associated with the start-up of the Corunna facility after the maintenance turnaround and expansion and modernization project.

Joint Ventures

On October 1, 2005, the Corporation contributed its European styrenic polymer assets, comprised of manufacturing facilities, accounts receivable and inventory, to the NOVA Innovene joint venture with Innovene in exchange for a 50% interest in the joint venture. The joint venture will produce styrenic polymers from NOVA Chemicals' contributed plants and Innovene' s contributed plants. NOVA Chemicals accounted for its contribution to the joint venture as an exchange of 50% of its contributed non-monetary productive assets for a 50% interest in similar productive assets of Innovene. Consequently, the exchange was recorded at the carrying value of the assets given up, with no gain or loss recognized.

NOVA Chemicals sells the joint venture 50% of its styrene monomer requirements and certain polystyrene products for distribution in Europe. During 2005, NOVA Chemicals recognized revenues of \$60 million from the sale of these products to the joint venture.

NOVA Chemicals has provided a guarantee of \$25 million to a financial institution to secure various obligations of the NOVA Innovene joint venture.

In addition, on October 1, 2005, the Corporation and GRUPO IDESA formed a 50:50 joint venture in Mexico, called NOVIDESA, S.A. de C.V. The joint venture produces expandable polystyrene from an existing GRUPO IDESA facility for applications such as construction and packaging in the growing Mexican market.

In addition to the recently formed joint ventures, NOVA Chemicals owns a 50% interest in an ethylene plant and a 20% interest in a cogeneration facility located at Joffre, Alberta

The following is summarized financial information for NOVA Chemicals' interests in these joint ventures:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Revenue	\$ 518	\$ 260	\$ 216
Operating expenses, depreciation and income taxes	(499)	(236)	(204)
Net income	\$ 19	\$ 24	\$ 12
DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Current assets	\$ 248	\$ 37	\$ 21
Plant, property and equipment and other assets	909	522	556
Current liabilities	(161)	(26)	(29)
Long-term liabilities	(130)	(33)	(33)
Venturers' equity	\$ 865	\$ 500	\$ 515

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YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Cash inflows (outflows) from:			
Operating activities	\$ 127	\$ 43	\$ 51
Financing activities	\$ (32)	\$ (2)	\$ (5)
Investing activities	\$ (3)	\$ 36	\$ (9)

In December 2004 the Corporation sold its 33.3% interest in an ethane gathering system in Alberta for cash proceeds of \$78 million, resulting in a before-tax gain of \$53 million (\$40 million after-tax).

NOVA Chemicals also owned a 50% interest in the Fort Saskatchewan Ethylene Storage Limited Partnership, which was sold in June 2003 for net cash proceeds of \$123 million, resulting in an after-tax gain of \$64 million. The total before-tax gain on this transaction was \$114 million, of which \$38 million was deferred (see Note 9) and is being recognized in earnings on a straight-line basis over the 20-year storage contract with the new owners.

6. Plant, Property and Equipment

DECEMBER 31 (MILLIONS OF DOLLARS)	2005(1)	2004(1)	2003(1)
Plant and equipment	\$ 5,787	\$ 5,962	\$ 5,638
Assets under capital lease	19	—	—
Land	29	35	35
Under construction	643	351	169
	6,478	6,348	5,842
Accumulated depreciation(2)	(2,852)	(2,894)	(2,506)
Net book value	\$ 3,626	\$ 3,454	\$ 3,336

(1) See Note 8 for discussion of security provided on the committed credit facility.

(2) Accumulated depreciation for assets under capital lease was \$nil million at December 31, 2005.

During 2004, the Corporation sold its 100% interest in an ethylene delivery system in Alberta and entered into a pipeline transportation agreement to lease back the pipeline. Net cash proceeds of \$19 million were received from the sale, resulting in a gain of \$19 million. The gain realized on the sale has been deferred (see Note 9) and is being amortized to income on a straight-line basis over the term of the pipeline transportation agreement, which expires in 2016.

7. Accounts Payable and Accrued Liabilities

DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Accounts payable			
Trade	\$ 617	\$ 581	\$ 406
Other	22	38	25
	<u>639</u>	<u>619</u>	<u>431</u>
Accrued liabilities			
Pension and post-retirement benefit obligations	52	40	20
Interest	33	30	18
Dividends	7	7	6
Deferred gains on interest rate swaps(1)	4	7	7
Site clean-up and restoration	5	4	4
Deferred commodity hedging gains(2)	-	2	9
Advances and notes due to affiliate	5	-	-
Notes payable(3)	47	-	-
Trade accruals and other accrued liabilities	204	99	92
	<u>357</u>	<u>189</u>	<u>156</u>
	<u>\$ 996</u>	<u>\$ 808</u>	<u>\$ 587</u>

(1) Represents the portion of deferred gains realized on liquidation of floating-for-fixed interest rate swaps to be recognized within one year (see Note 22).

(2) Represents the portion of deferred gains realized on liquidation of natural gas option positions to be recognized within one year (see Note 22).

(3) Includes \$41 million of unsecured notes payable, bearing interest at 4.5% per annum.

8. Long-Term Debt

DECEMBER 31 (MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)	MATURITY	2005		2004		2003	
		DEBT	INTEREST RATE(1)	DEBT	INTEREST RATE(1)	DEBT	INTEREST RATE(1)
Unsecured debentures and notes	2010-2028	\$ 1,239	7.3%	\$ 933	7.1%	\$ 518	7.5%
Medium-term notes	2006-2009	550	8.0%	550	7.0%	550	4.7%
Preferred shares and securities	2007	198	7.6%	198	8.1%	581	7.7%

Other(2)	2006-2020	51	6.9%	33	6.2%	33	6.0%
		2,038		1,714		1,682	
Less installments due within one year		(301)		(100)		-	
		\$ 1,737		\$ 1,614		\$ 1,682	

(1) Weighted-average year-end interest rates include the effects of outstanding interest rate swaps (see Note 22).

(2) Composed primarily of non-recourse joint venture secured debt (2005 – \$32 million, 2004 and 2003 – \$33 million), whereby security is limited to NOVA Chemicals' net investment in the Joffe co-generation joint venture, and obligations under capital leases (2005 – \$19 million, 2004 and 2003 – \$nil million).

Unsecured Debentures And Notes

On October 31, 2005, the Corporation issued \$400 million Senior Floating Rate Notes due 2013.

On January 13, 2004 the Corporation issued \$400 million 6.50% Senior Notes due 2012. The net proceeds were used to repay the Corporation's preferred securities.

On August 15, 2003, NOVA Chemicals redeemed at par its \$150 million 7% debentures maturing August 15, 2026 from available cash, in accordance with the terms of the debenture.

The remaining debentures and notes are unsecured borrowings, which rank *pari passu* in all respects with other unsecured and unsubordinated debt of the Corporation. Terms of the outstanding unsecured debentures and notes are as follows:

DECEMBER 31 (MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

MATURITY	STATED INTEREST RATE (%)	2005	2004	2003
2005(1)	7.0	\$ -	\$ 100	\$ 100
2010(2)	7.85	214	208	193
2012(3)	6.5	400	400	-
2013(4)	Floating(5)	400	-	-
2025(6)	7.875	100	100	100
2028(7)	7.25	125	125	125
		\$ 1,239	\$ 933	\$ 518

(1) Matured and retired for cash in September 2005.

(2) \$250 million Canadian; callable at the option of the Corporation at any time.

(3) Callable at the option of the Corporation at any time.

(4) Callable at the option of the Corporation at any time.

(5) LIBOR + 3.125%; 7.561% at December 31, 2005.

(6) Callable at the option of the Corporation on or after September 15, 2005.

(7) Redeemable at the option of the holders on August 15, 2008.

Secured Loan

The Corporation has a committed credit facility from a syndicate of Canadian and U.S. banks. The facility provides for a floating-rate revolving line of credit and the issuance of letters of credit, to a maximum of \$375 million. At December 31, 2005, the Corporation had utilized \$87 million of the facility in the form of letters of credit. The facility expires in June 2010 and is secured by \$1.2 billion (2004 and 2003 – \$1.2 billion) in net book value of assets in Canada, including real estate.

At December 31, 2005, NOVA Chemicals was in compliance with all required financial covenants under the credit facility.

Unsecured Credit Facility

On January 20, 2006, an unsecured floating-rate revolving credit facility in the amount of \$100 million was established. The facility expires in March 2011.

Medium-Term Notes

The notes are unsecured borrowings ranking *pari passu* with all other unsecured and unsubordinated debt of the Corporation. The \$300 million 7% notes are due in May 2006 and are not redeemable by the Corporation or the holders prior to maturity. The \$250 million 7.4% notes are due in April 2009 and are redeemable by the Corporation at any time. As described in Note 22, the Corporation has a fixed-for-floating interest rate swap on the \$300 million 7% notes due in May 2006.

Preferred Securities

On March 1, 2004 the Corporation redeemed its \$172.5 million 9.04% and \$210 million 9.50% preferred securities, which were due March 31, 2048 and December 31, 2047, respectively. Net proceeds from the 2004 issuance of \$400 million 6.5% Senior Notes were used to redeem the securities.

Series A Preferred Shares

In connection with the acquisition of styrenics assets from Huntsman Corporation in 1998, a subsidiary of the Corporation issued retractable preferred shares with a liquidation preference of \$198 million as partial consideration. Holders of the retractable preferred shares originally had the right, on or after April 1, 2001, to exchange the shares (a retraction) for NOVA Chemicals' common shares (plus preferred shares if the market value of such common shares was less than \$198 million). In September 2005, the terms of the retractable preferred shares were amended to eliminate this right. In connection with this amendment, the retractable preferred shares were re-designated as Series A preferred shares. Additionally, in December, 2005, the dividend rate was reduced from 2% to 0.5%.

NOVA Chemicals has the right to repurchase the Series A preferred shares at any time.

NOVA Chemicals also entered into a total return swap, which terminates on March 15, 2007, with respect to the Series A preferred shares. Under the terms of the total return swap: (i) the counterparty pays NOVA Chemicals the total return on the preferred shares (periodic dividends plus positive changes in the equity value of the Series A preferred shares upon termination of the swap); and (ii) NOVA Chemicals pays the counterparty a spread to LIBOR, as well as any negative changes in the equity value of the Series A preferred shares upon termination of the swap.

If the equity value of the Series A preferred shares decreases by approximately 24% or more at any time, NOVA Chemicals is required to post maintenance collateral. Once the margin-posting requirement is triggered, if the equity value of the Series A preferred shares increases by 5% or more, any excess margin may be returned to NOVA Chemicals. Changes in the equity value of the Series A preferred shares during the term of the swap will be determined based on changes in the average price of the outstanding 6.5% Senior Notes due 2012, issued by NOVA Chemicals.

If NOVA Chemicals defaults on other debt with an aggregate principal amount of \$25 million or more, or the closing price of the Corporation's common shares is \$12.00 U.S. or less, and upon certain other events, the counterparty would have the right to sell the Series A preferred shares to a third-party and terminate the swap. NOVA Chemicals would then owe the counterparty the difference between the actual sale price received by the counterparty and \$126 million (\$191 million fair value less \$65 million restricted cash). Subsequent to the termination of the swap, NOVA Chemicals may, at its option, repurchase the preferred shares for \$198 million plus accrued and unpaid dividends.

Beginning in 2005, Canadian accounting standards require the Series A preferred shares to be classified on the balance sheet as a liability. All prior periods have been restated accordingly.

Repayment Requirements

Repayment requirements in respect of long-term debt are as follows:

(MILLIONS OF DOLLARS)

2006	\$	301
2007		204
2008		5
2009		255
2010		220
Thereafter		1,053
	\$	<u>2,038</u>

Interest Expense

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest on long-term debt	\$ 108	\$ 97	\$ 84
Interest on preferred shares and securities	9	12	41
Interest on bank loans, securitizations and other	14	8	8
Gross interest expense	131	117	133
Interest capitalized during plant construction	(14)	(3)	-
Interest income	(4)	(6)	(3)
Interest expense (net)	\$ 113	\$ 108	\$ 130

9. Deferred Credits and Long-Term Liabilities

DECEMBER 31 (MILLIONS OF DOLLARS)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deferred Credits			
Deferred income	\$ 29	\$ 31	\$ 12
Deferred gain on sale of investments(1)	37	38	37
Deferred gain on sale of asset(2)	15	20	-

Deferred gains on interest rate swaps(3)	5	9	16
Deferred gain on sale of railcars	8	9	9
Deferred commodity hedging gains(4)	–	2	3
Other deferred credits	4	7	8
	<u>98</u>	<u>116</u>	<u>85</u>
Long-Term Liabilities			
Pension and post-retirement benefit obligations (Note 18)	70	88	92
Equity appreciation plan obligations (Note 12)	43	87	12
Accrued mark-to-market liability on equity derivative (Note 22)	15	–	–
Asset retirement obligations (Note 19)	21	23	27
Deferred share unit plan obligations (Note 13)	24	23	20
Restricted stock unit plan obligations (Note 12)	6	3	–
Other long-term liabilities	41	15	13
	<u>220</u>	<u>239</u>	<u>164</u>
	<u>\$ 318</u>	<u>\$ 355</u>	<u>\$ 249</u>

(1) Represents the long-term portion of deferred gains realized on the sale of a 50% interest in Fort Saskatchewan Ethylene Storage Limited Partnership (see Note 5).

(2) Represents the long-term portion of a deferred gain realized on the sale of an ethylene pipeline system (see Note 6).

(3) Represents the long-term portion of deferred gains realized on the liquidation of floating-for-fixed interest rate swaps (see Note 22).

(4) Represents the long-term portion of deferred gains realized on the liquidation of natural gas option positions (see Note 22).

10. Common Shares

Authorized

Unlimited number of voting common shares without par value, non-voting first preferred shares and non-voting second preferred shares. Currently only common shares are issued and outstanding.

Issued And Outstanding

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT NUMBER OF SHARES)	2005		2004		2003	
	SHARES	DOLLARS	SHARES	DOLLARS	SHARES	DOLLARS
Beginning of year	84,268,293	\$ 499	87,099,781	\$ 493	86,527,812	\$ 484
Issued for cash on exercise of stock options	570,547	13	1,917,735	37	571,969	9
Issued on exercise of stock options as share appreciation rights(1)	124,610	–	185,377	–	–	–
Compensation cost of stock options exercised(2)	–	–	–	2	–	–
Repurchased(3)	(2,598,551)	(18)	(4,934,600)	(33)	–	–
End of year(4)	<u>82,364,899</u>	<u>\$ 494</u>	<u>84,268,293</u>	<u>\$ 499</u>	<u>87,099,781</u>	<u>\$ 493</u>

(1) See Note 12.

(2) Under the fair-value method of accounting for stock-based compensation, the compensation cost associated with options exercised is transferred from contributed surplus to common stock.

(3) The Corporation repurchased 2,598,551 (2004 - 4,934,600 and 2003 - nil million) of its common shares with a carrying value of \$18 million (2004 - \$33 million and 2003 - \$nil million) on the Toronto Stock Exchange for cash of \$125 million (2004 - \$188 million and 2003 - \$nil million). The difference between the cash paid and the carrying value of the shares is charged to reinvested earnings.

(4) Stated common share capital for legal purposes at December 31, 2005, is \$1,628 million.

Shares Reserved For Future Issue

DECEMBER 31 (NUMBER OF SHARES)	2005	2004	2003
Under the employee incentive stock option plan(1),(2)	7,874,725	8,569,882	10,672,994
Under the director compensation plan	47,800	47,800	47,800
Under the terms of the retractable preferred share agreement(3)	–	8,500,000	8,500,000
	<u>7,922,525</u>	<u>17,117,682</u>	<u>19,220,794</u>

(1) Under the employee incentive stock option plan, options are outstanding to officers and employees to purchase 4,667,898 shares at prices ranging from \$20.234 to \$58.240 (Canadian \$TSX pricing) and 439,713 shares at prices ranging from \$33.25 to \$47.00 (U.S. \$NYSE pricing) per share, with expiration dates between February 15, 2006, and September 14, 2014. A total of 2,767,114 common shares are reserved but unallocated. See Note 12 for further details regarding the plan.

(2) A total of 13 million common shares was initially approved by shareholders for issuance under the employee incentive stock option plan.

(3) See Note 8 for discussion of retractable, now Series A, preferred shares.

Net Income (Loss) Per Share

The following table outlines the calculation of basic and diluted net income (loss), or earnings per common share (EPS):

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2005		2004		2003	
	BASIC	DILUTED	BASIC	DILUTED	BASIC	DILUTED
Net income (loss)	\$ (104)	\$ (104)	\$ 252	\$ 252	\$ (1)	\$ (1)
Interest on retractable preferred shares	–	–	–	6	–	–
Net income (loss) for EPS calculation	<u>\$ (104)</u>	<u>\$ (104)</u>	<u>\$ 252</u>	<u>\$ 258</u>	<u>\$ (1)</u>	<u>\$ (1)</u>
Weighted-average common shares outstanding	82.6	82.6	86.7	86.7	86.8	86.8
Add effect of dilutive items:(1)						
Stock options	–	–	–	2.6	–	–
Retractable preferred shares	–	–	–	6.1	–	–
Weighted-average common shares for EPS calculation	<u>82.6</u>	<u>82.6</u>	<u>86.7</u>	<u>95.4</u>	<u>86.8</u>	<u>86.8</u>
Net income (loss) per common share	<u>\$ (1.26)</u>	<u>\$ (1.26)</u>	<u>\$ 2.91</u>	<u>\$ 2.71</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

(1) A total of 4.8 million stock options have been excluded from the computation of diluted earnings per share for the year ended December 31, 2005, (2004 - nil and 2003 - 17 million, stock options and retractable preferred shares) as their impact would not be dilutive. As of September 30, 2005, the retractable preferred shares are no longer convertible to NOVA Chemicals' common shares and therefore are no longer a dilutive factor in the earnings per share calculation. No restatements were made to prior years.

Shareholder Rights Plan

In May 1999, NOVA Chemicals' shareholders approved a shareholder rights plan where one right was issued for each outstanding common share. The rights remain attached to the shares and are not exercisable until the commencement or announcement of a takeover bid for NOVA Chemicals' common shares or until a person acquires 20% or more of NOVA Chemicals' common shares. The plan expires in May 2009.

11. Contributed Surplus

On January 1, 2004, the Corporation adopted new accounting recommendations related to stock options (see Notes 2 and 12). The recommendations require that the fair value of stock options be expensed over their vesting period, with a corresponding amount recorded to contributed surplus. On exercise of options for common shares, amounts previously recorded to contributed surplus for compensation costs are transferred to the common share account. On retirement or cancellation of options, amounts previously recorded to contributed surplus for compensation costs are transferred to reinvested earnings.

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Balance at beginning of year	\$ 8	\$ -	\$ -
Accounting policy change (Note 2)	-	7	-
Stock option compensation cost	4	4	-
Transfers on exercise, retirement or cancellation of options	(1)	(3)	-
Balance at end of year	\$ 11	\$ 8	\$ -

12. Stock-Based Compensation

Employee Incentive Stock Option Plan

The Corporation may grant options to its employees for up to 13 million common shares. During 2005, the Corporation amended its Employee Incentive Stock Option Plan such that options may be granted which are exercisable based on the Corporation's New York Stock Exchange (NYSE) common share price. Accordingly, the exercise price of an option may equal the closing market price, on the Toronto Stock Exchange (TSX) or the NYSE, of the Corporation's common stock on the date of grant. Options may be exercised over a 10-year period and generally 25% of the options vest at the grant date with further vesting of 25% in each of the next three years.

On January 1, 2004, the Corporation adopted new accounting recommendations related to stock options (see Note 2). The Corporation adopted the accounting policy on a retroactive basis with no restatement of prior periods. Accordingly, all options granted since January 1, 2002 are accounted for using the fair-value method. The recommendations require that the fair value of stock options be expensed over their vesting period and reflected in earnings as the related services are provided. The Corporation uses the Black-Scholes option-pricing model to calculate the fair value of options at the date of grant.

Generally, options are settled by issuance of common shares. Occasionally, options may be retired, whereby the option premium (the differential between the market price and the exercise price) is paid in cash. Amounts paid are recorded as a charge to reinvested earnings, net of related tax benefits. Options may also be settled periodically as share appreciation rights (SARs), whereby the option premium is settled by issuance of common shares. Options settled by issuance of shares are cancelled whereas options settled by other means are returned to the unallocated pool of options available for issue.

A summary of the status of the Corporation's employee incentive stock option plan, for options based on TSX pricing, as of December 31, 2005, 2004, and 2003, and changes during the years then ended is presented below:

2005	2004	2003
WEIGHTED-	WEIGHTED-	WEIGHTED-

YEAR ENDED DECEMBER 31	OPTIONS	AVERAGE EXERCISE PRICE		OPTIONS	AVERAGE EXERCISE PRICE		OPTIONS	AVERAGE EXERCISE PRICE	
		(CANADIAN \$)	(CANADIAN \$)		(CANADIAN \$)	(CANADIAN \$)			
Outstanding at beginning of year	5,849,131	\$	27.952	8,822,440	\$	26.791	8,625,532	\$	26.662
Granted	91,450	\$	58.135	271,300	\$	36.526	999,700	\$	25.788
Exercised - settled in shares	(570,060)	\$	26.928	(1,917,735)	\$	22.938	(571,969)	\$	23.525
Exercised - retired for cash	(469,091)	\$	29.214	(860,750)	\$	26.161		\$	-
Exercised - settled as SARs(1)	(218,219)	\$	24.799	(426,246)	\$	25.682	-	\$	
Cancelled	(15,313)	\$	29.151	(39,878)	\$	30.284	(230,823)	\$	25.723
Outstanding at end of year	4,667,898	\$	28.685	5,849,131	\$	27.952	8,822,440	\$	26.791
Exercisable at end of year	4,249,162	\$	28.181	5,054,171	\$	27.613	7,414,052	\$	26.448

(1) In 2005, 124,610 shares were issued to settle options exercised as SARs (2004 - 185,377).

The following table summarizes information about employee incentive stock options, based on TSX pricing, outstanding at December 31, 2005:

RANGE OF EXERCISE PRICES (CANADIAN \$)	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	
\$20.234 - \$28.050	3,082,521	4.4	\$ 25.778	2,845,133	\$	25.774
\$30.750 - \$37.510	1,495,227	4.7	\$ 32.894	1,378,327	\$	32.590
\$58.240 - \$58.240	90,150	9.2	\$ 58.240	25,702	\$	58.240
	4,667,898			4,249,162		

During 2005, the Corporation granted a total of 441,300 options with exercise prices based on the NYSE common share price, with a weighted-average exercise price of \$46.78 U.S. At December 31, 2005, after consideration of options exercised (487) and options cancelled (1,100), a total of 439,713 NYSE-based options are outstanding (111,885 exercisable) with a weighted-average price of \$46.78 U.S. and a weighted-average remaining contractual life of 9.2 years.

In 2005 and 2004, the Corporation recognized total compensation cost of \$4 million and \$4 million, respectively, for stock-based employee compensation awards. Had compensation cost for stock options been determined and expensed based on the fair-value method in 2003, the following pro forma amounts would have resulted:

DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003
Compensation cost, net of tax	\$ 2
Net loss	
As reported	\$ (1)
Pro forma	\$ (3)
Loss per share – basic and diluted	
As reported	\$ (0.02)
Pro forma	\$ (0.04)

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for stock options granted:

WEIGHTED-AVERAGE ASSUMPTIONS	2005	2004	2003
Expected dividend yield (%)	0.7	1.1	1.4
Expected volatility (%)	31.6	34.0	36.7
Risk-free interest rate (%)	3.8	2.7	4.2
Expected life (years)	4.0	4.0	4.0
Fair value of options granted during the year (U.S.)	\$ 13.40	\$ 8.43	\$ 5.34

Equity Appreciation Plan

The Corporation has an equity appreciation plan in which units are granted to key employees. The redemption price of a unit is determined by the closing market price on the NYSE of the Corporation's common shares on the date of grant. Units may be redeemed for cash over a 10-year period and generally 25% of the units vest at the grant date with further vesting of 25% in each of the next three years. The value of a unit on the redemption date is the difference between the price of the Corporation's common shares on that date and the redemption price.

At December 31, 2005, the mark-to-market value of the vested units was approximately \$43 million (2004 - \$87 million and 2003 - \$12 million).

A summary of the status of the Corporation's equity appreciation plan as of December 31, 2005, 2004 and 2003 and changes during the years then ended is presented below:

YEAR ENDED DECEMBER 31	2005		2004		2003	
	UNITS	WEIGHTED-AVERAGE REDEMPTION PRICE (US \$)	UNITS	WEIGHTED-AVERAGE REDEMPTION PRICE (US \$)	UNITS	WEIGHTED-AVERAGE REDEMPTION PRICE (CAN \$)
Outstanding at beginning of year	3,801,143	\$ 21.08	3,292,987	\$ 18.92	1,836,841	\$ 31.22
Granted	9,000	\$ 30.59	942,600	\$ 27.90	1,499,400	\$ 25.78
Redeemed	(190,040)	\$ 19.69	(410,694)	\$ 19.37	(18,166)	\$ 27.77
Cancelled	(1,425)	\$ 24.77	(23,750)	\$ 21.65	(25,088)	\$ 31.60
Outstanding at end of year	3,618,678	\$ 21.18	3,801,143	\$ 21.08	3,292,987	\$ 28.76
Exercisable at end of year	2,786,063	\$ 20.54	2,149,390	\$ 20.06	1,554,934	\$ 29.22

- (1) In February 2004 the definition of redemption price was amended to include NYSE pricing, reflecting the intent and design of the plan to provide the value of the awards in U.S. currency for U.S. resident employees. Accordingly, the weighted-average redemption price at the beginning of 2004 has been restated to reflect the NYSE price.

The following table summarizes information about equity appreciation units outstanding at December 31, 2005:

UNITS OUTSTANDING			UNITS EXERCISABLE	
WEIGHTED-AVERAGE NUMBER	REMAINING CONTRACTUAL	WEIGHTED-AVERAGE REDEMPTION PRICE	NUMBER	WEIGHTED-AVERAGE REDEMPTION PRICE

<u>RANGE OF REDEMPTION PRICES (US \$)</u>	<u>OUTSTANDING</u>	<u>LIFE (YEARS)</u>	<u>(US \$)</u>	<u>EXERCISABLE</u>	<u>(US \$)</u>
\$17.42 - \$21.72	2,683,313	6.3	\$ 18.86	2,317,098	\$ 19.09
\$23.49 - \$30.59	935,365	8.0	\$ 27.83	468,965	\$ 27.71
	<u>3,618,678</u>			<u>2,786,063</u>	

Restricted Stock Unit Plan

The Restricted Stock Unit Plan is a phantom stock plan wherein the value of a restricted stock unit (RSU) is determined by the value of the Corporation's common shares on the vesting date and is paid to employees in cash or open market shares at the Corporation's discretion. The value of the RSU is determined using the NYSE price for U.S. residents and the TSX price for residents of all other countries. Generally, the units vest and proceeds are distributed three years from the grant date. The value of any common share dividends declared during the vesting period is credited to each RSU account. The value of the RSU's is expensed over the vesting period and is marked-to-market.

At December 31, 2005, a total of 417,730 RSU's were outstanding (December 31, 2004 - 196,178 and December 31, 2003 - nil). The mark-to-market liability for the RSU plan was \$6 million at December 31, 2005 (\$3 million at December 31, 2004, and \$nil million at December 31, 2003).

13. Deferred Share Unit Plans

Under the Corporation's Deferred Share Unit Plans (DSUP), key employees and non-employee directors may elect on an annual basis to receive all or a portion of their management incentive award or director fees, respectively, in deferred share units (DSUs).

The amount of the management incentive award that a key employee elects to have participate in the DSUP will be converted to an equivalent number of DSUs based on the average closing price, on the TSX for Canadian employees and on the NYSE for U. S. employees, of NOVA Chemicals' common shares for the last five consecutive trading days of the month of December prior to the performance period.

The amount of fees that a non-employee director elects to have participate in the DSUP will be converted to an equivalent number of DSUs based on the average closing price, on the TSX or NYSE, of NOVA Chemicals' common shares for the last five consecutive trading days preceding the end of each fiscal quarter in which the fees are earned.

The units are redeemable upon retirement or termination from the Corporation.

A summary of the status of the Corporation's deferred share unit plans as of December 31, 2005, 2004, and 2003, and changes during the years ended on those dates is presented below:

<u>YEAR ENDED DECEMBER 31</u>	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>UNITS</u>	<u>WEIGHTED-AVERAGE PRICE (U.S. \$)</u>	<u>UNITS</u>	<u>WEIGHTED-AVERAGE PRICE (U.S. \$)</u>	<u>UNITS</u>	<u>WEIGHTED-AVERAGE PRICE (U.S. \$)</u>
Outstanding at beginning of year	508,593	\$ 18.75	434,243	\$ 17.29	379,114	\$ 16.97
Earned	12,292	\$ 36.82	116,116	\$ 27.27	55,129	\$ 19.44
Redeemed	-	\$ -	(41,766)	\$ 27.21	-	\$ -
Outstanding at end of year	<u>520,885</u>	<u>\$ 19.18</u>	<u>508,593</u>	<u>\$ 18.75</u>	<u>434,243</u>	<u>\$ 17.29</u>

YEAR ENDED DECEMBER 31	2005		2004		2003	
	UNITS	WEIGHTED-AVERAGE PRICE (CDN. \$)	UNITS	WEIGHTED-AVERAGE PRICE (CDN. \$)	UNITS	WEIGHTED-AVERAGE PRICE (CDN. \$)
NON-EMPLOYEE DIRECTORS DEFERRED SHARE UNITS						
Outstanding at beginning of year	79,938	\$ 29.80	79,676	\$ 29.24	57,383	\$ 29.90
Earned	8,329	\$ 42.13	14,636	\$ 37.50	22,293	\$ 27.57
Redeemed	(5,192)	\$ 30.24	(14,374)	\$ 34.57	-	\$ -
Outstanding at end of year	83,075	\$ 31.01	79,938	\$ 29.80	79,676	\$ 29.24

The amount expensed in aggregate related to the award of units was approximately \$1 million (2004 – \$4 million and 2003 – \$3 million).

14. Restructuring Charges

During 2005, the Corporation provided for \$168 million before-tax (\$125 million after-tax) in restructuring charges related to the following: (1) \$76 million before-tax (\$60 million after-tax) write-down of the Berre, France EPS plant and the Carrington, UK, EPS plant following the announcement by NOVA Innovene to cease EPS production at Berre, France, and permanently shutdown the EPS plant at Carrington, UK; (2) reduction in the recorded benefit of certain tax loss carry-forwards by \$9 million, due to the likelihood of their utilization being reduced as a result of the formation of the NOVA Innovene joint venture and closure of the plants; (3) write-off of certain other non-productive assets amounting to \$9 million before-tax (\$6 million after-tax); (4) \$76 million before-tax (\$46 million after-tax) write-down of the Chesapeake, Virginia, plant value as a result of NOVA Chemicals' decision and January 19, 2006, announcement of its intention to permanently close the plant; and (5) \$7 million before-tax (\$4 million after-tax) charge related to NOVA Chemicals' share of the NOVA Innovene joint venture's restructuring charges associated with the Berre closure.

During 2004, the Corporation provided for \$8 million before-tax (\$5 million after-tax) in restructuring charges for additional dismantling costs related to the closure of its oldest and highest-cost polyethylene production line at the St. Clair River site, announced in 2003. During 2003, NOVA Chemicals recognized \$15 million before-tax (\$10 million after-tax) in restructuring costs related to asset write-down, severance, and other costs associated with this closure.

15. Other Gains and Losses

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2005		2004		2003	
	BEFORE-TAX	AFTER-TAX	BEFORE-TAX	AFTER-TAX	BEFORE-TAX	AFTER-TAX
Tax related settlement(1)	\$ 6	\$ 4	\$ 122	\$ 101	\$ -	\$ -
Gain on sale of 33.3% interest in Alberta Ethane Gathering System (Note 5)	-	-	53	40	-	-
Gain on sale of investment in Methanex (Note 5)	-	-	-	-	29	61
Gain on sale of 50% interest in Fort Saskatchewan Ethylene Storage Limited Partnership (Note 5)	-	-	-	-	76	64
Bayport charge(2)	-	-	-	-	(13)	(8)
Other	2	1	2	2	-	-
Other gains and losses (net)	\$ 8	\$ 5	\$ 177	\$ 143	\$ 92	\$ 117

- (1) The Corporation recorded a gain in 2005 and 2004 related to the resolution of a tax dispute. The dispute related to the deductibility of foreign taxes in certain returns filed with the United States Internal Revenue Service prior to 1982. \$12 million was received in 2004 and an additional \$116 million was received in 2005 from an affiliate of a company in which the Corporation previously had an interest.

- (2) NOVA Chemicals had an explosion, which resulted in a fire at its Bayport, Texas, styrene monomer production facility and as a result, incurred a charge primarily related to the amount of property damage not covered by insurance.

16. Income Taxes

Income tax expense (recovery) varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income (loss) before income taxes as shown in the following table:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS EXCEPT AS NOTED)	2005	2004	2003
Income (loss) before income taxes	\$ (109)	\$ 333	\$ (74)
Statutory income tax rate	33.62%	33.87%	36.74%
Computed income tax expense (recovery)	\$ (37)	\$ 112	\$ (27)
Increase (decrease) in taxes resulting from:			
Manufacturing and processing deduction	–	–	(2)
Lower effective foreign tax rates	9	2	19
Tax benefits not recognized on restructuring charges	16	–	–
Lower effective tax rate on equity in earnings of affiliate	–	–	(12)
Lower tax rates and higher recoveries on asset sales	–	(5)	(56)
Non-provision of future income taxes on cost-of-service operations(1)	–	4	9
Reduction in tax reserve(2)	–	(11)	(20)
Income tax rate adjustments(3)	–	(7)	15
Lower tax rate on gain related to tax settlement(4)	(2)	(21)	–
Other	9	7	1
Income tax expense (recovery)	<u>\$ (5)</u>	<u>\$ 81</u>	<u>\$ (73)</u>
Current income tax expense (recovery)	\$ 68	\$ 45	\$ 17
Future income tax expense (recovery)	<u>(73)</u>	<u>36</u>	<u>(90)</u>
Income tax expense (recovery)	<u>\$ (5)</u>	<u>\$ 81</u>	<u>\$ (73)</u>

- (1) Certain agreements for cost-of-service operations provide for the recovery of income taxes from customers. These agreements expired on June 30, 2004. While the agreements were in effect, the Corporation recorded income tax expense on these operations equal to the amounts recoverable under the agreements, resulting in no effect on net income (loss). Some agreements limited the recoverable amount to current taxes payable. Accordingly, the provision for income taxes excluded future income tax recoveries relating to these operations.
- (2) NOVA Chemicals has a tax reserve, which is available to settle periodic tax disputes and ongoing tax adjustments. NOVA Chemicals assesses this reserve from time to time for adequacy and in 2004 and 2003, determined that it was over-provided.
- (3) In 2004, the Alberta Government substantively enacted a tax rate reduction, which reduced income tax accruals for future tax liabilities by \$7 million. This one-time benefit was recorded as a reduction of income tax expense. The Corporation recorded a similar item in 2003, however, rate increases resulted in a \$15 million additional accrual to income tax liabilities.
- (4) The Corporation recorded a gain in 2005 and 2004 related to the resolution of a tax dispute. The dispute related to the deductibility of foreign taxes in certain returns filed with the United States Internal Revenue Service prior to 1982.

The following table outlines the principal temporary differences comprising the future income tax assets (liabilities) at December 31, 2005:

DECEMBER 31 (MILLIONS OF DOLLARS)

2005

Basis difference in plant and equipment	\$	(843)
Unrealized foreign exchange gains		(57)
Reserves not currently deductible		113
Losses available to be carried forward		184
Other		(42)
Net future income tax liability	\$	<u>(645)</u>

The following table outlines the income tax expense (recovery) arising from Canadian and Foreign operations:

YEAR ENDED DECEMBER 31(MILLIONS OF DOLLARS)	2005	2004	2003
Income (loss) before income taxes			
Canadian	\$ 204	\$ 474	\$ 63
Foreign	(313)	(141)	(137)
	<u>\$ (109)</u>	<u>\$ 333</u>	<u>\$ (74)</u>
Current income tax expense (recovery)			
Canadian	\$ 81	\$ 44	\$ 14
Foreign	(13)	1	3
	<u>68</u>	<u>45</u>	<u>17</u>
Future income tax expense (recovery)			
Canadian	(14)	84	(53)
Foreign	(59)	(48)	(37)
	<u>(73)</u>	<u>36</u>	<u>(90)</u>
Total income tax expense (recovery)	<u>\$ (5)</u>	<u>\$ 81</u>	<u>\$ (73)</u>

17. Changes in Non-Cash Working Capital

YEAR ENDED DECEMBER 31(MILLIONS OF DOLLARS)	2005	2004	2003
Accounts receivable	\$ 3	\$ (251)	\$ (67)
Inventories	(46)	(242)	(71)
Accounts payable and accrued liabilities	188	221	25
Changes in non-cash working capital	145	(272)	(113)
Reclassification and other items not having a cash effect	(75)	101	8
Changes in non-cash working capital having a cash effect	<u>\$ 70</u>	<u>\$ (171)</u>	<u>\$ (105)</u>
These changes relate to the following activities:			
Operating	\$ (42)	\$ (78)	\$ (125)
Investing	110	(110)	7
Financing(1)	2	17	13
(Increase) decrease in working capital	<u>\$ 70</u>	<u>\$ (171)</u>	<u>\$ (105)</u>

(1) Changes in non-cash working capital related to financing activities include project advances of \$nil million (2004 – \$15 million and 2003 – \$11 million).

18. Employee Future Benefits

Pension Plans

NOVA Chemicals sponsors both defined benefit and defined contribution pension arrangements.

Defined benefit pensions at retirement are mainly related to years of service and remuneration during the last years of employment with some plans having limited or conditional indexing provisions. Actuarial reports are prepared regularly by independent actuaries for accounting and funding purposes. The last actuarial valuation for all significant plans in North America and Europe was December 31, 2004. The Corporation funds the plans using a valuation based on the projected unit credit method as determined by independent actuaries.

Plan assets are measured at fair value while pension obligations are discounted using current yield rates of corporate bonds with terms to maturity that approximate the duration of the Corporation's pension liabilities. The plans' assets consist primarily of publicly traded equity and fixed income securities. Prior to January 1, 2005, the Corporation used a measurement date of December 31 for its pension and post-retirement plans. Effective January 1, 2005, the Corporation began using a measurement date of November 30 for its pension and post-retirement plans.

Upon commencement of the NOVA Innovene joint venture in October 2005, the defined benefit pension plans of each pre-joint venture entity were retained with specific arrangements, whereby the responsibility for past service assets and liabilities is retained by the pre-joint venture company and the responsibility for future service assets and liabilities is assumed by NOVA Innovene. Therefore, the amounts presented in the defined benefit pension tables represent NOVA Chemicals' plans prior to October 1, 2005, and NOVA Chemicals' obligations subsequent to the creation of the NOVA Innovene joint venture.

Pension and post-retirement expense (included in operating and selling, general and administrative costs) for all significant defined benefit plans consisted of the following:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	PENSION PLANS			POST-RETIREMENT PLANS		
	2005	2004	2003	2005	2004	2003
Current service cost	\$ 26	\$ 24	\$ 21	\$ 2	\$ 2	\$ 2
Interest cost on projected benefit obligations	39	34	30	4	4	4
Actual return on plan assets	(55)	(45)	(50)	–	–	–
Actual (gain) loss on accrued benefit obligations	2	25	25	–	(2)	9
Costs arising in the period	12	38	26	6	4	15
Differences between costs arising in the period and costs recognized in the period in respect of the long-term nature of employee future benefit costs:						
Return on plan assets	18	14	24	–	–	–
Transitional (asset) obligation	(5)	(5)	(4)	1	1	1
Actuarial (gain) loss	5	(21)	(20)	1	3	(9)
Past service and actual plan amendments	1	2	1	–	–	–
Net defined benefit cost recognized	\$ 31	\$ 28	\$ 27	\$ 8	\$ 8	\$ 7

The status of all significant defined benefit pension and post-retirement plans is as follows:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT AS NOTED)	PENSION PLANS			POST-RETIREMENT PLANS		
	2005	2004	2003	2005	2004	2003
Change in benefit obligations						
Benefit obligation at beginning of year	\$ 668	\$ 569	\$ 430	\$ 73	\$ 69	\$ 53
Current service cost	26	24	21	2	2	2

Interest cost	39	34	30	4	4	4
Experience (gain) loss	85	25	24	(8)	7	10
Settlement/curtailment	-	-	(2)	-	-	(1)
Commutated value payments	(6)	(7)	-	-	-	-
Employee contributions	4	5	5	1	1	-
Medicare Act subsidy effect	-	-	-	-	(9)	-
Benefits paid	(21)	(21)	(20)	(3)	(3)	(2)
Foreign currency exchange rate loss	2	39	81	1	2	3
Benefit obligation at end of year	<u>\$ 797</u>	<u>\$ 668</u>	<u>\$ 569</u>	<u>\$ 70</u>	<u>\$ 73</u>	<u>\$ 69</u>
Change in plan assets						
Fair value of plan assets at beginning of year	\$ 506	\$ 425	\$ 312	\$ -	\$ -	\$ -
Actual return on plan assets	55	45	50	-	-	-
Employer and employee contributions	52	32	20	3	3	2
Settlement/curtailment	-	-	(2)	-	-	-
Benefits paid	(27)	(28)	(20)	(3)	(3)	(2)
Foreign currency exchange rate gain (loss)	(1)	32	65	-	-	-
Fair value of plan assets at end of year	<u>\$ 585</u>	<u>\$ 506</u>	<u>\$ 425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status						
Plan assets in deficiency of benefit obligation	\$ (212)	\$ (162)	\$ (144)	\$ (70)	\$ (73)	\$ (69)
Unrecognized net transitional (asset) obligation	(44)	(47)	(49)	10	11	10
Unrecognized prior service cost	3	6	7	-	-	-
Unrecognized net actuarial loss	195	132	118	11	19	22
December contribution	2	-	-	-	-	-
Net amounts recognized in consolidated balance sheets	<u>\$ (56)</u>	<u>\$ (71)</u>	<u>\$ (68)</u>	<u>\$ (49)</u>	<u>\$ (43)</u>	<u>\$ (37)</u>
Weighted-average assumptions						
Discount rate	5.2%	5.6%	5.9%	5.6%	5.8%	6.1%
Assumed long-term rate of return on plan assets(1)	7.3%	7.3%	7.3%	-	-	-
Rate of increase in future compensation	3.6%	3.2%	3.2%	-	-	4.2%
Long-term health care inflation(2)	-	-	-	4.9%	5.0%	5.0%

- (1) NOVA Chemicals establishes an appropriate long-term rate of return for each plan's assets which reflects asset allocations within each plan as well as independent views of long-term rate of return expectations for each asset class.
- (2) Ultimate trend rate expected to be achieved between 2011 and 2013. The assumed health care cost trend rate used to measure the 2005 expected cost of benefits covered by the plans is 11% on average.

The plans are presented on the basis of accrued benefit obligations, rather than accumulated benefit obligations. All of NOVA Chemicals' pension plans have accrued benefit obligations that exceed the fair value of plan assets as of December 31, 2005, and 2004. The accrued benefit obligation and the fair value of assets for these plans were \$797 million and \$585 million, respectively, at December 31, 2005, and \$668 million and \$506 million, respectively, at December 31, 2004. Included in the accrued benefit obligation and fair value of plan assets at December 31, 2003, are the following amounts in respect of plans that are not fully funded: accrued benefit obligation - \$563 million and fair value of plan assets - \$418 million.

Expected benefit payments for the defined benefit pension plans are \$34 million for 2006, \$34 million for 2007, \$58 million for 2008, \$41 million for 2009, \$43 million for 2010 and \$271 million for the five years thereafter.

Expected benefit payments for the post-retirement plans are \$3 million for 2006, \$3 million for 2007, \$3 million for 2008, \$3 million for 2009, \$4 million for 2010 and \$21 million for the five years thereafter.

In 2006, NOVA Chemicals expects to fund its defined benefit pension plans by \$60 million.

Defined Benefit Plan Assets

The Corporation's investment strategy for defined benefit plans is determined for each plan after taking into consideration the plan structure, nature of the liabilities, the funded status and cash flow requirements of the plan, the size of the assets, and the financial situation of the Corporation and its ability to withstand fluctuations in pension contributions. The assets of each plan are currently invested in a variety of traditional financial instruments such as equities and fixed income securities using a combination of active and passive strategies. Non-traditional assets such as real estate and venture capital may also be considered in certain situations. Although the Corporation does not consider derivatives a separate asset class, they are permitted in order to manage the allocation of investments across asset classes, markets and currencies. However, under no circumstances can they be used for speculative purposes or have the effect of leveraging the assets.

While most of the benefits of diversification are achieved by allocating across different asset classes, the Corporation also believes it may be appropriate to further diversify by using multiple investment managers and employing different management styles within an asset class.

In Europe, the Corporation has pension plans in several countries that vary considerably in membership, liability structure, pension arrangement, and asset size. Given these differences, the asset allocation can vary significantly not only from the North American plans, but also by country. In addition, some European plans are re-insured with the investment strategy and asset allocation determined or heavily influenced by the re-insurer.

The Corporation's Canadian and U.S. plans are the most significant to the Corporation with 81% of total pension assets and 94% of total plan members in these plans. The asset allocation for these pension plans at the end of 2005, 2004, and 2003 and the target allocation for 2006, by asset category follows. This information has been aggregated within a geographic segment as asset allocations are similar for the Canadian and U.S. plans.

North American Plans

ASSET CATEGORY YEAR ENDED DECEMBER 31	TARGET ALLOCATION		PERCENTAGE OF PLAN ASSETS	
	2006	2005	2004	2003
Equities	60%	60%	60%	61%
Fixed Income	40%	40%	40%	39%
Total	100%	100%	100%	100%

Post-Retirement Benefits Other Than Pensions

The Corporation provides medical care and life insurance benefits to eligible retirees and their dependents in North America. The Corporation accrues the cost of providing post-retirement benefits as the employees provide services. Post-retirement costs are funded as they are incurred.

A 1% increase in the health care inflation rate would have increased the accumulated post-retirement benefit obligation by an additional \$6 million at December 31, 2005 for Canadian plans and \$6 million for U.S. plans. A 1% decrease in the same health care inflation rate would have decreased the post-retirement benefit obligation by \$5 million and \$5 million for Canadian and U.S. plans, respectively.

Defined Contribution Arrangements

NOVA Chemicals has a number of defined contribution arrangements providing pension benefits to certain groups of employees. The total expense for the Corporation's contributions to these plans in 2005 was \$7 million (2004 – \$7 million and 2003 – \$6 million). In 2006, NOVA Chemicals expects to fund its defined contribution plans by approximately \$7 million.

19. Asset Retirement Obligations

The Corporation's asset retirement obligations are comprised of expected costs to be incurred upon termination of operations and the closure of active manufacturing plant facilities. The total undiscounted amount of estimated cash flows expected to be incurred on closure of active plants in 25 to 40 years is between \$225 million and \$250 million. This amount is based on third-party cost estimates obtained from reputable sources after an in-depth review of active plant sites and required clean-up and restoration activities. In arriving at the estimated asset retirement obligation, a credit-adjusted risk-free rate of 10.5% was used to discount the estimated future cash flows. The estimated asset retirement obligation liability of \$18 million at December 31, 2005 will increase, or accrete, each year over the lives of active plants until it equals the \$225 million to \$250 million expected to be incurred on closure of the plants. In addition to the liability for active sites, the Corporation also has an asset retirement obligation liability for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use. The accrued liability associated with these sites is \$3 million and is considered to be adequate at this time.

20. Contingencies and Commitments

Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of the Corporation.

The Corporation leases office space and transportation equipment under various operating leases. The minimum lease payments are approximately \$543 million in total with annual amounts of \$48 million in 2006, \$41 million in 2007, \$39 million in 2008, \$42 million in 2009, \$39 million in 2010, and \$334 million thereafter. Rental expense under operating leases was \$63 million in 2005 (2004 – \$59 million and 2003 – \$53 million).

The Corporation has entered into agreements for the purchase of minimum amounts of feedstock and other raw materials for short- and long-term supply. The resulting obligations, based on year-end market prices, are approximately \$11,034 million in total with annual amounts of \$3,825 million in 2006, \$1,494 million in 2007, \$881 million in 2008, \$728 million in 2009, \$430 million in 2010, and \$3,676 million thereafter.

The Corporation is obligated under a long-term styrene monomer supply agreement to supply the NOVA Innovene joint venture with 50% of the joint venture's styrene monomer feedstock requirements.

21. Segmented Information

The Corporation determines its reportable segments based on the structure of its operations, which are primarily focused in two principal business segments - Olefins/Polyolefins and Styrene/Styrenic Polymers (Styrenics). These operations involve the production and marketing of ethylene and polyethylene resins, and styrene monomer and styrenic polymers, respectively.

Financial Information By Business Segment

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Revenue			
Olefins and polyolefins	\$ 3,586	\$ 3,230	\$ 2,559
Styrenics	2,259	2,324	1,579

Intersegment eliminations	(229)	(284)	(189)
	<u>\$ 5,616</u>	<u>\$ 5,270</u>	<u>\$ 3,949</u>
Depreciation and amortization			
Olefins and polyolefins	\$ 166	\$ 181	\$ 187
Styrenics	124	116	111
	<u>\$ 290</u>	<u>\$ 297</u>	<u>\$ 298</u>
Operating income (loss)			
Olefins and polyolefins	\$ 437	\$ 445	\$ 98
Styrenics	(271)	(71)	(147)
Corporate and other(1)	(170)	(110)	(26)
	<u>\$ (4)</u>	<u>\$ 264</u>	<u>\$ (75)</u>
Net income (loss)			
Olefins and polyolefins	\$ 241	\$ 249	\$ 2
Styrenics	(221)	(73)	(140)
Equity investments	-	-	37
Corporate and other(1)	(124)	76	100
	<u>\$ (104)</u>	<u>\$ 252</u>	<u>\$ (1)</u>
Plant, property, and equipment additions (net)			
Olefins and polyolefins	\$ 256	\$ 127	\$ 74
Styrenics	163	115	56
	<u>\$ 419</u>	<u>\$ 242</u>	<u>\$ 130</u>

DECEMBER 31 (MILLIONS OF DOLLARS)

	2005	2004	2003
Assets			
Olefins and polyolefins	\$ 2,906	\$ 2,510	\$ 2,246
Styrenics	1,917	2,018	1,767
Corporate and other(2)	394	519	400
	<u>\$ 5,217</u>	<u>\$ 5,047</u>	<u>\$ 4,413</u>

(1) Corporate and other operating income (loss) includes the mark-to-market changes for stock-based compensation liabilities, profit sharing, restructuring, and other gains and losses.

(2) Amounts include all cash and cash equivalents.

Financial Information By Geographic Area

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)

	2005	2004	2003
Revenue(1)			
Canada	\$ 1,976	\$ 1,706	\$ 1,414
United States	2,478	2,390	1,789
Europe and other	1,162	1,174	746
	<u>\$ 5,616</u>	<u>\$ 5,270</u>	<u>\$ 3,949</u>
Export sales from Canadian operations			
United States	\$ 1,513	\$ 1,393	\$ 1,054

Europe and other		255	248	148
	\$	<u>1,768</u>	<u>1,641</u>	<u>1,202</u>
Operating income (loss)				
Canada	\$	330	386	4
United States		(147)	(94)	(66)
Europe and other		(187)	(28)	(13)
	\$	<u>(4)</u>	<u>264</u>	<u>(75)</u>
Equity in earnings of affiliates				
Canada	\$	-		39
DECEMBER 31 (MILLIONS OF DOLLARS)		2005	2004	2003
Assets(2)				
Canada	\$	3,163	2,943	2,600
United States		1,235	1,303	1,113
Europe and other		791	773	673
Investments		28	28	27
	\$	<u>5,217</u>	<u>5,047</u>	<u>4,413</u>

(1) Based on location of customer.

(2) Based on location of the operating facility.

22. Financial Instruments

Financial Instrument Fair Values

Financial instrument fair values represent a reasonable approximation of amounts NOVA Chemicals would have received or paid to counterparties to unwind positions prior to their maturity. NOVA Chemicals has no plans to unwind these positions prior to maturity and has no significant exposure to any individual customer or counterparty.

The carrying amounts reported on the balance sheets for cash and cash equivalents, accounts receivable, bank loans, and accounts payable approximate their fair value. Fair values and carrying amounts for long-term debt are as follows:

DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	CARRYING AMOUNT(1)			ESTIMATED FAIR VALUE(2)		
	2005	2004	2003	2005	2004	2003
Long-term debt	<u>\$ 2,038</u>	<u>\$ 1,714</u>	<u>\$ 1,682</u>	<u>\$ 2,050</u>	<u>\$ 1,798</u>	<u>\$ 1,737</u>

(1) Includes debt installments due within one year.

(2) The fair value of long-term debt is based on quoted market prices, where available. If market prices are not available, fair values are estimated using discounted cash flow analysis, based on NOVA Chemicals' current incremental borrowing rates for similar borrowing arrangements.

Foreign Exchange Risk Management

NOVA Chemicals has U.S., Canadian and European-based petrochemical operations. As a result, a portion of the Corporation's expenditures are incurred in Canadian dollars and euros. At December 31, 2005, NOVA Chemicals had no foreign currency forward exchange contracts outstanding nor any plans to enter into any such contracts.

Stock Price Volatility Risk Management

In 2005, the Corporation entered into cash-settled share forward transactions to manage its exposure to fluctuations in its stock-based compensation costs related to its two cash-settled stock-based incentive compensation plans. Compensation costs associated with the plans fluctuate as a result of changes in the market price of the Corporation's common stock. In 2005, the Corporation entered into forward transactions for a total of 3,612,100 notional common shares with an average forward price of U.S. \$45.66. The forward transactions are cash-settled at the end of a 3-year term (November 2008), or at any time prior to that date, at the option of the Corporation, based on the difference between the Corporation's common stock price on the NYSE and the average execution price. If the Corporation's common stock price is in excess of the average execution price on the settlement date, the Corporation will receive the difference per share in cash, and if the Corporation's common stock price is less than the average execution price, the Corporation will pay the difference per share in cash. The forward transactions include an interest component, which is accrued and payable by the Corporation on settlement of the forward transactions. The average execution price is determined by reference to the average forward price, less the interest component, and is \$37.56. If the Corporation's common stock price is in excess of the average execution price, an unrealized gain is recorded and if the Corporation's common stock price is below the average execution price, an unrealized loss is recorded. Unrealized gains and losses associated with the share forward transactions are recorded as part of selling, general and administrative expenses, offsetting unrealized losses or gains on the cash-settled stock-based incentive compensation plans, and as long-term receivables or payables. At December 31, 2005, the mark-to-market value of the share forward transactions was a \$15 million unrealized loss, which is included in long-term liabilities.

Commodity Price Risk Management

NOVA Chemicals uses commodity-based derivatives to manage its exposure to price fluctuations on crude oil, refined products and natural gas transactions. The instruments are used to moderate the risk of adverse short-term price movements. Occasionally, longer-term positions will be taken to manage price risk for anticipated supply requirements.

At December 31, 2005, 2004, and 2003, the notional volume and estimated fair value of outstanding derivative contracts for natural gas are as follows:

DECEMBER 31		2005	2004	2003
Basis swaps				
Notional volume	mcf millions	–	12.6	76.0
Weighted-average basis differential per mcf (1)	U.S.	\$ –	\$ 0.61	\$ 0.52
Estimated fair value (2)	U.S. millions	\$ –	\$ (3)	\$ (18)
Term to maturity	Months	–	1-3	1-15
Options				
Notional volume – calls	mcf millions	–	1.1	3.6
Notional volume – puts	mcf millions	–	8.6	33.5
Weighted-average price per mcf – calls	U.S.	\$ –	\$ 5.05	\$ 6.27
Weighted-average price per mcf – puts (3)	U.S.	\$ –	\$ 2.50	\$ 2.42
Estimated fair value (4)	U.S. millions	\$ –	\$ 1	\$ 1
Term to maturity	Months	–	1-3	1-15

(1) The Corporation will pay or receive the difference between the NYMEX market price and the U.S. export market price, plus a fixed differential established in the contract.

- (2) The Corporation crystallized the losses on all of the basis swaps by placing offsetting positions. These crystallized losses will be recognized in income at their originally intended maturity dates.
- (3) The Corporation will pay the difference between the NYMEX market price and the contract price (if contract is higher than market).
- (4) Unrealized before-tax gain (loss).

At December 31, 2005, 2004, and 2003, the notional volume and estimated fair value of outstanding derivative contracts for crude oil, refined products, and alternative feedstock are as follows:

<u>DECEMBER 31</u>		<u>2005</u>	<u>2004</u>	<u>2003</u>
Notional volume (1)	bbls millions	5.4	4.0	6.4
Weighted-average price per bbl	U.S.	\$ 51.56	\$ 42.67	\$ 29.96
Estimated fair value (2)	U.S. millions	\$ 19	\$ 12	\$ 9
Mark-to-market (3)	U.S. millions	\$ 19	\$ 9	\$ -
Term to maturity	Months	<u>1-19</u>	<u>1-24</u>	<u>1-36</u>

- (1) The year 2005 includes 2.3 million bbls of crude contracts and 3.1 million bbls of lpg contracts.
- (2) Unrealized gain (loss).
- (3) Recognized before-tax gain, equal to unrealized gain less deferred transitional gain.

At December 31, 2005, 2004, and 2003, the notional volume and estimated fair value of outstanding derivative contracts for benzene are as follows:

<u>DECEMBER 31</u>		<u>2005</u>	<u>2004</u>	<u>2003</u>
Notional volume	gls millions	-	0.2	-
Weighted-average price per gl (1)	U.S.	\$ -	\$ 3.05	\$ -
Estimated fair value (2)	U.S. millions	\$ -	\$ (2)	\$ -
Mark-to-market (3)	U.S. millions	\$ -	\$ (2)	\$ -
Term to maturity	Months	<u>-</u>	<u>1-3</u>	<u>-</u>

- (1) Benzene swaps, options, collars.
- (2) Unrealized loss.
- (3) Recognized before-tax loss.

In addition to the crystallized and outstanding positions described in the tables above, the Corporation has liquidated certain natural gas and crude oil positions. Gains on these positions attributable to changes in value prior to January 1, 2004 were deferred and are being recognized in income (loss) at the original maturity dates. The unamortized portion of liquidated gains was \$nil million at December 31, 2005 (2004 - \$3 million).

The Corporation has recognized a net pre-tax gain of \$19 million from commodity risk management activities in income (loss) for the year ended December 31, 2005 (2004 - \$24 million). This gain is the result of \$7 million (2004 - \$16 million) of realized net gains from settled, crystallized, and liquidated positions and \$12 million (2004 - \$8 million) of net mark-to-market gains on unrealized positions. Gains and losses on commodity-based derivatives are included in feedstock and operating costs.

Interest Rate Risk Management

When deemed appropriate, NOVA Chemicals enters into interest rate swap agreements to manage its interest rate price risk exposure on certain fixed-rate debt. The agreements generally involve the receipt of fixed-rate amounts in exchange for floating-rate LIBOR based payments over the terms of the related debt. In 2005, the Corporation had fixed-for-floating interest rate swaps outstanding on \$300 million (2004 - \$300 million and 2003 - \$550 million) of medium-term notes. These positions had an estimated fair-market value of \$(3) million at December 31, 2005 (\$(2) million at December 31, 2004, and \$4 million at December 31, 2003).

In prior years, a series of interest rate swaps on \$550 million of fixed-rate debt were liquidated, resulting in a before-tax gain of \$40 million in total. The gains have been deferred and are being recognized in income (loss) as a reduction of interest expense over the terms of the related debt instruments, which mature in 2006 and 2009.

Credit Risk Management

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which NOVA Chemicals is entitled to receive payment of an unrealized gain fails to perform. NOVA Chemicals has established a limit on contingent exposure for each counterparty based on the counterparty's credit rating. Credit exposure is managed through credit approval and monitoring procedures. NOVA Chemicals does not anticipate any counterparties that it currently transacts with will fail to meet their obligations. At December 31, 2005, 2004, and 2003, NOVA Chemicals' credit exposure was \$nil million for foreign currency instruments, \$nil million (2004 - \$nil million and 2003 - \$4 million) for interest rate instruments, \$19 million (2004 - \$11 million and 2003 - \$3 million) for commodity-based instruments and \$nil million for share based instruments.

Concentration of credit risk relates primarily to the Corporation's receivables, as certain customer groups are located in the same geographic area and operate in the same industry. The Corporation manages its credit risk relating to these receivables through credit approval and monitoring procedures.

23. United States Generally Accepted Accounting Principles

Reconciliation To Accounting Principles Generally Accepted In The United States

The Corporation prepares its consolidated financial statements in accordance with Canadian GAAP, which, in some respects, are different from U.S. GAAP. The effect of these differences on the Corporation's consolidated net income (loss) and balance sheet are as follows:

YEAR ENDED DECEMBER 31(MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2005	2004	2003
Net income (loss) in accordance with Canadian GAAP	\$ (104)	\$ 252	\$ (1)
Add (deduct) adjustments for:			
Start-up costs (1)	(13)	5	4
Foreign exchange derivative instruments and hedging activity (2)	-	-	3
Other derivative instruments and hedging activity (2)	(3)	-	(7)
Inventory costing (3)	4	4	(1)
Equity in earnings of affiliate (4)	-	-	(1)
Changes in accounting policies (5)	-	(7)	5
Other gains (6)	-	-	42
Other	1	-	1
Net income (loss) in accordance with U.S. GAAP	<u>\$ (115)</u>	<u>\$ 254</u>	<u>\$ 45</u>
Net income (loss) per share using U.S. GAAP			
- Basic	\$ (1.39)	\$ 2.93	\$ 0.52
- Diluted	<u>\$ (1.39)</u>	<u>\$ 2.73</u>	<u>\$ 0.51</u>
Comprehensive income (loss) (net of tax) (7)			

Net income (loss) in accordance with U.S. GAAP	\$	(115)	\$	254	\$	45
Cumulative translation adjustment (8)		(29)		121		395
Less: Reclassification of amounts included in net income (loss)		–		–		(54)
Unrealized gain on cash flow hedging instruments						
(less tax of \$(2) in 2003) (2)		–		–		4
Equity in comprehensive loss of affiliate (4)		–		–		(3)
Minimum pension liability adjustments (less tax of \$6, \$nil and \$2) (9)		(9)		1		(3)
Comprehensive income in accordance with U.S. GAAP	\$	(153)	\$	376	\$	384
Accumulated other comprehensive income (7)						
Cumulative translation adjustment (8)	\$	303	\$	332	\$	211
Minimum pension liability (9)		(12)		(3)		(4)
Accumulated other comprehensive income	\$	291	\$	329	\$	207

DECEMBER 31 (MILLIONS OF DOLLARS)	2005	2004	2003
Balance sheet items in accordance with U.S. GAAP			
Current assets (2),(3)	\$ 1,455	\$ 1,482	\$ 959
Investment and other assets (1),(2),(4),(9)	159	139	157
Plant, property, and equipment (net) (1),(5)	3,604	3,429	3,311
Current liabilities (2)	(1,293)	(893)	(585)
Long-term debt (2),(5)	(1,742)	(1,625)	(1,703)
Deferred credits and long-term liabilities (2),(9)	(972)	(1,030)	(829)
Common shareholders' equity	<u>\$ 1,211</u>	<u>\$ 1,502</u>	<u>\$ 1,310</u>

- (1) **Start-up Costs.** Canadian GAAP provides that when an entity starts up a new facility, expenditures incurred during the pre-operating period may be deferred when certain criteria are met. Under U.S. GAAP, all costs (except interest on constructed assets) associated with start-up activities must be expensed as incurred. See Note 5 for information on the Corporation's start-up costs.
- (2) **Derivative Instruments and Hedging Activities.** Canadian GAAP does not require the recognition of derivative instruments on the consolidated balance sheet at fair values, unless the derivative instrument does not qualify for hedge accounting under Canadian Accounting Guideline 13, Hedging Relationships (AcG-13). Non-qualifying derivatives are adjusted to fair value through income (loss). Under U.S. GAAP, entities must follow the recommendations of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires the recognition of all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income (loss). If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. For derivatives that are designated and qualify as hedging instruments, the Corporation documents the hedging strategy, including hedging instrument and hedged item, based on the risk exposure being hedged. Based upon the designated hedging strategy, effectiveness of the hedge in offsetting the hedged risk is assessed at inception and on an ongoing basis during the term of the hedge. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The application of SFAS No. 133 for U.S. GAAP reporting results in differences related to foreign exchange, commodity based and other derivative instruments used by the Corporation. For information regarding the Corporation's use of derivatives and hedging activities under Canadian GAAP, see Note 22.

- (3) **Inventory Costing.** Canadian GAAP allows fixed overhead costs associated with production activities to be expensed during the period whereas U.S. GAAP requires an allocation of fixed production overhead to inventory.

- (4) **Equity in Earnings of Affiliate.** NOVA Chemicals' share of adjustments to financial information and results of operations of equity investments to comply with U.S. accounting principles.
- (5) **Changes in Accounting Policies.** On January 1, 2005, NOVA Chemicals adopted the Canadian and U.S. GAAP recommendations for certain types of mandatorily redeemable shares and other financial instruments, which require these instruments to be classified as liabilities rather than equity. See Note 2.
On January 1, 2004, NOVA Chemicals adopted the fair value method of accounting for equity settled stock-based compensation, as more fully described in Note 2.
On January 1, 2003, the Corporation adopted SFAS No. 143, Accounting for Asset Retirement Obligations. This standard and the CICA standard, also adopted on January 1, 2003, and discussed in Notes 2 and 19, are essentially the same. However, under U.S. GAAP, the cumulative effect of adopting a new standard is reflected in net income (loss) in the period of adoption, whereas under Canadian GAAP, it is reflected as a charge or credit to reinvested earnings.
- (6) **Other Gains.** Difference in gain on disposition of investment in Methanex resulting from different cost basis under U.S. GAAP.
- (7) **Comprehensive Income.** U.S. GAAP SFAS No. 130, Reporting Comprehensive Income, requires the presentation of a statement containing the components of comprehensive income (loss) and the accumulated balance of other comprehensive income. Comprehensive income includes all changes in equity during the period including items that are not in net income (loss). This statement is not currently required under Canadian GAAP.
- (8) **Cumulative Translation Adjustment.** Under U.S. GAAP, unrealized gains (losses) resulting from translation of self-sustaining foreign operations are recorded in other comprehensive income until there is a realized reduction in the investment.
- (9) **Minimum Pension Liability.** SFAS No. 87, Employer's Accounting for Pensions, requires an employer to record an additional minimum liability (AML) if the unfunded accumulated benefit obligation exceeds the accrued pension liability or if there is a prepaid pension asset with respect to the plan. If an AML is recognized, an intangible asset, in an amount not exceeding the unrecognized prior service cost, is also recognized. The excess of the AML, over the intangible asset, if any, is charged to other comprehensive income, net of income tax effects. At December 31, 2005, an AML and an intangible asset, in the amount of \$22 million and \$4 million, respectively, have been recognized, resulting in a charge of \$12 million (net of tax) to other accumulated comprehensive income (loss).
- (10) **Joint Ventures.** NOVA Chemicals accounts for its interests in joint ventures using the proportionate consolidation method under Canadian GAAP. As permitted by specific United States Securities and Exchange Commission exemptions, adjustments to reflect equity accounting, as required under U.S. GAAP, have not been made. The equity method would not result in any changes in NOVA Chemicals' net income (loss) or shareholders' equity, however, all assets, liabilities, revenue, expenses and most cash flow items would decrease when compared with the amounts that are presented using proportionate consolidation.

Other Disclosures

Stock-based Compensation. SFAS No. 123 Accounting for Stock-Based Compensation, defines a fair-value based method of accounting for employee stock options and encourages the use of this method to account for stock compensation plans. NOVA Chemicals adopted the fair-value method of accounting for stock-based compensation on January 1, 2004.

The following table outlines the impact on the Corporation's 2003 U.S. GAAP results had compensation expense for the stock option plan been determined based on the fair value method as prescribed under SFAS No. 123:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

2003

Net income in accordance with U.S. GAAP		
As reported	\$	45
Pro forma	\$	38
Earnings per share – basic		
As reported	\$	0.52
Pro forma	\$	0.44
Earnings per share – diluted		
As reported	\$	0.51
Pro forma	\$	<u>0.44</u>

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements with respect to NOVA Chemicals. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Forward-looking statements for the time periods beyond 2006 involve longer-term assumptions and estimates than forward-looking statements for 2006 and are consequently subject to greater uncertainty. We caution readers of this Annual Report not to place undue reliance on our forward-looking statements as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The words “believe,” “expect,” “plan,” “intend,” “estimate,” or “anticipate” and similar expressions, as well as future or conditional verbs such as “will,” “should,” “would,” and “could” often identify forward-looking statements. Specific forward looking statements contained in this Annual Report include, among others, statements regarding: our expected financial performance in future periods, including cost savings in the Styrenics Business; NOVA Chemicals’ expectations regarding future improvements in underlying EBITDA from its Olefins/ Polyolefins and Styrenics Businesses due to its Performance Products; NOVA Chemicals’ expectations of favorable market conditions in the near-term; the effect of forward transactions on NOVA Chemicals’ earnings; our expectations of the supply/demand balance and global and North American operating rates in future periods; changes in the demand for our products and the future sales of our standard and Performance Products and production capacity growth; changes in our historical average cost advantage for ethylene produced at our Joffre, Alberta, site; the expected completion dates and benefits of our plant modernization projects; changes in pricing policies by us or our competitors; our competitive advantages and ability to compete successfully; our plans to increase our capacity to manufacture Performance Products; our beliefs concerning the cost savings and other benefits of our joint ventures; our estimates of the present value of our future net cash flows; changes in the costs of energy and raw materials; our methods of raising capital; our level of debt; our intended quarterly dividend; and general economic conditions.

With respect to forward-looking statements contained in this Annual Report, we have made assumptions regarding, among other things: future oil, natural gas, natural gas liquids and benzene prices; our ability to obtain raw materials; our ability to market products successfully to our anticipated customers; the impact of increasing competition; and our ability to obtain financing on acceptable terms. Some of our assumptions are based upon internal estimates and analyses of current market conditions and trends, management plans and strategies, economic conditions and other factors and are necessarily subject to risks and uncertainties inherent in projecting future conditions and results.

Some of the risks that could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements include: commodity chemicals price levels (which depend, among other things, on supply and demand for these products, capacity utilization and substitution rates between these products and competing products); feedstock availability and prices; operating costs; terms and availability of financing; technology developments; currency exchange rate fluctuations; starting up and operating facilities using new technology; realizing synergy and cost savings targets; our ability to implement or business strategies; meeting time and budget targets for significant capital investments; avoiding unplanned facility shutdowns; safety, health, and environmental risks associated with the operation of chemical plants and marketing of chemical products, including transportation of these products; public perception of chemicals and chemical end-use products; the impact of competition; changes in customer demand, including customer acceptance of our Performance Products; changes in, or the introduction of new laws and regulations relating to our business, including environmental, competition and employment laws; costs to comply with the Kyoto Protocol; loss of the services of any of our executive officers; uncertainties associated with the North American, South American, European, and Asian economies; terrorists attacks; severe weather events; and other risks detailed from time to time in the publicly filed disclosure documents and securities commission reports of NOVA Chemicals.

NOVA Chemicals’ forward-looking statements are expressly qualified in their entirety by this cautionary statement. In addition, the forward-looking statements are made only as of the date of this Annual Report, and except as required by applicable law, we undertake no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise.

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MANAGEMENT' S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with information contained in the Consolidated Financial Statements and the notes thereto starting on page 63. This discussion and analysis has been based upon financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). These accounting principles are different in some respects from those generally accepted in the United States, and the significant differences are described in Note 23 to the Consolidated Financial Statements. References to average capital employed, after-tax return on capital employed, cash flow cycle time, net debt to total capitalization, earnings before interest, taxes, depreciation and amortization, and net income (loss) from the businesses should be read in conjunction with the discussion of Supplemental Measures on page 55. This discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit, Finance and Risk Committee comprised exclusively of independent directors. The Audit, Finance and Risk Committee reviews this disclosure and recommends its approval by the Board of Directors. This discussion and analysis was prepared as of February 15, 2006.

All amounts are presented in U.S. dollars unless otherwise noted.

Plastics and Chemicals

NOVA Chemicals is a focused plastics and chemicals company that operates two primary businesses:

The Olefins/Polyolefins business manufactures and sells ethylene, ethylene co-products and polyethylene resins.

The Styrenics business manufactures and sells styrene monomer, polystyrene and expandable polystyrene.

Polyethylene and styrenic polymer products are used in a wide variety of applications, including rigid and flexible packaging, food packaging, construction materials, electronics, appliances, automotive components, and other industrial and consumer goods.

NOVA Chemicals' assets consist of NOVA Chemicals constructed world scale plants; acquisitions from companies such as Polysar Energy and Chemical Corporation, Union Carbide Canada Ltd., DuPont Canada Inc., ARCO Chemical Company, Huntsman Corporation and the Shell Petroleum Company Limited; and joint ventures with Dow Chemical Canada Inc., INEOS, and GRUPO IDESA.

By its nature, profitability in the commodity plastics and chemicals industry is highly cyclical. In addition to manufacturing standard commodity products (standard products), NOVA Chemicals' Olefins/Polyolefins and Styrenics businesses developed a range of Performance Products. Performance Products have unique attributes that deliver enhanced value to customers and, therefore, earn a margin premium to standard products.

The combination of both low-cost standard products and value-added Performance Products provides NOVA Chemicals with leverage to a commodity cycle peak and the prospects of enhanced earnings stability during the course of the entire cycle.

Key Drivers of Financial Performance

NOVA Chemicals' earnings and cash flow are primarily influenced by the margins we earn on the products we manufacture. Margin, on a unit basis, is defined as the difference between the selling price of products and the direct cost to produce and distribute them. Margins are directly impacted by changes in supply/demand balance, which drive the relationship of cost, seller's price and sales volumes.

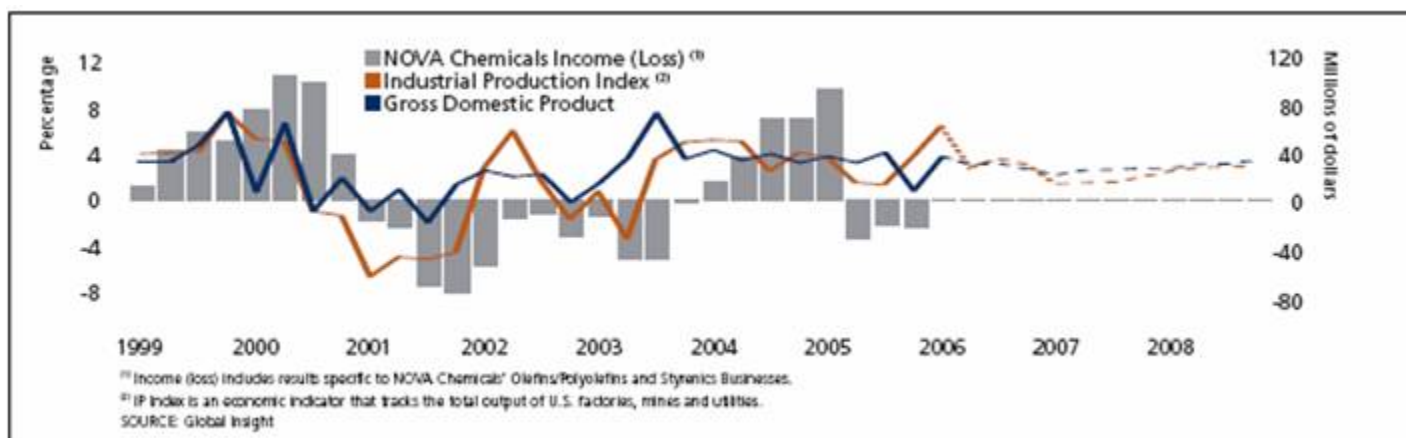
Supply/Demand Balance. The supply/demand balance of NOVA Chemicals' products can best be measured by industry operating rates. Peak conditions occur when operating rates are high. During peak conditions, prices and margins tend to increase rapidly as customers attempt to secure scarce supply to meet their production needs. Conversely, trough conditions exist when there is ample supply, operating rates are low and producers tend to compete for market share by reducing prices, which in turn decreases margins.

2

The supply of product in the plastics and chemicals industry is primarily determined by the size and availability of manufacturing capacity. New capacity is typically added in large increments. It generally requires significant amounts of capital and lead time of three to five years for construction completion.

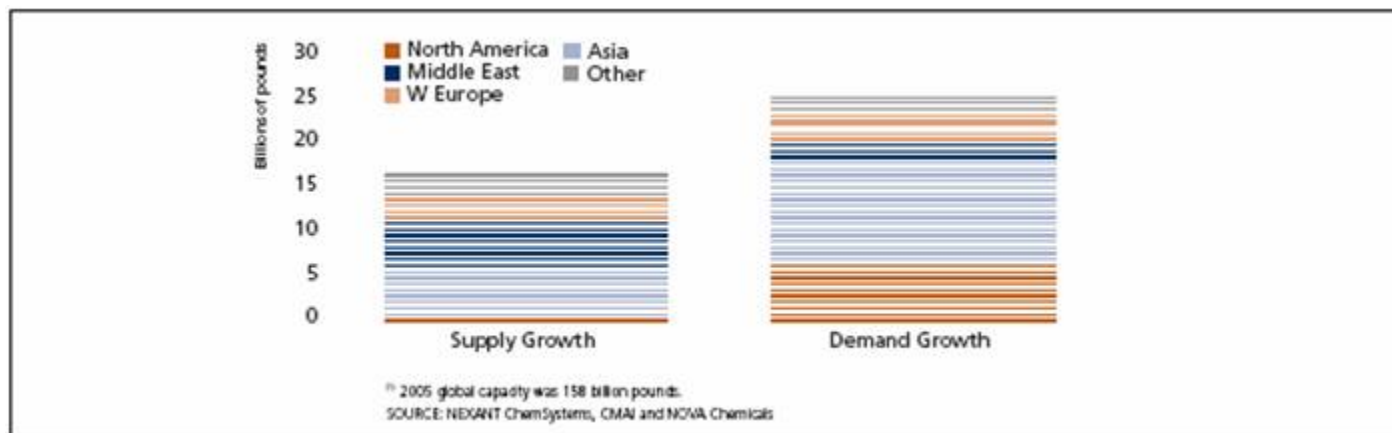
Demand is driven by economic growth and is related to both Gross Domestic Product (GDP) and Industrial Production (IP). Market demand for polyethylene and polystyrene has typically grown at one to two times GDP depending on the region of the world. Sustained industry operating rates in excess of 90% in polyethylene and 92% in styrene monomer represent typical inflection points at which margins in NOVA Chemicals' Olefins/Polyolefins and Styrenics businesses begin to expand.

Figure 1. NCXNet Income (Loss) vs. United States GDP and IP



During industry downturns, chemical manufacturers are reluctant to add production capacity. In North America, Europe and Latin America, relatively little new capacity has been added in recent years and demand is absorbing excess capacity. Globally, new capacity is being added in the Middle East and Asia to meet the growing demand for petrochemicals and plastics from developing nations such as China and India, as well as other Southeast Asian countries and South America. The supply/demand balance, however, is expected to remain tight as the Chinese and Indian economies continue to register near double-digit plastics and chemical demand growth rates. In addition, plastics and chemical construction projects are experiencing delays and, in some cases, cancellations due to increasing construction and engineering costs. In North America, comparatively, little polyethylene or styrene monomer capacity has been added in the last several years, and there have been no announcements of new plant construction going forward. As a result, assuming GDP growth rates of approximately 3% as forecast by *Global Insight*, operating rates are expected to reach and maintain peak levels in polyethylene and styrene monomer in 2006 - 2008.

Figure 2. Polyethylene Growth by Region (1) (2006-2008)



Price. The prices for NOVA Chemicals' standard polymer products are based on what customers are willing to pay relative to the price of competing products. Prices can change quickly as a result of fluctuations in the supply/demand balances and feedstock costs. Volatile feedstock costs during the last few years have made it essential for NOVA Chemicals, and others in the plastics and chemical industry, to shorten the time it takes to realize price increases from customers. In the third quarter of 2005, NOVA Chemicals' policy regarding its price-increase notification period was revised from 30 days to as little as five days.

Volume. Sales volumes for plastics and chemicals products are most heavily influenced by economic growth and industrial production, both of which are key drivers of customer demand. NOVA Chemicals' market share is the result of its products' price, quality, performance properties and terms of sale versus those of its competitors. NOVA Chemicals sells large volumes of standard products. The ability to earn good returns requires a low-cost position.

Cost. Variable feedstock costs are the single largest component of NOVA Chemicals' costs, and account for 60-80% of the total cost of its products. NOVA Chemicals' primary feedstocks include ethane and other natural gas liquids (NGLs), crude oil and benzene. Pricing of these products has been volatile in the past and is likely to be volatile in the future. Changes in feedstock costs heavily influence the price of NOVA Chemicals' products; however, it is margin driven by the supply/demand balance for plastics and chemical products that determines our profitability.

Fixed costs, those costs that do not vary with production, consist of plant operating and certain distribution costs; selling, general and administrative costs (SG&A); and research and development costs (R&D). SG&A costs represent all direct and most indirect expenses incurred in directing and administering the company. R&D costs relate to technical activities to support the development and commercialization of new products, processes and applications.

The following table illustrates how changes in various factors could affect NOVA Chemicals' profitability, assuming all other factors are held constant. Changes in the opposite direction would have the opposite effect.

Potential Impact to NOVA Chemicals' Profitability of:

	(MILLIONS OF US \$)		(BILLIONS OF LBS.)
	ANNUAL BEFORE-TAX INCOME INCREASE	ANNUAL AFTER-TAX INCOME INCREASE(1)	ANNUAL PRODUCTION CAPACITY(2)
AS OF DECEMBER 31, 2005			
<i>Increase of U.S. 1¢ per pound in profit margin</i>			
Ethylene(3)	\$ 48	\$ 32	4.8
Polyethylene	34	22	3.4
Styrene(4)	38	25	3.8
Styrenic polymers - North America(5)	17	12	1.7

Styrenic polymers - Europe(6)	12	8	1.2
Propylene(7)	9	6	0.9
Decrease in cost of natural gas by U.S. 10¢ per mmBTU	11	7	-
Decrease in cost of benzene by U.S. 5¢ per gallon	20	13	-
Decrease in Canadian dollar of 1¢ vs. U.S. dollar	11	7	-

- (1) Based on an assumed tax rate of 34%.
- (2) Estimate based on current production capacity assuming 100% utilization.
- (3) Represents NOVA Chemicals' annual ethylene capacity of 6.4 billion pounds at year-end 2005, less 1.6 billion pounds of ethylene capacity that is subject to toll and margin-sharing agreements.
- (4) Includes 925 million pounds of long-term purchase agreements.
- (5) Excludes production from Chesapeake, Virginia, facility scheduled to be closed by the end of the second quarter of 2006.
- (6) Represents NOVA Chemicals' 50% share of NOVA Innovene production. Excludes production from the Berre, France, plant based on the assumption that production will cease at the end of July 2006.
- (7) Co-product from Corunna, Ontario, and Joffre, Alberta.

2005 Financial Overview

NOVA Chemicals' Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2005	2004(1)	2003(1)
Total assets	\$ 5,217	\$ 5,047	\$ 4,413
Total long-term liabilities	\$ 2,700	\$ 2,646	\$ 2,517
Total revenue	\$ 5,616	\$ 5,270	\$ 3,949
Net income (loss)			
Olefins/Polyolefins	\$ 241	\$ 249	\$ 2
Styrenics	(221)	(73)	(140)
Corporate and Other Items	(124)	76	100
Methanex(2)	-	-	37
Net income (loss)	\$ (104)	\$ 252	\$ (1)
Net income (loss) per common share			
Basic	\$ (1.26)	\$ 2.91	\$ (0.02)
Diluted	\$ (1.26)	\$ 2.71	\$ (0.02)
Dividends per share (in Canadian dollars)	\$ 0.40	\$ 0.40	\$ 0.40
Weighted-average common shares outstanding (millions)			
Basic	83	87	87
Diluted	83	95	87

- (1) Restated – see Note 2 to the Consolidated Financial Statements.
- (2) In June 2003, NOVA Chemicals sold its investment in Methanex Corporation.

Changes in NOVA Chemicals' Net Income (Loss)

(MILLIONS OF U.S. DOLLARS)	2005 vs 2004	2004 vs 2003
Higher net unit margin	\$ 8	\$ 334
(Lower) higher sales volumes	(193)	83
(Lower) higher gross margins(1)	(185)	417

Lower (higher) SG&A and R&D	70	(86)
(Higher) lower restructuring charges	(160)	7
Lower depreciation and amortization	7	1
(Higher) lower interest expense	(5)	22
Higher income tax (expense) recovery	86	(154)
(Lower) higher other gains	(169)	85
Lower equity earnings in Methanex	-	(39)
(Decrease) increase in net income (loss)	<u>\$ (356)</u>	<u>\$ 253</u>

(1) Calculated as revenue less feedstock and operating costs.

Consolidated Financial Results of Operations

2005 versus 2004

Net Income (Loss). During 2005, NOVA Chemicals reported a net loss of \$104 million, or \$1.26 per share, compared to net income of \$252 million, or \$2.71 per share in 2004. While NOVA Chemicals delivered solid returns in the first quarter due to favorable supply/demand fundamentals and strong margins, the balance of 2005 proved more challenging due in large part to a series of unusual events that impacted bottom line results for the year.

UNUSUAL EVENTS IN 2005	ESTIMATED AFTER-TAX IMPACT (IN MILLIONS)	
Power outage at Corunna	\$	(21)
Joffre ethane interruption		(24)
Insurance accrual		(15)
European joint venture plant closures and severance costs		(79)
Delayed Corunna start-up		(55)
Non-cash write-down of Chesapeake, Virginia, facility		(46)
Impact to 2005 net income	<u>\$</u>	<u>(240)</u>

Revenue. Revenue increased \$346 million, or 7%, from \$5,270 million in 2004 to \$5,616 million in 2005. The increase was principally due to higher selling prices. Weighted average benchmark prices for NOVA Chemicals' polymers increased throughout 2005. Total sales volumes in both polymer businesses declined due to scheduled maintenance turnarounds, unplanned outages and lower demand for styrenic polymers.

Feedstock and Operating Costs. Feedstock and operating costs increased \$531 million, or 12%, from \$4,380 million in 2004 to \$4,911 million in 2005. The increase was primarily attributed to rising feedstock costs. Prices of WTI crude oil and NYMEX natural gas increased 37% and 40%, respectively, from 2004 to 2005. From 2004 through 2005, average annual benzene prices remained relatively flat, ethylene prices increased 29%, and natural gas prices increased 40%.

Depreciation and Amortization. Depreciation and amortization expense decreased \$7 million, or 2%, from \$297 million in 2004 to \$290 million in 2005 principally because NOVA Chemicals' second ethylene cracker (E2) at Joffre, Alberta, was fully depreciated as of June 2004.

Selling, General & Administrative Costs. SG&A costs decreased \$72 million, or 26%, from \$273 million in 2004 to \$201 million in 2005. The decrease in NOVA Chemicals' SG&A costs was primarily attributed to a reduction in stock-based compensation expense due to a decrease in NOVA Chemicals' common stock price. During November 2005, NOVA Chemicals hedged this mark-to-market exposure. Accordingly, fluctuations in earnings caused by the effects of stock price volatility on the existing stock-based compensation programs should not be significant going forward. In the second quarter of 2005, NOVA Chemicals accrued a non-cash expense of \$22 million (\$15 million after-tax) related to its share of estimated incremental costs in the insurance pools in which it participates. NOVA Chemicals will be required to pay higher future premiums as a result of losses incurred by OIL and sEnergy (two mutual insurance companies formed to insure against catastrophic risks). In addition, losses sustained by the insurance industry resulted in a \$14 million increase in insurance premiums.

Research & Development. R&D costs increased \$2 million, or 4%, from \$48 million in 2004 to \$50 million in 2005. This increase was primarily attributed to our development of Performance Products.

Restructuring Charges. Restructuring charges in 2005 were \$168 million, primarily the result of a decision by NOVA Innovene to cease expandable polystyrene production at its Berre, France, facility and permanently shut down its expandable polystyrene plant at Carrington, United Kingdom; and a decision by NOVA Chemicals to permanently close the Chesapeake, Virginia, polystyrene plant. For additional NOVA Innovene information, refer to “Styrenics Business -- Styrenic Polymer Joint Ventures” on page 45.

Interest Expense (Net). Net interest expense in 2005 increased to \$113 million, compared to \$108 million in 2004. NOVA Chemicals issued \$400 million of senior notes in October 2005 that resulted in additional interest expense and repaid \$100 million of 7% notes that matured in September 2005.

Other Gains. NOVA Chemicals experienced \$8 million of other gains in 2005 primarily related to a tax settlement. Gains were \$177 million in 2004 primarily related to the sale of NOVA Chemicals’ interest in the Alberta Ethane Gathering System (AEGS) for a gain of \$53 million and income tax related settlements for a gain of \$122 million.

Income Tax Recovery (Expense). Income tax expense decreased \$86 million from an \$81 million expense in 2004 to a \$5 million recovery in 2005. This decrease in income tax expense was primarily attributed to a decrease in earnings.

2004 versus 2003

Net Income (Loss). During 2004, NOVA Chemicals earned net income of \$252 million, or \$2.71 per share. This compares to a net loss in 2003 of \$1 million, or \$0.02 per share. Plastics and chemical demand growth in 2004 outpaced supply as the United States and European economies rebounded from a recession in the manufacturing sector compared to 2003. In 2004, strengthening demand combined with limited capacity additions, resulted in increased sales volume and prices. Margins expanded for all products despite record high crude oil and benzene costs, as pricing stayed ahead of feedstock cost increases.

Revenue. Revenue increased \$1,321 million, or 33%, from \$3,949 million in 2003 to \$5,270 million in 2004. Sales volumes improved for both of NOVA Chemicals’ polymer businesses in 2004 on strong demand due to an improving economy. After the first quarter, weighted-average benchmark prices for polymers increased in 2004.

Feedstock and Operating Costs. Feedstock and operating costs increased \$904 million, or 26%, from \$3,476 million in 2003 to \$4,380 million in 2004. The increase was primarily due to rising feedstock costs and higher production volumes. Prices of WTI crude oil, NYMEX natural gas and benzene increased 33%, 12% and 87%, respectively, from 2003 to 2004.

Depreciation and Amortization Expense. Depreciation and amortization expense remained essentially flat at \$297 million in 2004 compared with \$298 million in 2003. Depreciation and amortization expense was reduced by approximately \$30 million annually as Joffre’ s second ethylene cracker was fully depreciated at that time. However, increases in the Canadian dollar and euro denominated asset values offset this reduction when converted to U.S. dollars.

Selling, General & Administrative. SG&A expenses increased \$83 million, or 44%, from \$190 million in 2003 to \$273 million in 2004 mainly due to \$76 million of additional mark-to-market charges resulting from the impact of NOVA Chemicals’ common stock price appreciation on cash-settled stock-based compensation plans. Currency related cost increases of approximately \$9 million were due to a higher Canadian dollar and euro.

Research & Development. R&D spending increased \$3 million, or 7%, from \$45 million in 2003 to \$48 million in 2004. The year-over-year increase in investment reflects NOVA Chemicals’ focus on the development of Performance Products.

Restructuring Charges. In 2004, NOVA Chemicals took a restructuring charge of \$8 million (\$5 million after-tax) for additional dismantling and severance costs related to the May 2004 shutdown of the A-Line at its St. Clair River polyethylene plant at Corunna, Ontario. This amount is in addition to a \$15 million (\$10 million after-tax) charge taken in 2003, which was comprised mainly of asset write-down and severance costs.

Interest Expense (Net). Net interest expense in 2004 decreased to \$108 million as compared to \$130 million in 2003. \$400 million of senior notes were issued in January 2004. The proceeds were primarily used to redeem \$383 million of preferred securities. The \$29 million decrease in interest on preferred shares and securities was offset by a \$13 million increase in interest expense on long-term debt. In addition, \$3 million of interest was capitalized in 2004; whereas, no interest was capitalized in 2003, and interest income increased by \$3 million in 2004.

Equity Earnings of Affiliate. In 2004, there were no equity accounted affiliates; however, in 2003, we earned \$39 million from NOVA Chemicals' investment in Methanex Corporation. In June 2003, we sold our investment in Methanex Corporation.

Other Gains (Losses). In 2004, NOVA Chemicals had other gains of \$177 million compared to \$92 million in 2003. NOVA Chemicals' 2004 other gains included the sale of NOVA Chemicals' interest in AEGS for a \$53 million gain and a \$122 million gain due to income tax related settlements. In 2003, NOVA Chemicals realized a gain of \$29 million on the sale of its investment in Methanex Corporation, a gain of \$76 million on the sale of the Fort Saskatchewan Ethylene Storage facility and a \$13 million loss on the Bayport, Texas, fire.

Income Tax Recovery (Expense). Income taxes shifted from a recovery in 2003 to expense in 2004, primarily due to the improvement in earnings. In 2004, income tax expense was \$81 million compared with a recovery of \$73 million in 2003.

Olefins/Polyolefins Business

Market and Economics. Ethylene is the most widely produced commodity petrochemical in the world. It is a key building block for a variety of polymers and other chemicals used to manufacture products such as packaging, containers, films, sheet, construction and building products, automotive components, and other industrial and consumer goods. Regionally traded for the most part, ethylene is the primary feedstock used in the production of polyethylene. NOVA Chemicals' customers convert polyethylene resins to produce consumer end-use applications, such as packaging film, plastic bags, toys and bottles. Industrial applications include automotive components, building products, storage drums and shrink wrap. Ethylene margins typically reach peak conditions when operating rates are at or above 92%, a level that the industry has had difficulty maintaining for long periods.

Financial results in NOVA Chemicals' Olefins/Polyolefins business are driven in large part by the supply/demand balance for polyethylene. Polyethylene is a globally traded commodity with established merchant markets. When the polyethylene supply/demand balance tightens, operating rates increase and margins usually expand. Polyethylene margins typically reach peak conditions when operating rates for polyethylene are at or above 90%.

Business Overview. NOVA Chemicals' Olefins/Polyolefins business operates two large manufacturing complexes in Joffre, Alberta, and Sarnia, Ontario, which produce ethylene, polyethylene and chemical co-products. These complexes are large, low-cost and among the most energy efficient in the world. Additionally, NOVA Chemicals has one of the few polyethylene businesses with independent, patented process and catalyst technology, allowing the company to produce unique polyethylene Performance Products that deliver higher value to customers versus standard polyethylene resins.

NOVA Chemicals' Olefins/Polyolefins business sells primarily into North American markets. Approximately 10% - 15% of the Company's standard polyethylene volume is sold in China and other countries in Asia and Europe. The Olefins/Polyolefins business produces and sells standard polyethylene products, such as linear low-density polyethylene (LLDPE), low-density polyethylene (LDPE) and high-density polyethylene (HDPE). NOVA Chemicals also manufactures and sells value-added polyethylene Performance Products, including SURPASS[®] and SCLAIR[®] resins (LLDPE and HDPE) that are manufactured using Advanced SCLAIRTECH[™] technology.

In addition to direct polymer sales, NOVA Chemicals also licenses its proprietary SCLAIRTECH[™] technology and NOVACAT[™] family of catalysts. NOVA Chemicals' has licensed SCLAIRTECH technology for more than 20 years and now has 11 licensed plants located around the world. Following the planned 2008 start-up of a licensee's polyethylene facility in India, NOVA Chemicals' SCLAIRTECH technology will be used to produce more than 42% of all the polyethylene in India, one of the fastest growing economies in the world.

The NOVACAT catalysts are a series of advanced Ziegler-Natta catalysts designed specifically for the gas-phase platform. NOVACAT catalysts are capable of producing butene and hexene LLDPE copolymers with improved performance characteristics.

In October 2004, NOVA Chemicals announced that it had been selected by Pemex Petroquimica as a partner in a feasibility study for a potential world-scale ethylene and polyethylene complex in Mexico. During 2005, it was determined that this project, as originally planned, will not proceed due to raw material pricing issues. However, an alternative version of the project has been proposed and NOVA Chemicals is in the process of evaluating and responding to it.

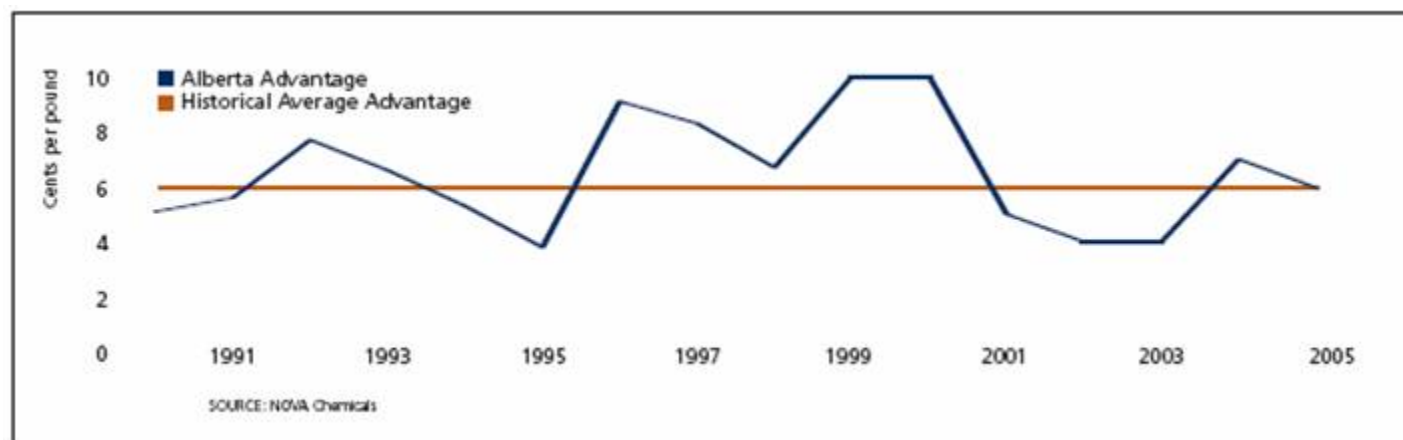
Olefins/Polyolefins Manufacturing. NOVA Chemicals' largest volume product is ethylene, which is central to the production of both polyethylene and styrene monomer. NOVA Chemicals' produces approximately 75% of its ethylene at its Joffre site; and the remaining balance at its Corunna, Ontario, flexi-cracker. Approximately 50% of total ethylene capacity is consumed by NOVA Chemicals for its own polyethylene production and approximately 7% is used in the production of styrene monomer. The balance of ethylene production is sold to third parties.

NOVA Chemicals' Joffre site is the largest ethylene and polyethylene complex in the world. Referred to as a 'light' ethylene cracker because ethane is the primary feedstock, the Joffre site has, on average, a lower cost of production compared to typical United States Gulf Coast (USGC) light-ethylene crackers. Production costs are lower at Joffre due to the facility's scale of operations and energy efficiency. Additionally, the site benefits from Alberta's historically lower-cost natural gas, large-scale ethane extraction plants, and efficient natural gas gathering and transportation infrastructure. Collectively referred to as the 'Alberta Advantage,' the combination of these factors has historically yielded an average cash-cost advantage of approximately 6¢ per pound of ethylene.

In 2005, NOVA Chemicals realized an average cash-cost advantage of 6¢ per pound of ethylene. In the fourth quarter of 2005, the Alberta Advantage averaged only 3¢ per pound of ethylene as USGC hurricane-related shutdowns resulted in severely depressed ethane prices in the region. By the end of the fourth quarter, as natural gas prices fell, a more typical relationship between natural gas and ethane was restored. While Joffre's ethylene advantage will continue to fluctuate, NOVA Chemicals expects it will maintain its historical average cost advantage relative to typical USGC ethylene crackers.

To acquire ethane for the Joffre ethylene crackers, NOVA Chemicals pays a fee to NGL facility owners to extract and deliver ethane from natural gas streams processed at their facilities, in addition to purchasing natural gas to replace the extracted ethane. NOVA Chemicals also purchases ethane directly. The majority of the ethane we use at the Joffre plant is extracted and delivered under medium- to long-term contracts. In the second half of 2005, construction on a new pipeline, owned by Taylor NGL Limited Partnership and operated by NOVA Chemicals, was completed. As a result, NOVA Chemicals has the enhanced capability to use alternate feedstocks, such as propane, to supplement a portion of its feedstock requirements at Joffre when the economics are favorable.

Figure 3. Historical Alberta Advantage



NOVA Chemicals' Corunna flexi-cracker has the capability to tailor its feedstock slate between crude oil, crude oil derivatives and NGLs, depending on market conditions. Feedstocks for the Company's Corunna ethylene flexi-cracker are obtained from a wide variety of sources. The majority of the feedstocks are crude oil and crude oil derivatives and condensates (heavy feeds), with the remainder being butane, propane and ethane (light feeds). The crude oil and derivatives are supplied from western Canada via pipeline, and from the United States and overseas via marine and pipeline transportation. Condensate is sourced primarily from outside North America, also via marine and pipeline transportation. The offshore feedstock is delivered via bulk oil tankers into Portland, Maine, and then transported via common carrier pipelines into Corunna. Propane, butane and ethane are sourced from western Canada, local Sarnia producers and the United States, and are transported to the facility primarily via pipeline and rail.

Anticipating strong operating conditions in 2006, 2007 and 2008, NOVA Chemicals advanced all feasible scheduled maintenance turnarounds into 2005. Five of six turnarounds were successfully completed. In addition to the scheduled maintenance at its Corunna facility, NOVA Chemicals undertook a modernization and expansion project, which included the installation of new furnaces, compressor units and other equipment. The plant was originally scheduled to restart on October 23, 2005, but problems primarily with new equipment delayed start-up to January 24, 2006.

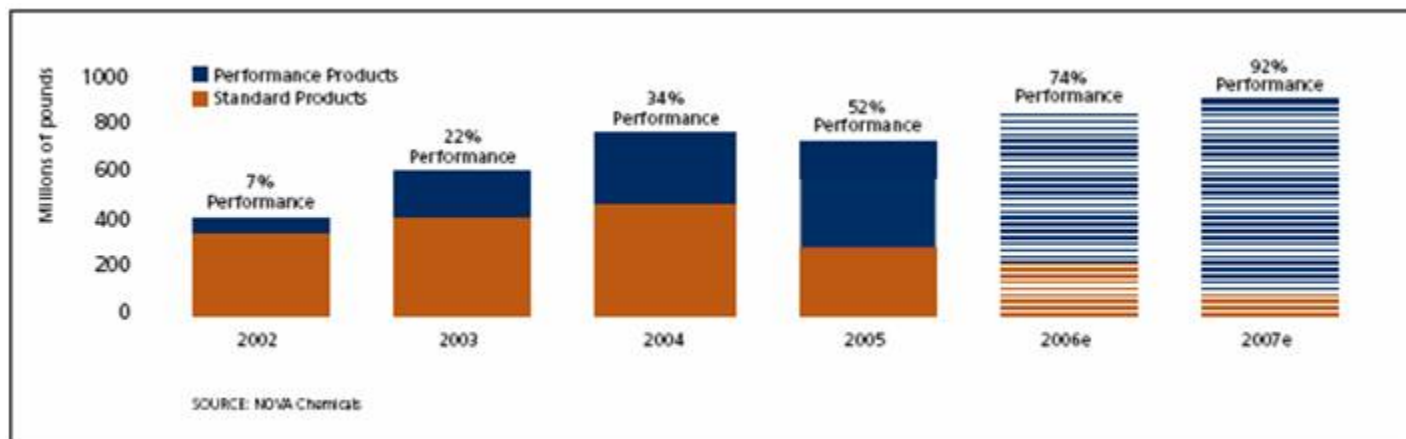
NOVA Chemicals expects the Corunna flexi-cracker modernization will improve the overall energy efficiency of the plant by 15%. It will also increase annual ethylene capacity to approximately 1.85 billion pounds and propylene design capacity to approximately 900 million pounds per year. In both cases, capacity will be dependent upon feedstock mix. The plant annual operating costs are expected to be \$20- \$25 million lower when the modernization is completed later in 2006.

Performance Products. In addition to its standard polyethylene products, NOVA Chemicals has developed a portfolio of differentiated Performance Products. Based on patented Advanced SCLAIRTECH technology and proprietary catalysts, NOVA Chemicals' polyethylene Performance Products deliver enhanced value to customers and, as a result, are expected to generate higher and more sustainable margins for the business.

SURPASS film resins deliver a unique combination of processability, puncture resistance and exceptional optical properties not found in traditional single-site polyethylene resins. SURPASS thin-wall injection molding resins are distinguished by superior toughness and flexibility, coupled with the ability to fill the thinnest molds faster than other polyethylene products. SURPASS rotational molding resins exhibit greater stiffness and toughness and can be used in a wide variety of applications, such as tanks, dumpsters and industrial storage containers. SCLAIR resins can be easily tailored to meet customers' needs. They have excellent overall processability, which makes them suited for flexible packaging applications.

Since their introduction, sales of Performance Products have grown to 52% of Advanced SCLAIRTECH technology plant capacity. By 2007, Advanced SCLAIRTECH technology polyethylene Performance Product sales are targeted to be approximately 92% of capacity. The annual EBITDA (see Supplemental Measures on page 55) contribution from Advanced SCLAIRTECH technology products was \$25 million, exceeding the targeted \$10 - \$20 million EBITDA in 2005. By 2008, our target is to achieve EBITDA of \$110 - \$135 million from Advanced SCLAIRTECH technology products.

Figure 4. Advanced SCLAIRTECH Technology Polyethylene Performance Products Sales Volume



Olefins/Polyolefins Financial Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED) 2005 2004 2003

Revenue(1)	\$ 3,586	\$ 3,230	\$ 2,559
Operating income	\$ 437	\$ 445	\$ 98
Depreciation and amortization	\$ 166	\$ 181	\$ 187
EBITDA(2)	\$ 603	\$ 626	\$ 285
Net income	\$ 241	\$ 249	\$ 2
Average capital employed(3)	\$ 2,029	\$ 1,940	\$ 1,898
After-tax return on capital employed(4)	14.1%	15.2%	2.6%

(1) Before inter-segment eliminations.

(2) See Supplemental Measures on page 55.

(3) Average capital employed equals cash expended on plant, property and equipment (less accumulated depreciation and amortization) and working capital and excludes assets under construction. Amounts are converted to U.S. dollars using quarter-end exchange rates. See Supplemental Measures on page 55.

(4) After-tax return on capital employed equals net income plus after-tax interest expense divided by average capital employed. See Supplemental Measures on page 55.

Olefins/Polyolefins Operating Highlights

(U.S. DOLLARS PER POUND, EXCEPT WHERE NOTED)	2005				ANNUAL		
	Q1	Q2	Q3	Q4	2005	2004	2003
Benchmark Principal Product Prices(1)							
Ethylene(2)	\$ 0.42	\$ 0.38	\$ 0.41	\$ 0.56	\$ 0.44	\$ 0.34	\$ 0.29
Polyethylene - linear low-density butene liner(3)	\$ 0.58	\$ 0.51	\$ 0.54	\$ 0.76	\$ 0.60	\$ 0.48	\$ 0.43
Polyethylene - weighted-average benchmark(4)	\$ 0.62	\$ 0.55	\$ 0.58	\$ 0.78	\$ 0.63	\$ 0.50	\$ 0.46
Benchmark Raw Material Prices:							
NYMEX Natural Gas (per mmbTU)(5)	\$ 6.32	\$ 6.80	\$ 8.25	\$ 12.85	\$ 8.55	\$ 6.09	\$ 5.44
WTI Crude Oil (per barrel)(6)	\$ 49.84	\$ 53.17	\$ 63.19	\$ 60.02	\$ 56.56	\$ 41.41	\$ 31.04

(1) Average benchmark prices do not necessarily reflect actual prices realized by NOVA Chemicals or any other petrochemical company.

(2) Source: Chemical Market Associates, Inc. (CMAI) - USGC Net Transaction Price.

(3) LLDPE butene liner. Source: Townsend Polymer Services Information (TPSI).

(4) Benchmark prices weighted according to NOVA Chemicals' sales volume mix in North America. Source for benchmark prices: TPSI.

(5) Source: NYMEX Henry Hub 3-Day Average Close, values in millions of British Thermal Units (mmbTU).

(6) Source: NYMEX WTI daily spot- settled price average for calendar month.

Polyethylene Sales Volumes

(MILLIONS OF POUNDS)	2005	2004	2003
NOVAPOL Resins			
Joffre site: LLDPE	1,207	1,320	1,256
Moore site: LDPE	230	305	261
Moore site: HDPE	350	449	392
SCLAIRTECH Resins			
St. Clair River site: LLDPE and HDPE	325	452	500
Advanced SCLAIRTECH Resins			
Joffre site: Standard LLDPE and HDPE	291	470	416

Joffre site: Performance Products	438	289	184
Total	2,841	3,285	3,009

2005 versus 2004

Net Income. The Olefins/Polyolefins business reported net income of \$241 million in 2005, compared to net income of \$249 million in 2004. Average margins were higher in 2005. The combination of planned and unplanned outages; however, significantly reduced sales volumes. In addition to planned maintenance turnarounds at six Olefins/Polyolefins facilities, sales volumes were impacted by unplanned events in 2005, including: a second quarter power outage that forced the shutdown of the Corunna flexi-cracker; reduced ethane supply due to a tornado that damaged third-party NGL extraction facilities at Empress, Alberta and also impacted the business in the second and third quarters; as well as the extended turnaround of the Corunna flexi-cracker due to labor availability issues and problems with newly installed equipment in the fourth quarter. See Unusual Events table on page 34.

EBITDA. EBITDA decreased \$23 million, or 4%, to \$603 million in 2005 from \$626 million in the same period in 2004.

Revenue. Revenue from the Olefins/Polyolefins business increased \$356 million, or 11%, from \$3,230 million in 2004 to \$3,586 million in 2005. The increase was primarily due to higher average selling prices during 2005, which were partially offset by lower sales volumes due to planned and unplanned outages.

Year-over-year, NOVA Chemicals' polyethylene inventories were down from 23 days of sales on December 31, 2004, to 22 days on December 31, 2005. During the same period, the American Plastics Council (APC) reported that North American inventories were reduced by approximately 400 million pounds in 2005, and inventories of polyethylene were low as of year-end. APC also reported that North American industry operating rates were 86% in 2005, as compared to 94% in 2004.

The year-over-year decline in operating rates is attributable to two main factors. Chain inventory, built in late 2004 and early 2005, was consumed in the second quarter, sharply lowering volumes and margins. In addition, and more significantly, hurricanes Katrina and Rita, which occurred in August and September 2005 respectively, forced the shutdown of many plants on the USGC. Approximately 60% of North American ethylene and 50% of North American polyethylene capacity was affected. CMAI estimated that the combined impact of the hurricanes resulted in a reduction in ethylene production of 3 billion pounds and a reduction in polyethylene production of approximately 1.5 billion pounds.

Average prices for NOVA Chemicals' ethylene and polyethylene in 2005 increased over 2004 averages by 29% and 26%, respectively. Ethylene volumes were down 12% in 2005 while polyethylene volumes were down 14%. The decrease in ethylene and polyethylene volumes was due primarily to unplanned outages at the Corunna flexi-cracker in April, the Joffre ethane interruption in June due to a tornado, and the fourth quarter extended outage at Corunna.

International volumes declined 17% to 398 million pounds in 2005 compared to 2004. International sales represented 14% of NOVA Chemicals' total polyethylene sales volume in 2005 versus 15% in 2004. In 2005, polyethylene sales to China accounted for 53% of international volumes, or 212 million pounds, with the balance of remaining sales going to other Asian and European countries. Comparatively, in 2004 polyethylene sales to China totaled 233 million pounds or approximately 48% of international sales volumes.

In 2005, Advanced SCLAIRTECH technology Performance Products sales volume, including new SURPASS rotational molding and thin-wall injection molding resins, increased 52% from 289 million pounds in 2004 to 438 million pounds.

Feedstocks and Operating Costs. Feedstock and operating costs increased \$364 million, or approximately 15%, from \$2,485 million in 2004 to \$2,849 million in 2005. Crude oil prices continued to rise through most of 2005, with WTI crude oil hitting a record high close of \$69.81 per barrel in August 2005. Average WTI crude oil prices rose 37% from \$41.41 per barrel in 2004 to \$56.56 per barrel in the 2005 period.

The average NYMEX natural gas price was up 40% from 2004 to 2005 year-end, while the AECO contract natural gas price was up 34% to \$6.98 per mmbtu. During 2005, the basis differential averaged \$1.57 per mmBTU compared to \$0.88 per mmBTU in 2004. In 2005, the

Alberta Advantage averaged 6¢ per pound of ethylene compared to 7¢ per pound in 2004 primarily due to the narrowing of the spread between USGC and Alberta ethane, especially in the fourth quarter.

2004 versus 2003

Net Income. The Olefins/Polyolefins business reported net income of \$249 million in 2004, compared to net income of \$2 million in 2003. Several polyethylene price increases were announced during 2004 and were successfully implemented, allowing margins to expand even as feedstock costs rose.

EBITDA. EBITDA increased \$341 million, or 120%, to \$626 million in 2004 from \$285 million in 2003.

Revenue. Revenue from the Olefins/Polyolefins business increased \$671 million, or 26%, from \$2,559 million in 2003 to \$3,230 million in 2004. The increase was primarily due to higher average selling prices during 2004.

During 2004, the APC reported North American industry operating rates for polyethylene of 94%, up from 85% in 2003. Average prices for NOVA Chemicals' ethylene and polyethylene products in 2004 increased over 2003 averages by 17% and 9%, respectively.

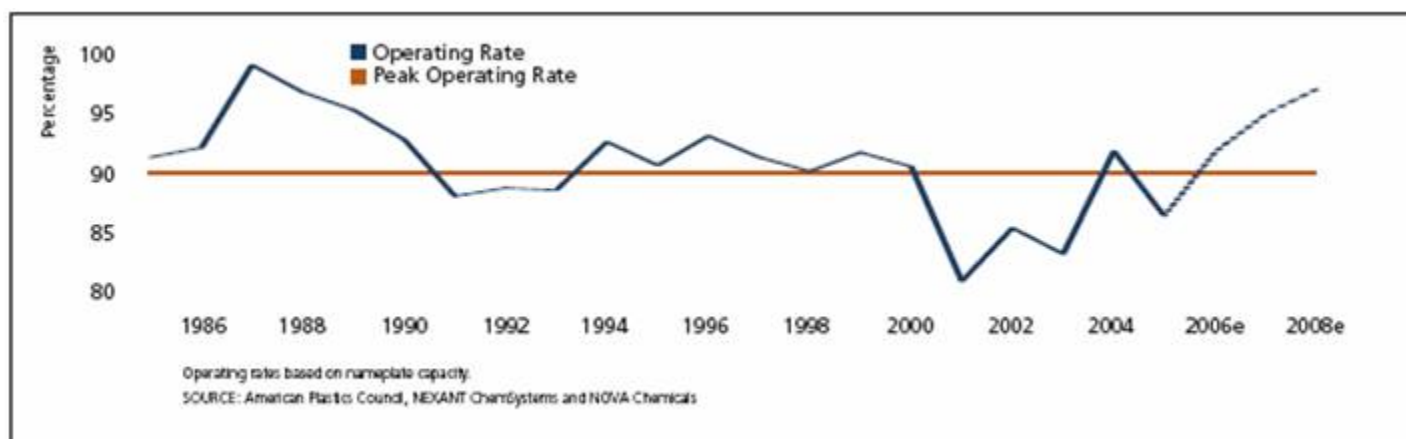
Polyethylene volumes were up 9% over 2003 while ethylene volumes were relatively flat. The increase in polyethylene volumes came largely from Advanced SCLAIRTECH technology resins, which were up 27% to 759 million pounds.

Feedstock and Operating Costs. Feedstock and operating costs increased \$320 million, or approximately 15%, from \$2,165 million in 2003 to \$2,485 million in 2004. Crude oil prices began to rise midway through 2003 and continued to rise throughout most of 2004, with WTI crude oil hitting a record high close of \$55.17 per barrel in October 2004. Average WTI crude oil prices rose 33% from \$31.04 per barrel in 2003 to \$41.41 per barrel in 2004. NYMEX natural gas was up 12% from 2003 to 2004. AECO contract natural gas price was up 10% to \$5.21 per mmbtu over the same period. Price increases implemented throughout 2004, coupled with strong co-product pricing from the Corunna flexi-cracker, more than offset the negative impact of increasing costs. The Alberta Advantage averaged 7¢ per pound of ethylene in 2004 compared to 4¢ per pound in 2003.

Outlook for Olefins/Polyolefins Business

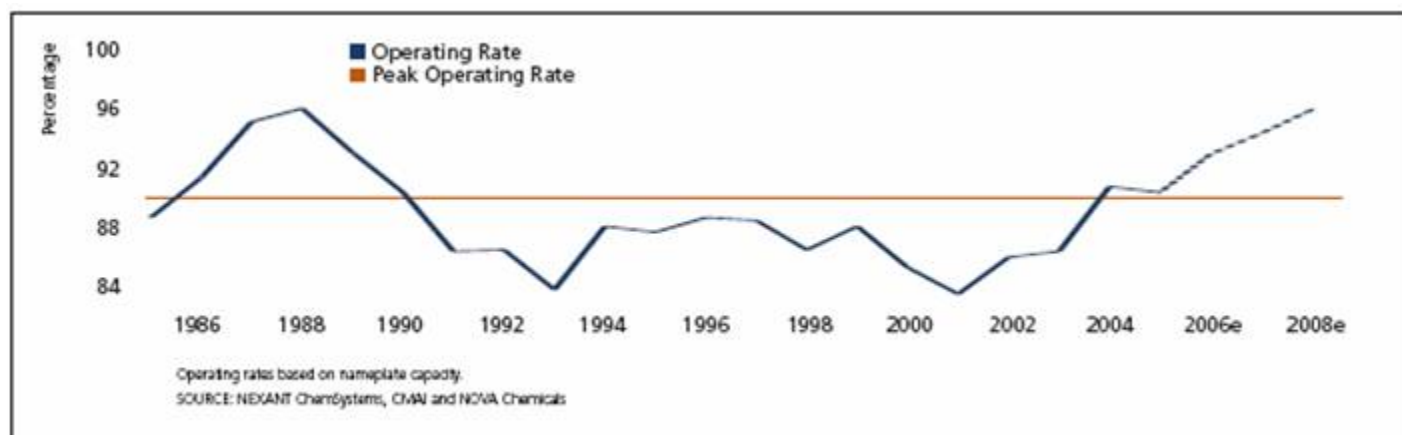
NOVA Chemicals expects strong industry market conditions based on global and North American GDP forecasts of 3 - 3.5% growth, limited capacity additions in North America, and effective operating rates in polyethylene in excess of 92%. With the completion of major asset turnarounds and long-standing feedstock advantages, NOVA Chemicals believes it is well-positioned to benefit from a cyclical peak. In addition, NOVA Chemicals polyethylene Performance Products are becoming a more significant portion of sales and should provide for greater earnings stability over the long-term cycle.

**Figure 5. North American Polyethylene Operating Rates
Projected Demand Growth of 4.5% 2006-2008**



NOTE: The 2005 polyethylene operating rates were negatively impacted by lower utilization due to hurricanes Katrina and Rita. CMAI estimates that polyethylene production lost in the last four months of 2005 due to the hurricanes was equivalent to 4% of annual production capacity.

Figure 6. Global Polyethylene Operating Rates
Projected Demand Growth of 5.5% 2006-2008



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Styrenics Business

NOVA Chemicals is North America's largest producer of styrene monomer and styrenic polymers. In addition, NOVA Chemicals is a 50:50 participant in NOVA Innovene, Europe's largest styrenic polymer producer. NOVA Innovene was created on October 1, 2005, through a cashless, 50:50 joint venture transaction with Innovene, BP p.l.c's commodity chemicals business. Innovene was acquired by INEOS on December 16, 2005.

Market and Economics

A globally traded commodity, styrene monomer is a key feedstock used in the production of styrenic polymers such as solid polystyrene and expandable polystyrene. Styrenic polymers are used to make everyday products such as electronics packaging, construction components and food packaging. While polystyrene accounts for approximately two-thirds of styrene monomer demand, styrene monomer is also used in ABS, synthetic rubber and unsaturated polyesters.

As in most basic chemicals and plastics businesses, margins in the styrenics industry are primarily driven by fundamental supply/demand dynamics. Styrene monomer is the supply bottleneck in the styrenics chain and therefore the key indicator of supply/demand tightness. Operating rates in excess of 92% for styrene monomer generally lead to margin expansion. Profitability in the global styrenics industry has been undermined in the last several years primarily due to the over-supply of styrene monomer and the relatively high costs of benzene feedstock.

Styrene monomer is produced from the combination of ethylene and benzene, referred to as the ethylbenzene styrene monomer production method; or "on-purpose" styrene production. Styrene monomer can also be made as a by-product of propylene oxide production. This technology is called propylene oxide/styrene monomer production (PO/SM) and accounts for approximately 19% of global production and approximately 34% of European production. One of the drivers of excess styrene monomer capacity in the late 1990s has been PO/SM process technology. Developed in the 1980s, PO/SM has had a significant negative impact on the styrene monomer supply/demand balance because, for every pound of propylene oxide produced, 2.2 pounds of styrene monomer are produced as a by-product. New technologies have recently

been introduced to produce “on-purpose” propylene oxide, and this will essentially eliminate future PO/SM plant construction; a positive development for restoring better styrene monomer supply/demand balance.

Business Overview

Styrene Monomer. NOVA Chemicals has approximately 4 billion pounds of total annual styrene monomer supply. Approximately 73% of this production is consumed internally for styrenic polymer production and the balance is sold to third parties on a spot basis and under short-term contracts.

NOVA Chemicals manufactures approximately 3 billion pounds of styrene monomer annually from production facilities in Bayport, Texas, and Sarnia, Ontario; and through equity participation in Lyondell Chemical Company’s Channelview, Texas plant. All of the ethylene and approximately half of the benzene requirements for its Sarnia styrene plant are supplied from its Corunna flexi-cracker. The balance of benzene feedstock is obtained from nearby petroleum refineries. For the Bayport and Channelview facilities, ethylene and benzene requirements are purchased, with the exception of some ethylene swaps.

NOVA Chemicals also purchases approximately 925 million pounds of styrene monomer through two long-term supply contracts that expire in December 2006 and December 2007. These contracts are arrangements that were negotiated as part of the acquisition of assets.

In addition, NOVA Chemicals engages in transatlantic swap arrangements with other styrene producers to satisfy its contractual obligation to provide 50% or approximately 1 billion pounds per year of NOVA Innovene’s styrene monomer requirements.

As a result of NOVA Chemicals’ make, buy and swap arrangements, the Company’s styrene monomer supply exceeds its polymer manufacturing capacity by more than 1 billion pounds. Primarily due to minimum purchase requirements of its long-term styrene monomer purchase contracts during the last several years, NOVA Chemicals was obligated to buy higher-cost monomer to sell or consume, while its more cost-effective plants were run at less than optimum levels. It is estimated that had NOVA Chemicals been able to run its own styrene monomer plants at higher operating rates, EBITDA losses since 2001 would have been reduced by approximately \$30 million per year. NOVA Chemicals can begin to move toward a more balanced position at the end of 2006 when the first of the long-term contracts for 400 million pounds per year expires. The remaining contract, totaling 525 million pounds per year, has a termination option at the end of 2007.

In 2005, NOVA Chemicals completed turnarounds at both of its styrene monomer facilities. In addition, a modernization and expansion project was completed at its Bayport plant that is expected to improve the overall energy efficiency of the plant. The project included the installation of 450 million pounds of incremental styrene monomer capacity. Approximately 220 million pounds of this capacity is committed to BASF through long-term contracts.

Styrenic Polymers. NOVA Chemicals’ styrenic polymer production includes polystyrene, expandable polystyrene and a portfolio of Performance Products. In North America, annual polystyrene production capacity is approximately 1.5 billion pounds and expandable polystyrene capacity is approximately 370 million pounds. In Europe, NOVA Chemicals’ 50% share of NOVA Innovene production capacity is approximately 794 million pounds of polystyrene and 385 million pounds of expandable polystyrene annually, excluding the Berre facility that expects to cease production in July 2006.

Performance Products. NOVA Chemicals also manufactures and sells unique styrenic polymer Performance Products including ARCEL[®] specialty foam resins for protective packaging; DYLARK[®] resins for automotive interiors and food packaging; and ZYLAR[®] resins for food, medical and industrial packaging. Sold to molders around the world, each of these Performance Products earns a significant margin above standard polymers because of their unique attributes and value in use.

ARCEL is a high-performance, moldable foam resin consisting of a combination of polystyrene and polyethylene. ARCEL resin provides the best of both polymers with its exceptional toughness, flexibility and durability in a lightweight foam. The strength and flexibility of ARCEL can be molded into complex and intricate forms. Its lightweight construction is resistant to puncture, flaking, tearing and breaking. In addition, packaging molded with ARCEL resin is more compact and provides superb cushioning and easy handling, all of which helps to reduce product damage while providing lower freight and other packaging costs.

DYLARK engineering resins are used by plastics designers, engineers and processors for automotive applications, such as soft instrument panels, structural consoles, roof-mounted LCD video supports, interior trim and audio components. DYLARK resins are specified for their temperature resistance, stiffness and strength, lot-to-lot consistency, exceptional foam adhesion and low total cost.

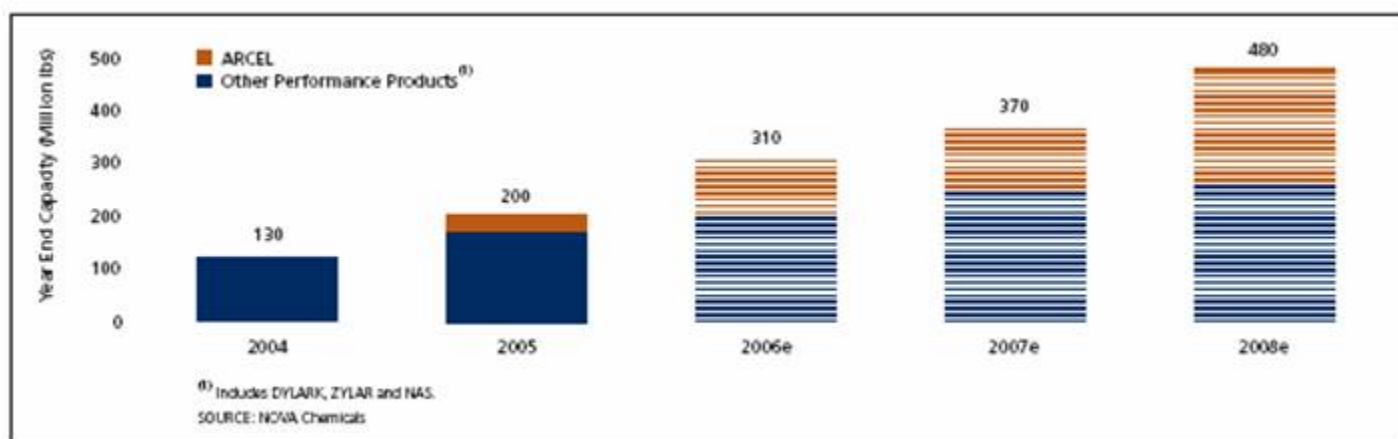
Some DYLARK grades are also designed specifically for microwavable food packaging applications. DYLARK packaging resins provide superior low-temperature toughness and thermal stability required for freezer-to-microwave performance. The versatility of DYLARK resins provide a wide range of application options, such as take-out/carry-out containers, home meal replacement and retail food packaging.

ZYLAR packaging resin is a clear acrylic copolymer. It provides low-temperature toughness for refrigerated and frozen-food packaging. Also designed for injection molding, extrusion and thermoforming processes, ZYLAR provides improved clarity and low odor and taste transfer.

In 2005, NOVA Chemicals' capacity to produce styrenic polymer Performance Products grew by 50% to approximately 200 million pounds by year-end. The EBITDA contribution from Styrenics Performance Products was \$10 million, exceeding the targeted range of \$0- \$8 million in 2005. By 2008, our target is to achieve EBITDA of \$130- \$165 million net of R&D, marketing and commercialization costs.

To deliver on EBITDA targets, NOVA Chemicals plans to expand annual Performance Product production capacity to approximately 480 million pounds by 2008. In September 2005, NOVA Chemicals entered into a long-term agreement with Loyal Chemical Industrial Corporation to manufacture ARCEL moldable foam resin near Shanghai, China. This agreement is part of the plans to expand manufacturing capacity for ARCEL resin to 100 million pounds annually by the end of 2006 and 225 million pounds by the middle of 2008.

Figure 7. Production Capacity of Styrenics Performance Products



Downstream Value Capture

In 2005, NOVA Chemicals' Styrenics business began to implement downstream business models to capture value beyond the manufacturing and sale of plastics. By leveraging intellectual property and market expertise into strategic relationships with downstream partners, NOVA Chemicals expects to generate incremental profit from technology licensing and finished-product sales. Business activities in 2005 include:

Acquired IMage™ technology used to manufacture cups and containers that offer both high-quality graphics and superb hot and cold insulation. In the fourth quarter, NOVA Chemicals started up its first IMage technology manufacturing asset, which produces in-mold labeled cups. The machine is expected to produce 14 million cups annually, which will be used for the development of an IMage technology licensing program.

Manufactured and sold Insulated Concrete Form (ICF) blocks for the construction of 900 new low-cost, residential homes in Chile. An innovative construction system, ICFs are made from molded expandable polystyrene. When fitted together and filled with concrete, they become the foundation and walls of a structure. More resistant to mold and termites than alternative building products, ICFs offer built-in insulation. ICFs are also easy to assemble which can reduce construction time and lower labor costs.

Entered into a joint development agreement with Dietrich Metal Framing, a Worthington Industries company, to commercialize construction products that combine light gauge steel and expandable polystyrene to make wall systems for commercial construction. The initial target markets are military housing and commercial buildings.

Filed two new patents for lightweight concrete. In addition, a joint development agreement was signed with Metromont, a leading supplier of pre-cast, pre-stressed concrete panels for the construction industry. Lightweight concrete combines concrete with expandable polystyrene beads to create a building material with lower weight than traditional concrete, while maintaining high levels of compression strength and better insulating properties.

Styrenic Polymer Joint Ventures

The effects of a cyclical trough in the Styrenics industry, particularly in Europe, has had a negative impact on NOVA Chemicals' Styrenics business performance over the last several years. In 2005, NOVA Chemicals entered into two joint ventures which we believe will reduce costs and improve the competitiveness of our styrenic polymer business.

NOVA Innovene in Europe. Primarily due to relatively low operating rates caused by excess capacity, NOVA Chemicals' European styrenic polymers business delivered weak results over the last several years. Since 2001, European styrenic polymer EBITDA losses have averaged \$30 million per year, or approximately half of the Styrenics business' loss for the period.

The enhanced scale of NOVA Innovene is expected to deliver approximately \$60 million per year of total cost savings within three years. Savings will be shared equally between NOVA Chemicals and INEOS. The savings are expected to be derived from asset rationalizations and reductions in administration, sales and marketing expenses. For example, at start-up, NOVA Innovene had non-manufacturing staff of 165 people. Prior to the commencement of NOVA Innovene, NOVA Chemicals alone had 160 non-manufacturing staff in Europe.

Additionally, on October 11, 2005, NOVA Innovene announced it will permanently shut down a previously idled expandable polystyrene plant in Carrington, United Kingdom, and permanently cease expandable polystyrene production at its Berre, France, plant in the second half of 2006. These two rationalizations will remove nearly 30% of NOVA Innovene's original expandable polystyrene capacity, approximately 310 million pounds per year, which represents approximately 10% of Western European expandable polystyrene capacity.

NOVA Chemicals believes the NOVA Innovene joint venture creates a single entity with greater size, scale and competitiveness. At year-end 2005, the joint venture had manufacturing capacity of approximately 1.6 billion pounds of polystyrene, approximately 24% of Western Europe's total capacity. Including the impact of announced shutdowns at year-end, NOVA Innovene had expandable polystyrene production capacity of 770 million pounds, approximately 30% of Western Europe's total capacity.

NOVIDESA in Mexico. In October 2005, NOVIDESA, S.A. de C.V., a 50:50 joint venture in Mexico formed by NOVA Chemicals and GRUPO IDESA, commenced operations. NOVIDESA markets high-value expandable polystyrene for construction and packaging applications in the Mexican market and distributes NOVA Chemicals' polystyrene in Mexico. NOVIDESA was formed through a cashless transaction.

While smaller in scale than NOVA Innovene, NOVIDESA is an example of how NOVA Chemicals is leveraging its expandable polystyrene process technology, exclusive application designs, and value-added polymer products to enter a new and growing market quickly at relatively low-cost. Expandable polystyrene production for the new joint venture is provided by GRUPO IDESA's Apizaco facility in the state of Tlaxcala, Mexico.

Closure of Chesapeake, Virginia, Site

On January 19, 2006, NOVA Chemicals announced plans to close its Chesapeake, Virginia, site in 2006. The site includes polystyrene production capacity of 300 million pounds per year and compounding capability of 170 million pounds per year. The Company remains committed to its compounded products and plans to identify production alternatives in 2006. The closure is expected to reduce fixed costs by approximately \$15 million per year and will reduce working capital requirements. NOVA Chemicals took a non-cash, after-tax charge of approximately \$46 million in the fourth quarter of 2005 due to the Chesapeake closure. Additional closure costs of approximately \$10 million after-tax will be accrued during the first quarter of 2006.

Styrenics Financial Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2005	2004	2003
Revenue(1)	\$ 2,259	\$ 2,324	\$ 1,579
Operating loss	\$ (271)	\$ (71)	\$ (147)
Depreciation and amortization	\$ 124	\$ 116	\$ 111
EBITDA(2)	\$ (147)	\$ 45	\$ (36)
NOVA Chemicals Styrenics	\$ (83)	\$ 56	\$ (15)
European Styrenic Polymers	\$ (64)	\$ (11)	\$ (21)
Net loss	\$ (221)	\$ (73)	\$ (140)
Average capital employed(3)	\$ 1,386	\$ 1,386	\$ 1,323
After-tax loss on capital employed(4)	(13.1)%	(2.5)%	(6.9)%

(1) Before inter-segment eliminations.

(2) See Supplemental Measures on Page 55.

(3) Average capital employed equals cash expended on plant, property and equipment (less accumulated depreciation and amortization) and working capital and excludes assets under construction. See Supplemental Measures on page 55.

(4) After-tax loss on capital employed equals net loss plus after-tax interest expense divided by average capital employed. See Supplemental Measures on page 55.

Styrenics Operating Highlights

(U.S. DOLLARS PER POUND, EXCEPT WHERE NOTED)	2005				ANNUAL		
	Q1	Q2	Q3	Q4	2005	2004	2003
Benchmark Principal Product Prices(1):							
Styrene monomer(2)	\$ 0.64	\$ 0.61	\$ 0.60	\$ 0.64	\$ 0.63	\$ 0.58	\$ 0.41
Polystyrene (weighted-average)(3)							
North America	\$ 0.89	\$ 0.89	\$ 0.87	\$ 0.92	\$ 0.89	\$ 0.77	\$ 0.61
Europe	\$ 0.71	\$ 0.69	\$ 0.65	\$ 0.63	\$ 0.67	\$ 0.65	\$ 0.48
Benchmark Raw Material Prices:							
Benzene (per gallon)(4)	\$ 3.17	\$ 3.06	\$ 2.82	\$ 2.54	\$ 2.90	\$ 2.88	\$ 1.54

(1) Average benchmark prices do not necessarily reflect actual prices realized by NOVA Chemicals or any other petrochemical company.

(2) Source: CMAI Contract Market.

(3) Benchmark prices weighted according to NOVA Chemicals' polystyrene sales volume mix. Includes solid and expandable polystyrene, but excludes styrenic polymer Performance Products. Source for benchmark prices: CMAI.

(4) A 10 cents per gallon change in the cost of benzene generally results in about a 1 cent per pound change in the variable cost of producing styrene monomer. Source of benzene benchmark prices: CMAI.

Styrenics Sales Volumes

(MILLIONS OF POUNDS)	2005	2004	2003
Styrene monomer(1)	1,672	1,772	1,305
Solid and Expandable Polystyrene			
North America	1,061	1,280	1,084
Europe	989	1,022	1,026
Performance Products(2)	117	115	265
Total	3,839	4,189	3,680

(1) Third party sales only. Excludes sales to the NOVA Innovene joint venture.

(2) Performance Products include ARCEL, DYLARK and ZYLAR resins.

2005 versus 2004

Net Loss. The Styrenics business results declined in 2005, bringing NOVA Chemicals' net loss to \$221 million from a \$73 million net loss in 2004. Price increases implemented throughout 2005 did not keep pace with rapidly rising feedstock costs, which caused margins to fall.

EBITDA. In 2005, the Styrenics business EBITDA decreased by \$192 million from \$45 million in 2004 to a loss of \$147 million in 2005.

NOVA Chemicals Styrenics reported EBITDA losses of \$83 million in 2005 compared to EBITDA of \$56 million in 2004. European Styrenic Polymers reported EBITDA losses of \$64 million in 2005 compared to losses of \$11 million in 2004. The year-over-year reduction in both NOVA Chemicals' Styrenics business and European Styrenic Polymers EBITDA was principally due to weak global demand growth and increased feedstock costs, which were only partially offset by increasing prices.

Revenue. Revenue from the Styrenics business decreased \$65 million, or 3%, from \$2,324 million in 2004 to \$2,259 million in 2005.

Styrene monomer benchmark prices were up 9% and styrene monomer volumes were flat. In 2005, North American average benchmark polystyrene prices were up 16% in 2005 over 2004. NOVA Chemicals' styrenic polymer volumes decreased 16% to 1.2 billion pounds in 2005 from 1.4 billion pounds in 2004.

European Styrenic Polymers reported average benchmark polystyrene prices in Europe were up 3% over 2004. European styrenic polymers volumes decreased 3% to 993 million pounds in 2005 from 1.0 billion pounds in 2004. This reduction was a result of decreased market-wide demand.

Styrenics Performance Products sales volumes in 2005 were 117 million pounds, up 2 million pounds from 2004. Volumes of new products offset lower DYLARK resin sales in the automotive market.

Feedstock and Operating Costs. Feedstock and operating costs increased \$104 million, or approximately 5%, from \$2,165 million in 2004 to \$2,269 million in 2005. Average benchmark benzene prices in North America were \$2.88 per gallon in 2004, relatively flat compared to an average of \$2.90 per gallon in 2005. Average benchmark prices for ethylene increased from \$0.34 in 2004 to \$0.44 in 2005.

2004 versus 2003

Net Loss. Styrenics business results improved in 2004 to a net loss of \$73 million compared to a net loss of \$140 million in 2003. Numerous price increases implemented throughout 2004 in North America and Europe allowed margins to improve despite rising feedstock costs. Contributing to this loss reduction were improving global demand and improved operations from the Bayport styrene monomer facility. In 2003, Bayport experienced an outage, the result of an explosion and fire in the ethylbenzene unit at the facility.

EBITDA. The Styrenics business EBITDA increased \$81 million, or 225%, from a loss of \$36 million in 2003 to earnings of \$45 million in 2004. The improvement over 2003 was mainly due to improving global demand and multiple price increase implementations.

Revenue. Revenue for the Styrenics business increased \$745 million, or 47%, from \$1,579 million in 2003 to \$2,324 million in 2004. Average benchmark polystyrene prices were up 29% over 2003 across all polymer businesses, while styrene monomer benchmark prices were up 41%. Styrenic polymer volumes increased 2%, to 2,417 million pounds in 2004, from 2,375 million pounds in 2003, mainly as a result of higher demand. Styrene monomer volumes increased 36% over 2003 as a result of stronger demand and availability of styrene produced at Bayport.

Feedstock and Operating Costs. Feedstock and operating costs increased \$665 million, or approximately 44%, from \$1,500 million in 2003 to \$2,165 million in 2004. Average benchmark benzene prices in North America rose 87% from \$1.54 per gallon in 2003 to an average of \$2.88 per gallon in 2004. Average benchmark prices for ethylene increased from \$0.29 in 2003 to \$0.34 in 2004.

Outlook for Styrenics Business

During the next two to three years, expected GDP growth should tighten supply/demand balances, and allow higher industry operating rates and stronger chain margins. Benzene prices are expected to return to their historic range of 150% to 225% of crude oil, which should provide for downstream styrenic polymer prices to be set at a more competitive level to alternative materials, thereby promoting demand growth.

In addition to these market improvements, NOVA Chemicals expects to realize the financial benefits of actions taken in 2005 to lower the cost and improve the competitiveness of its styrenic polymers, rebalance its styrene monomer position and accelerate the development and commercialization of Performance Products and downstream business opportunities.

**Figure 8. Global Styrene Monomer Operating Rates
Projected Demand Growth of 4.1% 2005-2008**

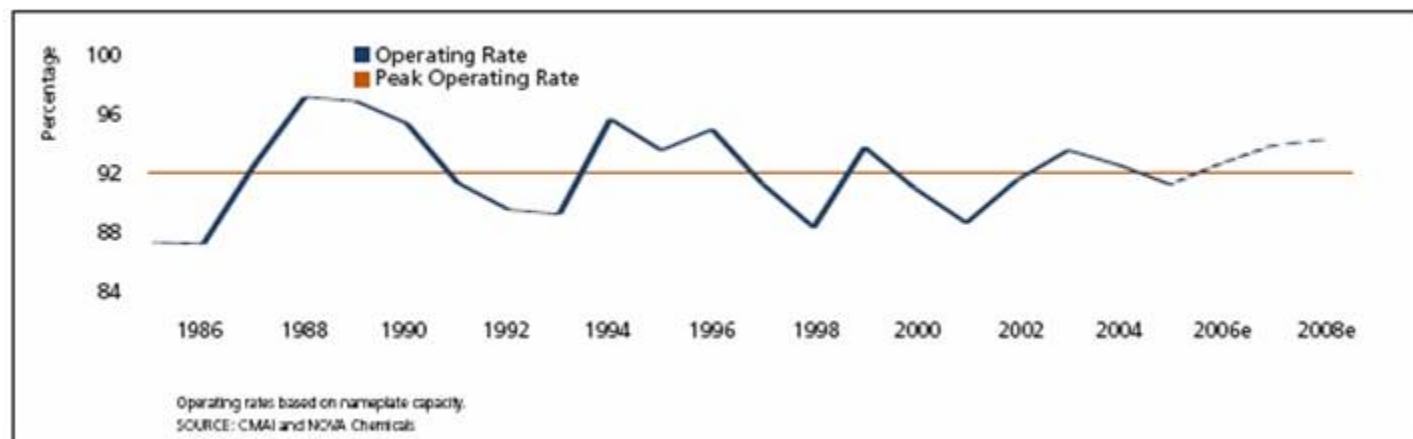
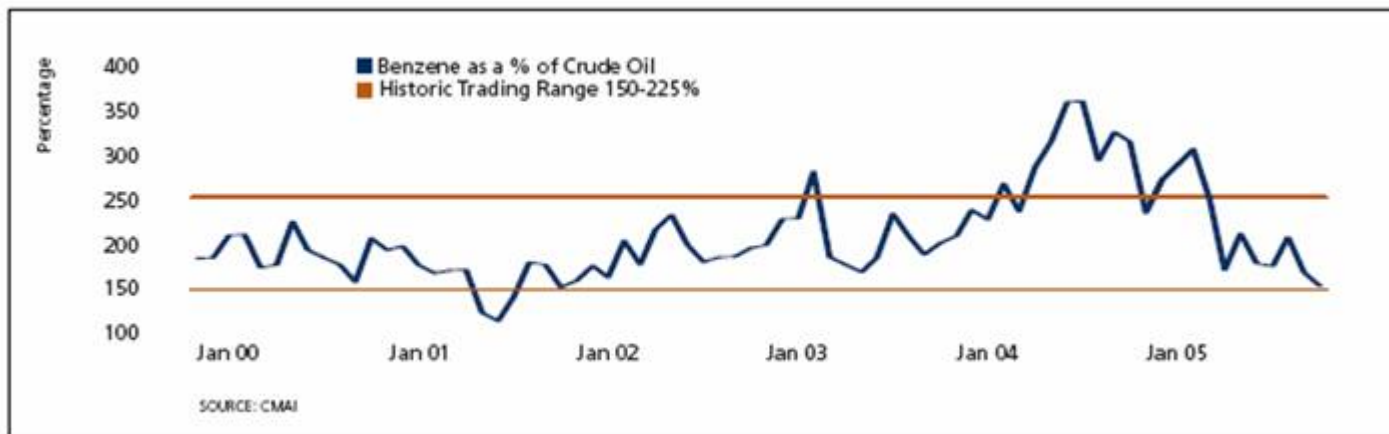


Figure 9. Benzene Price Trend



Corporate and Other Items

A listing of after-tax corporate and other items for the periods presented is as follows:

(MILLIONS OF U.S. DOLLARS)	2005	2004	2003
Stock-based compensation and profit sharing	\$ 21	\$ (60)	\$ (7)
Forward transactions	(10)	–	–
Restructuring	(125)	(5)	(10)
Tax settlement	5	101	–
Bayport charge	–	–	(8)
Non-cash insurance charge	(15)	–	–
Gain on sale of investments:			
AEGS	–	40	–
Methanex	–	–	61
Fort Saskatchewan Ethylene Storage	–	–	64
	<u>\$ (124)</u>	<u>\$ 76</u>	<u>\$ 100</u>

Stock-Based Compensation, Profit Sharing and Forward Transactions

NOVA Chemicals has two cash-settled stock-based incentive compensation plans that are marked-to-market with changes in the value of its common stock price. In November 2005, NOVA Chemicals entered into forward transactions with two financial institutions in order to hedge that portion of its stock-based compensation, which is subject to quarterly mark-to-market accounting adjustments. Mark-to-market rules have resulted in material quarterly earnings variations during the past few years. The forward transactions are cash-settled at the end of a three-year term (November 2008), or at any time prior to that at the option of NOVA Chemicals, based on the difference between NOVA Chemicals' common stock price and the execution price plus accrued interest.

The transactions effectively give NOVA Chemicals the same economic effect as if it had borrowed money, purchased NOVA Chemicals' common shares and held them as assets. The average execution price was \$37.56 on 3.6 million shares, which approximates the number of outstanding shares related to the stock-based compensation units as of November 2005. As NOVA Chemicals' stock price changes, the mark-to-market impact related to the stock-based compensation liability is effectively neutralized by the mark-to-market impact related to the forward contracts.

Additionally, a profit-sharing program, available to most employees, is maintained and based on the achievement of shareholder return on equity targets.

2005

Restructuring Charges. On January 19, 2006, NOVA Chemicals announced its intention to permanently close its Chesapeake, Virginia, site. As a result, NOVA Chemicals recorded a non-cash \$76 million (\$46 million after-tax) write-down for this plant in the fourth quarter of 2005.

On October 1, 2005, NOVA Chemicals and Innovene combined their European polystyrene businesses into a 50:50 joint venture known as NOVA Innovene. In accordance with Canadian GAAP, NOVA Chemicals will account for the joint venture on a proportionate consolidation basis.

On October 11, 2005, NOVA Innovene announced its plans to cease expandable polystyrene production at Berre, France, and permanently shut down the previously idled expandable polystyrene plant at its Carrington, United Kingdom, facility. Accordingly, NOVA Chemicals took a write-down on the value of the plants on September 30, 2005. The amount of the write-down was \$76 million (\$60 million after-tax). NOVA Chemicals also reduced the recorded benefit of certain tax loss carry forwards by \$9 million, as the utilization likelihood is reduced due to the formation of the joint venture and closure of the plants. Certain other non-productive assets were written off amounting to \$9 million (\$6 million after-tax) in the third quarter of 2005. Additional restructuring charges of \$7 million (\$4 million after-tax) were incurred in the fourth quarter to accrue for severance costs related to these plant closures. The total amount of the restructuring charge for 2005 is \$177 million (\$125 million after-tax).

Non-Cash Insurance Charge. NOVA Chemicals incurred a \$22 million (\$15 million after-tax) non-cash charge in the second quarter of 2005 related to its share of incremental future payments required to meet losses in the insurance pools in which the Company participates.

2004

Restructuring Charges. In 2004, a restructuring charge of \$8 million (\$5 million after-tax) was taken for additional dismantling and severance costs related to the May 2004 shutdown of the A-Line at NOVA Chemicals' St. Clair River polyethylene plant site at Corunna, Ontario.

Tax Settlement. During 2004, a \$122 million (\$101 million after-tax) settlement was recorded, which resulted from a tax dispute related to the deductibility of foreign taxes in certain returns filed with the United States Internal Revenue Service prior to 1982. An additional amount of \$6 million (\$5 million after-tax) was recorded in 2005.

Gain on Sale of Investments. In 2004, NOVA Chemicals sold its interest in AEGS for cash proceeds of \$78 million and recorded a gain of \$53 million (\$40 million after-tax). The Company continues to transport ethane as one of several shippers on AEGS under existing long-term ethane transportation agreements. In addition, NOVA Chemicals operates and maintains the system under a contract with the new owner. The new owner is responsible for the commercial aspects of operating the pipeline.

2003

Restructuring Charges. In 2003, NOVA Chemicals incurred a restructuring charge of \$15 million (\$10 million after-tax) for asset write-down and severance costs related to the shutdown of the A-Line at its St. Clair River polyethylene plant in Corunna, Ontario.

Bayport Charge. In 2003, NOVA Chemicals had an explosion and fire at its Bayport, Texas, styrene monomer manufacturing facility and as a result incurred a charge of \$13 million (\$8 million after tax) primarily related to the amount of property damage not covered by insurance.

Gain on Sale of Investments. In 2003, NOVA Chemicals sold its investment in Methanex Corporation for a gain of \$29 million (\$61 million after-tax). Tax expense was recorded on the equity earnings from Methanex during the period in which the investment was held. The recorded tax liability at the time of sale was \$32 million. The sale was recorded with no cash taxes payable and accordingly, the previously recorded future income tax provision of \$32 million was not required and was taken into income at the time of the sale. NOVA Chemicals' share of Methanex Corporation's earnings in 2003, up to the date of sale in June, was \$37 million after-tax.

In 2003, NOVA Chemicals sold its interest in the Fort Saskatchewan Ethylene Storage Facility for a gain of \$76 million (\$64 million after-tax). The total before-tax gain on this transaction was \$114 million, of which \$38 million was deferred and is being amortized over the 20-year

term of the storage contract entered into at the time of the sale. The deferral will partially offset the Company's annual costs associated with this ethylene storage contract.

Liquidity and Capital Resources

NOVA Chemicals' principal sources of liquidity are cash flows from operations, accounts receivable securitization programs, and borrowings under the Company's revolving credit facility. NOVA Chemicals' principal uses of cash are capital expenditures and debt service.

Cash Flow

The following is a summary of the cash inflows and outflows, which contributed to the changes in NOVA Chemicals' cash and debt:

(MILLIONS OF U.S. DOLLARS)	2005	2004	2003
Inflows			
Funds from operations	\$ 270	\$ 412	\$ 99
Increase in operating working capital	(42)	(78)	(125)
Cash generated from (used in) operations	228	334	(26)
Proceeds on sale of assets and other capital transactions	5	103	564
Tax-related settlement	116	12	-
Common shares issued	13	37	9
Total inflows	<u>362</u>	<u>486</u>	<u>547</u>
Outflows			
Capital expenditures (net of project advances)	(419)	(227)	(119)
Turnaround costs, long-term investments and other assets	(178)	(9)	(57)
Common shares repurchased	(125)	(188)	-
Stock options retired for cash	(11)	(18)	-
Common shares dividends	(27)	(28)	(25)
Foreign exchange and other	(6)	(15)	(34)
Total outflows	<u>(766)</u>	<u>(485)</u>	<u>(235)</u>
(Decrease) increase in cash	<u>\$ (79)</u>	<u>\$ 33</u>	<u>\$ 198</u>
Debt addition (reduction)	<u>\$ 325</u>	<u>\$ 32</u>	<u>\$ (114)</u>

Inflows of Cash. Funds from operations decreased to \$270 million in 2005 from \$412 million in 2004 primarily due to lower sales volumes. Funds from operations in 2004 of \$412 million were up substantially from \$99 million in 2003. Improvement in the economy, stronger demand for our products and price increases resulted in improved business earnings.

Operating working capital increased by \$42 million in 2005 primarily due to higher priced feedstock inventories. Operating working capital increased by \$78 million in 2004, due to higher priced inventories and accounts receivable as well as building inventories to meet growing demand and a series of planned plant maintenance outages for 2005. NOVA Chemicals measures the effectiveness of its working capital management through Cash Flow Cycle Time (CFCT). CFCT measures working capital from operations in terms of the number of days of sales (calculated as working capital from operations divided by average daily sales). This metric helps us to determine which portion of changes in NOVA Chemicals' working capital results from factors other than price movements. CFCT was 29 days as of December 31, 2005, compared to 35 days as of December 31, 2004, and 28 days as of December 31, 2003. The decrease as of December 31, 2005 was due primarily to destocking of crude oil based inventories. The increase in 2004 was primarily a result of building inventories for the planned maintenance shutdowns in 2005 as well as a seasonal sales decline in December 2004.

In total, NOVA Chemicals generated \$228 million in cash from operations in 2005 versus \$334 million in 2004, and used \$26 million of cash in operations in 2003.

NOVA Chemicals sold non-strategic assets in 2004, which resulted in \$103 million of net cash proceeds. The sale of the Company's interests in the Ethylene Delivery System (EDS) and Alberta Ethane Gathering System (AEGS) contributed \$19 million and \$78 million, respectively, in 2004. A total of \$564 million was received in 2003 from the sale of the Company's interest in Methanex, which generated net cash of \$441 million, and the sale of its interest in the Fort Saskatchewan Ethylene Storage Facility, which generated net cash of \$123 million.

Cash collections of \$116 million in 2005 and \$12 million in 2004 were received from the settlement of a tax dispute related to the deductibility of foreign taxes in certain returns filed with the U.S. Internal Revenue Service prior to 1982.

In October 2005, NOVA Chemicals issued \$400 million of senior floating rate notes due 2013. In September 2005, the Company repaid the \$100 million of 7% notes upon maturity. In 2004, NOVA Chemicals issued \$400 million of 6.50% senior notes due 2012, from which \$383 million of net proceeds was used to redeem two series of preferred securities due 2047 and 2048.

Cash generation in 2005 was primarily due to earnings and receipt of cash from the tax-related settlement; whereas cash generation in 2004 was principally a result of improving business conditions and earnings. Cash generation in 2003, in contrast to 2005 and 2004, was primarily attributable to non-strategic asset sales.

Outflows of Cash. NOVA Chemicals' capital expenditures, net of third-party advances, were \$419 million in 2005 compared to \$227 million in 2004 and \$119 million in 2003. The increase in capital expenditures is primarily related to the Corunna ethylene plant maintenance and modernization project, the Bayport expansion project and the ARCEL expansion project – all of which increased the Company's production capacity. Capital expenditures for 2006 are expected to be approximately \$250 million. During 2005, NOVA Chemicals spent \$178 million for turnaround costs at Corunna and Bayport and the deferred start-up costs at Corunna, compared to turnaround costs of \$9 million and \$57 million for 2004 and 2003, respectively.

In July 2005, a share repurchase program for up to approximately 7.2 million shares was announced. This repurchase program will terminate on July 26, 2006, unless the maximum number of shares is purchased prior to that date. As of December 31, 2005, the Company had not repurchased any shares under this program. In July 2004, a share repurchase program for up to approximately 7.5 million shares was initiated. NOVA Chemicals purchased the entire amount of shares available under that program for an aggregate cost of \$313 million, or an average cost of \$41.60 per share. The Company also paid stock option exercise values in cash of \$11 and \$18 million in 2005 and 2004, respectively, in lieu of issuing stock.

Commitments

NOVA Chemicals has various commercial commitments, including operating leases for office space, railcars and unconditional purchase obligations related to minimum amounts of feedstock and other raw material purchases pursuant to agreements entered into to secure short-term and long-term supply. While the Company has some fixed price raw materials agreements, prices are typically based on market or a cost-plus basis, and fluctuate with changes in the underlying raw material indices. Obligations have been calculated using current pricing for purposes of the chart below.

Contractual Cash Obligations as of December 31, 2005

(MILLIONS OF U.S. DOLLARS)	PAYMENTS DUE BY PERIOD				
	TOTAL	2006	2007 TO 2008	2009 TO 2010	AFTER 2010
Long-term debt(1)	\$ 2,039	\$ 302	\$ 209	\$ 475	\$ 1,053
Operating leases(2)	543	48	80	81	334
Unconditional purchase obligations(3)	11,034	3,825	2,375	1,158	3,676
Total contractual cash obligations	\$ 13,616	\$ 4,175	\$ 2,664	\$ 1,714	\$ 5,063

- (1) Includes current portion and bank loans.
- (2) Includes property, railcar and other equipment leasing commitments.
- (3) NOVA Chemicals could mitigate the impact of excess quantities of raw materials and feedstock commodities resulting from fixed purchase commitments by reselling these products at market prices.

Liquidity

NOVA Chemicals is able to meet short-term liquidity needs through the generation of funds from operations, cash-on-hand, accounts receivable securitization programs, and borrowing capacity under a revolving credit facility. At December 31, 2005, the Company had \$166 million cash on hand in addition to \$288 million (net of letters of credit) of available borrowing capacity under its revolving credit facility. Additionally, borrowing capacity of \$147 million was available under its accounts receivable securitization program for total liquidity of \$601 million. In addition to this, on January 20, 2006, NOVA Chemicals established a new unsecured revolving credit facility of \$100 million.

Senior Notes. In October 2005, NOVA Chemicals issued \$400 million of senior floating rate notes due 2013. These senior notes were issued with investment-grade covenants and are identical in all material respects to the covenants on existing bonds. The debt was issued to ensure the Corporation has sufficient liquidity to repay the \$300 million medium-term notes in May 2006. In September 2005, \$100 million of 7%, 10-year notes matured and were retired for cash.

In January 2004, NOVA Chemicals issued \$400 million of 6.5% senior notes due 2012. These senior notes were issued with investment-grade covenants and are identical in all material respects to the covenants on our existing bonds. In March 2004, approximately \$383 million of the net proceeds of the offering was used to redeem the Company's 9.04% preferred securities due 2048 and its 9.5% preferred securities due 2047. The balance of the proceeds was used for general corporate purposes. These transactions reduced NOVA Chemicals' annual financing costs by approximately \$10 million.

Credit Facility. As of December 31, 2005, NOVA Chemicals had no direct borrowings under its \$375 million secured revolving credit facility, except for operating letters of credit of \$87 million. On January 20, 2006, NOVA Chemicals established an additional revolving credit facility in the amount of \$100 million. This new facility is unsecured and expires in March 2011.

On June 30, 2005, NOVA Chemicals re-negotiated its revolving credit facility to increase the borrowing capacity from \$300 million to \$375 million, to extend the maturity from March 2007 to June 2010, and to amend certain covenants, as follows:

COVENANT	PREVIOUS REQUIREMENT	CURRENT REQUIREMENT	DECEMBER 31, 2005
			ACTUAL
Interest Coverage(1)	2.0x	2.0x when net debt to total capitalization ratio > 40%	3.6x
Net Debt to Total Capitalization(2)	55%	55%	54%
Consolidated Shareholders' Equity(3)	\$1.00 billion plus 50% of positive earnings	\$1.25 billion plus 50% of positive earnings	\$ 1.42 billion
Distribution Test	Debt to capitalization < 50%	Eliminated	Not applicable

(1) As defined in NOVA Chemicals' revolving credit facility, cash flow equals consolidated net income (loss), in accordance with Canadian GAAP, adding back interest expense, income taxes, depreciation and amortization, extraordinary gains or losses (including gains and losses on sales of assets) and other non-cash items.

(2) As defined in NOVA Chemicals' revolving credit facility, net debt includes items not in accordance with Canadian GAAP, such as obligations under operating leases (if in excess of a specified percentage of consolidated assets) and amounts outstanding under the company's accounts receivable securitization programs. The amended definition also provides for debt to be offset by cash, other than restricted cash, and the amount of NOVA Chemicals' wholly owned subsidiary (NOVA Chemicals Inc.) preferred shares to be excluded in arriving at debt for purposes of this covenant.

(3) Shareholders' equity is defined in accordance with Canadian GAAP plus the amount of the Series A preferred shares.

The Company is currently in compliance with all covenants under this facility.

Off-Balance Sheet Arrangements – Accounts Receivable Securitization. NOVA Chemicals' off-balance sheet financing activities are limited to participation in accounts receivable securitization programs. NOVA Chemicals has engaged in the current programs since 1999 to obtain lower financing rates than those available from other sources. In 2005, the Company amended the programs to extend the maturity until June 2010 and increase the capacity to \$300 million from \$250 million. Under these programs, we sell trade accounts receivable to a third party, on a revolving basis, to a maximum of \$300 million. At December 31, 2005, \$153 million in receivables were sold under the programs. The total amount at year-end was sold via a special purpose entity (SPE) that is 100% owned by NOVA Chemicals. The SPE isolates the sold receivables and the related cash collections for the exclusive benefit of the purchasers. The Company has no right to any cash collected from these receivables; therefore, neither the receivables nor any obligation to the purchasers is reflected in NOVA Chemicals' Consolidated Financial Statements. No other business is conducted through SPEs.

Total Return Swap. In connection with the acquisition of styrenics assets from Huntsman Corporation in 1998, the Corporation's subsidiary, NOVA Chemicals Inc., issued retractable preferred shares with a liquidation preference of \$198 million as partial consideration. Holders of the retractable preferred shares originally had the right to exchange the shares (a retraction) for NOVA Chemicals' common shares (plus NOVA Chemicals' preferred shares if the market value of such common shares was less than \$198 million) on or after April 1, 2001. In September 2005, the terms of the retractable preferred shares were amended to eliminate this right. In connection with this amendment, the retractable preferred shares were re-designated as Series A preferred shares. Additionally, the dividend rate on the Series A preferred shares was reduced from 2% to 0.5% in December 2005.

NOVA Chemicals has the right to repurchase the Series A preferred shares at any time.

NOVA Chemicals also entered into a total return swap, which terminates on March 15, 2007, with respect to the Series A preferred shares. Under the terms of the total return swap: (i) the counterparty pays NOVA Chemicals the total return on the preferred shares (periodic dividends plus positive changes in the equity value of the Series A preferred shares upon termination of the swap; and (ii) NOVA Chemicals pays the counterparty a spread to London Inter-Bank Offered Rate (LIBOR), as well as any negative changes in the equity value of the Series A preferred shares upon termination of the swap.

If the equity value of the Series A preferred shares decreases by approximately 24% or more at any time, NOVA Chemicals is required to post maintenance collateral. Once the margin-posting requirement is triggered, if the equity value of the Series A preferred shares increases by 5% or more, any excess margin may be returned to NOVA Chemicals. Changes in equity value of the Series A preferred shares during the term of the swap will be determined based on changes in the average price of the outstanding 6.5% senior notes due 2012, issued by NOVA Chemicals.

If NOVA Chemicals defaults on other debt of at least \$25 million or the closing price of our common shares is \$12.00 or less and upon certain other events, the counterparty would have the right to sell the Series A preferred shares to a third party and terminate the swap. NOVA Chemicals would then owe the counterparty the difference between the actual sale price received by the counterparty and \$126 million (\$191 million fair value less \$65 million restricted cash). Subsequent to the termination of the swap, NOVA Chemicals may, at its option, repurchase the preferred shares for \$198 million plus accrued and unpaid dividends.

Capitalization

NOVA Chemicals' net debt to total capitalization ratio was 59.7% at December 31, 2005, compared to 48.5% at December 31, 2004, and 51.8% at December 31, 2003. On January 1, 2005, NOVA Chemicals adopted new Canadian accounting standards that require the preferred shares of its subsidiary to be classified as debt, which resulted in an increase of its net debt to total capitalization ratio. The Company's \$100 million of 7% senior notes due September 2005 were repaid in September 2005 from cash on hand. In May 2006, \$300 million of 7% medium-term notes will mature. These notes may be repaid through available cash and lines of credit.

Financial Ratios

DECEMBER 31 (MILLIONS OF U.S. DOLLARS, EXCEPT AS NOTED)	2005	2004	2003
Long-term debt(1)	\$ 2,039	\$ 1,714	\$ 1,682
Less: cash, cash equivalents and restricted cash	(231)	(310)	(277)
Total debt, net of cash, cash equivalents and restricted cash	1,808	1,404	1,405
Shareholders' equity	1,219	1,493	1,309
Total capitalization(2)	\$ 3,027	\$ 2,897	\$ 2,714
Net debt to total capitalization(3)	59.7%	48.5%	51.8%

- (1) On January 1, 2005, NOVA Chemicals adopted new Canadian accounting standards, which require NOVA Chemicals' preferred shares to be classified as debt. Prior periods have been restated accordingly. Maturity dates for NOVA Chemicals' current and long-term debt range from May 2006 to August 2028. Long-term debt includes current portion of long-term debt and bank loans.
- (2) Total capitalization reflects shareholders' equity and total debt, net of cash, cash equivalents and restricted cash (see Supplemental Measures below).
- (3) Computed after taking into account the reclassification of the preferred shares (see Supplemental Measures below).

Senior Debt Ratings (1)

	SENIOR UNSECURED DEBT
DBRS	BBB (low) (stable)
Fitch Ratings	BB+ (stable)
Moody's	Ba2 (negative)
Standard & Poor's	BB+ (negative)

- (1) Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future.

Supplemental Measures

In addition to providing measures in accordance with Canadian GAAP, NOVA Chemicals presents certain supplemental measures as follows. The following supplemental measures do not have any standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

Average capital employed equals cash expended on plant, property and equipment (less accumulated depreciation and amortization) and working capital and excludes assets under construction. Amounts are converted to U.S. dollars using current exchange rates. This measure is provided to assist investors in determining the amount of capital NOVA Chemicals has invested in its business.

After-tax return on capital employed equals net income (loss) plus after-tax interest expense divided by average capital employed. This measure is useful for investors to determine the return NOVA Chemicals earns on capital invested.

Cash Flow Cycle Time equals working capital from operations divided by average daily sales. This measure helps to determine which portion of changes in working capital results from factors other than price movements and helps to assess NOVA Chemicals' performance against its goal to minimize investment in working capital.

EBITDA equals net income (loss) before restructuring charges, income taxes, interest expense, other gains and losses, equity in the earnings of affiliates and depreciation and amortization. This measure is provided to assist investors in determining NOVA Chemicals' ability to generate cash from operations.

Net debt to total capitalization equals long-term debt, net of cash, cash equivalents and restricted cash divided by the sum of the net debt, as defined above, and shareholders' equity. This measure is useful for investors to analyze the leverage of the Company.

Net income (loss) from the businesses equals the total net income (loss) from the Olefins/Polyolefins and Styrenics businesses, which equals NOVA Chemicals' net income less net income from equity investments and corporate and other items.

This measure allows the investor to analyze the performance of the on-going business of the Company.

EBITDA

This measure is provided to assist investors in determining the ability of NOVA Chemicals to generate cash from operations.

(MILLIONS OF U.S. DOLLARS)	2005	2004	2003
Net income (loss)	\$ (104)	\$ 252	\$ (1)
Income tax (recovery) expense	(5)	81	(73)
Other gains	(8)	(177)	(92)
Equity in earnings of affiliate	–	–	(39)
Restructuring charges	168	8	15
Interest expense (net)	113	108	130
Depreciation and amortization	290	297	298
EBITDA	\$ 454	\$ 569	\$ 238

Dividends and Distributions

Common Share Dividends. Historically, NOVA Chemicals has paid dividends on its common shares at the rate of \$0.10 Canadian per quarter. In 2005, a total of \$27 million in dividends was paid on the Company's common shares. There are currently no material contractual restrictions on NOVA Chemicals' ability to declare and pay dividends on its common shares. The declaration and payment of dividends is at the discretion of NOVA Chemicals' Board of Directors, which will consider earnings, capital requirements, financial condition and other relevant factors. It is, however, the Company's intention to retain most of its earnings to support current operations and reduce debt. The current intent is to continue to pay dividends at historic levels.

Series A Preferred Share Dividends. NOVA Chemicals had paid 2% but now pays 0.5% annual dividends on the \$198 million Series A preferred shares of its subsidiary. On January 1, 2005, NOVA Chemicals adopted new Canadian accounting standards that require these instruments to be classified, on a retroactive basis, as liabilities rather than equity. In addition, any dividends associated with these preferred shares have been reclassified to interest expense. All prior periods have been restated.

Application of Critical Accounting Estimates

The following information represents the estimates most critical to the application of NOVA Chemicals' accounting policies. For a summary of the Company's significant accounting policies, please see Note 2 to the Consolidated Financial Statements. Management has discussed the development and selection of these critical accounting estimates with the Audit, Finance and Risk Committee of NOVA Chemicals' Board of Directors and the Audit, Finance and Risk Committee has reviewed the disclosure relating to such estimates in this Management's Discussion & Analysis.

Inventories. NOVA Chemicals carries inventory at the lower of cost and net realizable value. Cost is determined on a first-in, first-out (FIFO) basis with no allocation of fixed production overhead. Most of NOVA Chemicals' competitors determine cost on a last-in, first-out (LIFO) basis. As a result of this difference in methodology used to account for costs, significant differences in the timing of quarterly earnings can occur during periods when feedstock costs are volatile. NOVA Chemicals uses the FIFO method because it believes the FIFO basis is a better method to match the actual costs incurred with the related revenue.

Plant, Property and Equipment (PP&E). PP&E consists primarily of manufacturing equipment, land and buildings for producing petrochemicals. NOVA Chemicals values PP&E at historical cost. Financing costs incurred during major construction are capitalized as part of the cost of the asset until the asset is available for use. Costs related to turnaround activities are capitalized and amortized over the period remaining to the next turnaround activity, while maintenance and repair costs are expensed as incurred.

Judgmental aspects of accounting for PP&E involve estimates of the life of the assets, the selection of an appropriate method of depreciation and determining whether an impairment of NOVA Chemicals' assets exists. These assessments are critical due to their potential impact on earnings.

Canadian and United States GAAP require that if the sum of the future net cash flows, together with the residual value expected to result from a company' s assets, undiscounted and without interest charges, is less than the reported value of the asset, asset impairment must be recognized in the financial statements by a charge to earnings.

NOVA Chemicals' Olefins/Polyolefins business has an established long-term record of profitability and, based on current asset carrying values and expected future cash flows, NOVA Chemicals concluded that the carrying value of its assets is appropriate. In 2003, the shutdown of a single polyethylene line at the St. Clair River facility in Corunna was announced, resulting in a \$6 million after-tax charge to earnings in the third quarter of 2003.

NOVA Chemicals Styrenics business has not been profitable, and in recent years NOVA Chemicals has reduced production capacity due to poor market conditions. In October 2005, NOVA Chemicals and Innovene combined their European polystyrene businesses into a 50:50 joint venture known as NOVA Innovene. On October 11, 2005, NOVA Innovene announced its plans to cease expandable polystyrene production at its Berre, France, plant and permanently shut down the previously idled expandable polystyrene plant in Carrington, United Kingdom. Accordingly, the value of these assets was written off as of September 30, 2005, resulting in a \$60 million after-tax charge to earnings in the third quarter of 2005. On January 19, 2006, NOVA Chemicals announced its intention to permanently close its Chesapeake, Virginia, polystyrene plant. As a result, we recorded a \$46 million after-tax charge to earnings in the fourth quarter of 2005. Based on current asset carrying values and expected future cash flows of the remaining assets, NOVA Chemicals has concluded that the carrying value of these assets is appropriate.

NOVA Chemicals' estimate of future cash flows is based on historical operating performance and the assumption that the business cycle pattern will continue in the future. Historically, there have been peaks in earnings performance, characterized by a tight supply/demand balance and improving margins, followed by trough periods when supply exceeds demand and lower margins result. The assumption is that margins earned in the future will be similar to margins earned in the past and that a similar cost structure will be maintained.

In addition, NOVA Chemicals is able to choose from alternative methods of depreciation. The straight-line method was chosen rather than other methods, such as units of production, because the straight-line method is more conservative, requires less estimation and judgment, and is a systematic and rational basis reflecting the period over which the assets' benefit is realized.

Asset Retirement Obligations. United States and Canadian GAAP require companies to record liabilities associated with future plant decommissioning and site restoration costs on both active and inactive plants at their fair value based on a discounted value of the expected costs to be paid when the assets are retired. At December 31, 2005, NOVA Chemicals had \$26 million of accumulated reserve for these activities. This accumulated reserve is comprised of approximately \$18 million anticipated to be required for the future decommissioning and site restoration of currently active plant sites, \$3 million for plant sites that have been divested or are no longer in use and approximately \$5 million for ongoing environmental management and planned dismantling of currently operating plant sites.

During 2005, there were no business conditions or decisions that resulted in a requirement to increase or decrease the asset retirement obligations associated with active sites. The obligations were increased as a result of the accretion of the liabilities. For inactive sites or sites that became inactive in 2005, the reserves were generally considered adequate for the environmental remediation work required.

During 2004, NOVA Chemicals reduced the reserve that was carried for inactive sites by \$5 million due to several projects either being complete or at a stage of completion that allowed reassessment of the estimated costs to complete. After review of these projects, it was determined that NOVA Chemicals accumulated reserve for inactive sites was too high.

In 2003, the Company undertook an evaluation of the costs to conduct decommissioning and site restoration required to satisfy the projected obligations under applicable environmental requirements upon termination of operations at currently operating plant sites. Canadian GAAP required that the present value of inflation adjusted decommissioning and site restoration costs be recorded as increases to the carrying values of the assets at that time and depreciate this amount over the estimated remaining lives of the assets. NOVA Chemicals determined that \$131 million, at that time, may be required to decommission and restore operating plant sites. This amount does not include any deduction for salvage or land value that may be realized, however these will be taken into consideration as the assets are depreciated. Because these plants may be in operation in excess of

40 years, significant uncertainty exists concerning the nature of the decommissioning and site restoration activities that may be required. Furthermore, significant judgment is involved in the estimation process, because the value of salvage, degree of natural attenuation, evolution of new technologies and potential future land uses may mitigate future environmental liabilities and potential costs.

The amount of \$131 million was approximately \$225 million to \$250 million after adjusting for inflation as is required by Canadian GAAP. The present value of this future amount (using a credit adjusted risk-free rate of 10.5% to discount the estimated future cash flows) was approximately \$19 million, and was accrued in 2003 in anticipation of these activities. This estimated liability will increase, or accrete, each year over the lives of the active plants until it reaches the \$225 million to \$250 million expected to be incurred on closure of the plants. The resulting expense is referred to as accretion expense and is included in operating expenses. For 2005, 2004 and 2003, this expense was \$2 million, \$2 million and \$1 million, respectively.

Pension Plans. NOVA Chemicals sponsors both defined benefit and defined contribution pension arrangements covering substantially all of its employees. NOVA Chemicals' pension obligations and pension expense are recognized in the financial statements. For the defined contribution plans, the cost is expensed as earned by employees. For the defined benefit plans, obligations and expense are determined using actual discount rates and assumptions for mortality, termination, retirement and other rates, as well as the expected return on plan assets and the rate of increase for future compensation. The Company uses published mortality rate tables and selects other assumptions in line with past experience. The return on plan assets is not the actual return but an expected rate based on estimated asset returns over the life of the pension plans and the investment strategy of the plans. The discount rate is based on actual market interest rates at the measurement date on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments of NOVA Chemicals' plans. Changes in these assumptions would need to be dramatic to cause a material impact to NOVA Chemicals' pension obligation or pension expense amounts. For example, a 1% change in the expected return on the plan assets would impact earnings by approximately \$4 million after-tax; and a 1% change in NOVA Chemicals' discount rate would impact earnings by approximately \$10 million after-tax.

Canadian GAAP requires that actuarial gains and losses be recognized in NOVA Chemicals' income using a systematic and consistent methodology. For defined benefit pensions, the Company amortizes such gains and losses over the estimated remaining service lifetime of the employee group to the extent these gains or losses exceed 10% of the greater of the accrued benefit obligation or market value of assets. This alternative avoids recognizing into income large unrecognized gains or losses in individual years. Immediate recognition of such gains and losses would introduce significant volatility into NOVA Chemicals' earnings. Cumulative unrealized actuarial gains and losses have ranged from a \$61 million gain at December 31, 1999 to a \$195 million loss at December 31, 2005.

A total of \$49 million, \$26 million and \$17 million was contributed in 2005, 2004 and 2003, respectively, to all of NOVA Chemicals' defined benefit pension plans. The contributions were based on the most recently filed valuations with pension regulators in various countries. Contributions to the defined contribution plans were \$7 million in 2005.

Funding for NOVA Chemicals' defined benefit pension plans is largely driven by the North American pension plans, as they constitute a significant portion of the Company's pension plan assets and obligations. For 2006, funding is expected to be approximately \$60 million as employees accrue additional pension benefits and special payments are made to cover the shortfall between assets and liabilities. Contributions to the defined contribution plans for 2006 are estimated to be \$7 million.

Income Taxes. The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current and future years for events that have been recognized in NOVA Chemicals' financial statements or tax returns. Judgment is required in assessing future tax consequences. Variations in the actual outcome of these future tax consequences could materially impact NOVA Chemicals' financial position or results of operations.

NOVA Chemicals has a tax reserve that is available to settle periodic tax disputes and ongoing tax adjustments. This reserve is assessed from time-to-time for adequacy and, in 2003 and 2004, the reserve was determined to be over-provided. During 2004, the reserve was reduced by \$11 million (\$20 million in 2003). The 2005 assessment showed the reserve to be at the appropriate level and no adjustment was made.

Accounting Standards

Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. The Canadian Institute of Chartered Accountants (CICA) implemented new accounting standards, which harmonize accounting standards with United States GAAP for some types of mandatorily redeemable shares and other financial instruments. Beginning on January 1, 2005, these instruments are required to be classified, on a retroactive basis, as liabilities rather than equity. As a result, the preferred shares of the Corporation's subsidiary, NOVA Chemicals Inc., have been classified as debt. In addition, any dividends associated with these Series A preferred shares have been reclassified to interest expense. All prior periods have been restated.

Market and Regulatory Risk

The Audit, Finance and Risk Committee of NOVA Chemicals' Board of Directors regularly reviews foreign exchange, interest rate and commodity hedging activity and monitors compliance with the Company's hedging policy. NOVA Chemicals' policy prohibits the use of financial instruments for speculative purposes and limits hedging activity to the underlying net economic exposure.

Foreign Exchange Hedging. NOVA Chemicals conducts business in various countries where certain revenues and expenses are determined in currencies other than the U.S. dollar. The Company has not hedged its exposure to fluctuations in any currency in recent years.

Commodity Hedging and Feedstock Acquisition. NOVA Chemicals manages exposure to fluctuating commodity prices on its physical feedstock requirements by varying the mix of fixed- and floating-price contracts and by entering into commodity futures contracts, swaps and options. The extent to which hedging instruments are used depends on market conditions and requires adherence to the Company's hedging policy. NOVA Chemicals also limits its positions in futures markets to proprietary feedstock requirements and does not use hedging instruments for speculative purposes.

The Company's feedstock acquisition team manages its position in the volatile natural gas and crude markets in an effort to moderate the risks of fluctuations in feedstock prices to lower overall feedstock costs. As a result of hedging activities, after-tax earnings in 2005 and 2004 increased by \$14 and \$16 million, respectively. In 2003, after-tax earnings decreased by \$5 million.

Interest Rate Hedging. Interest rate swaps are used to manage the mix between fixed- and floating-interest rate exposure. At December 31, 2005, 54% of NOVA Chemicals' debt had fixed-interest rates averaging 7.2%, and 46% of its debt had floating-interest rates averaging 7.8%.

Equity Forward Contracts. Equity forward contracts are used to manage exposures to fluctuations in NOVA Chemicals' stock-based compensation costs, as the costs of the plans vary as the market price of the underlying common shares changes. For further details of NOVA Chemicals' forward contracts, please see Corporate and Other Items, Stock-Based Compensation, Profit Sharing and Forward Transactions.

Credit Risk Management. NOVA Chemicals is exposed to credit risk on financial instruments given the possibility a counter-party to an instrument in which we are entitled to receive payment of an unrealized gain fails to perform. The Company has established a limit on contingent exposure for each counterparty based on the counterparty's credit rating. Credit exposure is managed through credit approval and monitoring procedures. Concentration of credit risk can result primarily from receivables, as certain customer groups are located in the same geographic area and operate in the same industry. NOVA Chemicals' manages its credit risk relating to these receivables through credit approval and monitoring procedures.

Government Regulation and Environmental Protection. Like other companies in the plastics and chemical industry, NOVA Chemicals is subject to extensive environmental laws and regulations at all levels of government concerning the manufacture, processing and importation of certain petrochemical substances, discharges or releases (whether to air, land or water) and the generation, handling, storage, transportation, treatment, disposal and clean-up of regulated materials.

Although NOVA Chemicals believes that its businesses, operations and facilities are being operated in material compliance with applicable environmental laws and regulations, the operation of any petrochemical facility and the distribution of petrochemical products involve the risks of accidental discharges of hazardous materials, personal injury and property and environmental damage.

Furthermore, applicable environmental laws and regulations provide for substantial fines, regulatory penalties and criminal sanctions in the event of non-compliance. There can be no assurance that NOVA Chemicals will not incur material costs or liabilities as a result of such occurrences or the enforcement of environmental laws.

From time-to-time, NOVA Chemicals has entered into various consent agreements or been subject to administrative orders for pollution abatement or remedial action in connection with its businesses. The Company is currently involved in investigations and clean-ups under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and comparable state laws at four sites in connection with hazardous substances that in the past had been transported to third party disposal sites. NOVA Chemicals does not believe that its share of response costs at any such sites will, individually or in the aggregate, result in a material liability. It is possible that, based upon the nature of the hazardous substances generated at existing and discontinued operations, the Company may be involved in investigations and clean-ups at additional sites in the future.

NOVA Chemicals has implemented the Responsible Care Program, a comprehensive program that was initiated by the Canadian Chemical Producers' Association (CCPA) and has been adopted by the American Chemistry Council (ACC) in the United States as well as by chemical industry associations in more than 52 countries worldwide, as the basis for its overall safety, health, environment and risk program.

NOVA Chemicals is active in a number of voluntary environmental initiatives to reduce emissions and wastes from its facilities. In addition to participation in the CCPA's National Emissions Reduction Masterplan, we are also participating in Canada's Accelerated Reduction and Elimination of Toxics and greenhouse gas emissions management programs. Through an aggressive emissions management program, we are committed to economically viable solutions to climate change concerns, including, for example, participation in the joint venture with ATCO Power Canada Ltd. and EPCOR Power Development Corporation to operate a natural gas-fired cogeneration power plant at the Company's production site in Joffre, Alberta. This project has substantially reduced greenhouse gas emissions when compared with continuing to supply the electrical needs of the Joffre site from Alberta's primarily coal-fired electrical generation facilities. The Company is also directly involved in the Canadian Chemical Industry's Environmental Performance Memoranda of Understanding with the Federal, Ontario and Alberta governments.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change took effect during the first quarter of 2005. As a result of the Canadian government's decision to ratify the Kyoto Protocol, Canada is required to reduce its greenhouse gas emissions by 6% below 1990 levels during the years 2008 through 2012 and legally binding greenhouse gas emission reduction targets may be imposed on NOVA Chemicals' operations in Canada. In addition, Canada has recently implemented modifications to the Canadian Environmental Protection Act, which gives the government the ability to legislate reductions in greenhouse gas emissions. Similarly, NOVA Innovene's operations are located in countries where greenhouse gas emission targets may be imposed. There is no national greenhouse gas emission reduction program that imposes reduction targets in the United States, but some states have announced an intention to implement such programs and NOVA Chemicals' operations in the United States could also have targets imposed. In view of the uncertainty of how, when and if implementation will occur, we cannot estimate compliance costs or whether they will be material.

Summarized Quarterly Financial Information

THREE MONTHS ENDED;

2005

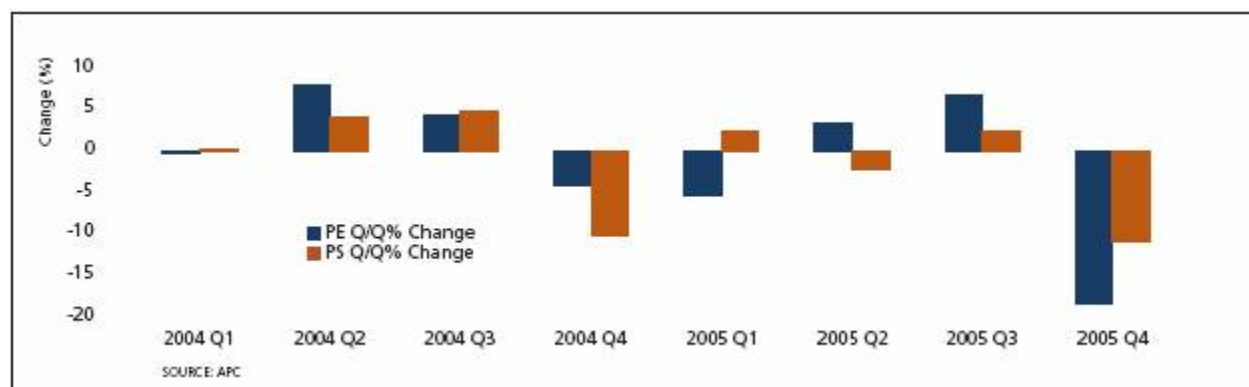
2004

MILLIONS OF U.S. DOLLARS, (EXCEPT PER SHARE AMOUNTS)	DEC 31	SEPT 30	JUN 30	MAR 31	DEC 31	SEPT 30	JUN 30	MAR 31
Revenue	\$ 1,433	1,366	1,329	1,488	\$ 1,527	1,379	1,238	1,126
Operating income (loss)	\$ (79)	(96)	1	170	\$ 51	96	76	41
Net income (loss)	\$ (68)	(105)	(25)	94	\$ 162	56	27	7
Net income (loss) per common share								
Basic	\$ (0.82)	(1.28)	(0.29)	1.12	\$ 1.91	0.64	0.31	0.08
Diluted	\$ (0.82)	(1.28)	(0.29)	1.06	\$ 1.78	0.60	0.30	0.08
Weighted-average common shares outstanding (millions)								
Basic	82.4	82.3	82.3	83.2	84.8	87.2	87.6	87.3
Diluted	82.4	82.3	82.3	90.0	92.4	95.9	96.9	89.2

Quarterly Earnings Trends. In 2004, strengthening demand combined with limited capacity additions, resulted in increased sales volume and prices. Margins expanded for all products despite feedstock cost increases. Net income in the fourth quarter of 2004 includes a \$91 million after-tax gain on a tax-related settlement and \$40 million after-tax gain on the sale of the investment in AEGS. Net income in the first quarter of 2005 was favorably impacted by strong industry operating rates and co-product sales in NOVA Chemicals' Olefins/Polyolefins business. Net losses in the second and third quarters of 2005 were primarily caused by several unusual events, including the Corunna power outage, the Joffre ethane interruption, the non-cash insurance accrual, and the non-cash write-down related to the new European joint venture. The net loss in the fourth quarter was caused by the decline in the sales volumes primarily as a result of Corunna being shut down for an extended turnaround for maintenance and modernization work and the non-cash write-down of the Chesapeake, Virginia, facility.

Historically, sales volumes in the plastics and chemical industry during the last quarter of a calendar year are lower than the first three quarters due to seasonal factors. 2005 was no exception for NOVA Chemicals. Polyethylene sales volumes in the fourth quarter were lower than any of the prior three quarters; however, this was primarily attributable to the outage at the Corunna, Ontario manufacturing facility rather than typical seasonal factors. Styrene monomer, polystyrene and expandable polystyrene sales volumes also followed the historical pattern of being lowest in the fourth quarter. Ethylene constraints limited the sales potential for styrene monomer in the fourth quarter of 2005. Polystyrene sales volumes were down in the first half of the fourth quarter due to the force majeure caused by a hurricane and they were down in the second half of the fourth quarter as customers positioned themselves for 2006 contract negotiations. Expandable polystyrene sales volumes were down in the fourth quarter due to seasonal slowing in the packaging and construction markets as well as the widening price gap caused by increased Asian imports.

Figure 10. Polyethylene & Polystyrene Industry Quarterly Growth, 2004 and 2005



The polyethylene and polystyrene quarterly growth chart above illustrates the trend in demand growth on a quarterly basis for 2004 and 2005. In the first three quarters of 2004, strong economic growth combined with rising energy prices and high operating rates (in the case of polyethylene) stimulated fundamental demand growth and an inventory build downstream from producers, as buyers hedged against rising prices. Later in the year, typical seasonality of demand, coupled with a pull-back in energy prices, resulted in weaker demand. In the first quarter of 2005, inventory de-stocking downstream created follow-on weakness in polyethylene, while polystyrene demand recovered as is traditionally the case after a weak fourth quarter. The middle two quarters saw mostly strengthening demand. Seasonal strength in

fundamental demand combined with rising energy prices caused buyers to attempt to re-build depleted inventories. However, the two hurricanes of late August and late September 2005 created unprecedented supply disruptions. Prices increased rapidly and supply was limited. These conditions resulted in abnormally weak demand growth in the fourth quarter of 2005. The supply shortages, from feedstock through to polymer, caused many suppliers to declare force majeure and limit purchases early in the quarter. Later, very high prices strained working capital resources of many converters, limiting purchases. At the end of the quarter, initial signs of price weakness caused converters to deplete inventory further.

Fourth Quarter 2005 Overview. During the fourth quarter of 2005, we reported a net loss to common shareholders of \$68 million, or \$0.82 per share, compared to net income of \$162 million, or \$1.78 per share, in the fourth quarter of 2004. This quarter-over-quarter decrease of \$230 million was primarily attributable to the following: a \$91 million after-tax

gain on a tax-related settlement in the fourth quarter of 2004; a \$40 million after-tax gain on the sale of NOVA Chemicals' investment in AEGS in the fourth quarter of 2004; a \$46 million after-tax restructuring charge taken in the fourth quarter of 2005 related to the announcement of the closure of the Chesapeake, Virginia, site; and a reduction in earnings of \$37 million and \$48 million of the Olefins/Polyolefins and Styrenics businesses, respectively. These factors were slightly offset by a \$26 million increase in earnings as a result of the mark-to-market changes (net of the effects of the forward transaction) in the value of NOVA Chemicals' common stock price as it relates to its two cash-settled, stock-based incentive compensation plans.

Depreciation expense was relatively flat when comparing the fourth quarter of 2005 with the fourth quarter of 2004. Interest expense increased \$5 million before-tax in the fourth quarter of 2004 compared to 2005 due to the issuance of \$400 million in senior floating-rate notes in October 2005.

Net income in the Olefins/Polyolefins business decreased \$37 million, or 45%, from \$82 million in the fourth quarter of 2004 to \$45 million in the fourth quarter of 2005. The decrease in the Olefins/Polyolefins business fourth quarter net income was primarily related to the decline in polyethylene and co-product sales as a result of the outage at the Corunna, Ontario facility. Despite the fact that there were lower sales volumes, there was margin expansion in the fourth quarter of 2005. The increases in ethylene and polyethylene prices outpaced the increases in the flow-through cost of feedstock.

The net loss in the Styrenics business increased \$48 million, or 282%, from a \$17 million net loss in the fourth quarter of 2004 to a \$65 million net loss in the fourth quarter of 2005. The increase in the Styrenics business fourth quarter net loss was primarily attributable to operating problems, lower margins and lower polystyrene sales volumes caused by constraints on ethylene supplies during the fourth quarter of 2005.

Share Data

Common Shares Issued and Outstanding

(NUMBER OF SHARES)	FOR THE PERIOD ENDED FEBRUARY 13, 2006	2005	2004	2003
Beginning of period	82,364,899	84,268,293	87,099,781	86,527,812
Issued upon exercise of options	115,603	695,157	2,103,112	571,969
Repurchased	—	(2,598,551)	(4,934,600)	—
End of period	<u>82,480,502</u>	<u>82,364,899</u>	<u>84,268,293</u>	<u>87,099,781</u>

Employee Incentive Stock Options

(NUMBER OF OPTIONS)	FOR THE PERIOD ENDED FEBRUARY 13, 2006	2005	2004	2003
Beginning of period	5,107,611	5,849,131	8,822,440	8,625,532

Granted	8	532,750	271,300	999,700
Exercised	(169,848)	(1,257,857)	(3,204,731)	(571,969)
Cancelled	(100)	(16,413)	(39,878)	(230,823)
End of period	4,937,671	5,107,611	5,849,131	8,822,440

Disclosure Controls and Procedures

NOVA Chemicals' management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness, as at December 31, 2005, of NOVA Chemicals' disclosure controls and procedures (as defined in Rules 13a-15e and 15 d-15e under the United States Securities Exchange Act of 1934) and has concluded that such disclosure controls and procedures are effective.

Changes In Internal Control Over Financial Reporting

There have been no changes in NOVA Chemicals' internal control over financial reporting during the year ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Additional Information

Additional information relating to NOVA Chemicals, including the Annual Information Form, is filed with Canadian securities administrators and can be accessed through the system for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. This same information is filed with the U.S. Securities and Exchange Commission and can be accessed via their Electronic Data Gathering, Analysis and Retrieval System (EDGAR) at www.sec.gov/edgar.shtml.



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Consent of Independent Registered Public Accounting Firm

We consent to use of our reports dated February 15, 2006 with respect to the consolidated financial statements of NOVA Chemicals Corporation for the years ended December 31, 2005, 2004 and 2003, NOVA Chemicals Corporation management' s assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of NOVA Chemicals Corporation, included in an exhibit to the Annual Report (Form 40-F) for 2005, filed with the Securities and Exchange Commission.

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-101793) pertaining to the Employee Savings and Profit Sharing Plan for Canadian Employees, the Director Share Unit Plan, the Deferred Share Unit Plan for Key Employees, the Deferred Share Unit Plan for US Key Employees and the Deferred Share Unit Plan for Non-Employee Directors of NOVA Chemicals Corporation, and the Employee Savings and Profit Sharing Plan for US Employees, the US Savings and Profit Sharing Restoration Plan and the Capital Accumulation Plan of NOVA Chemicals Inc.
- (2) Registration Statements (Form S-8 Nos. 33-47673, 333-520, 333-9076 and 333-12910) pertaining to the Employee Incentive Stock Option Plan (1982) of NOVA Chemicals Corporation
- (3) Registration Statement (Form S-8 No. 333-9078) pertaining to the Employee Savings and Profit Sharing Plan for Canadian Employees of NOVA Chemicals Corporation
- (4) Registration Statement (Form S-8 No. 33-86218) pertaining to the Employee Savings and Profit Sharing Plan for NOVA Chemicals Inc. (formerly Polysar Incorporated)
- (5) Registration Statement (Form S-8 No. 33-77308) pertaining to the Director Share Purchase Plan of NOVA Chemicals Corporation
- (6) Registration Statement (Form S-8 No. 333-11280) pertaining to the Beaver Valley Hourly Plan of NOVA Chemicals Corporation
- (7) Registration Statement (Form S-8 No. 333-109424) pertaining to the Restricted Stock Unit Plan of NOVA Chemicals Corporation

of our reports dated February 15, 2006 with respect to the consolidated financial statements of NOVA Chemicals Corporation for the years ended December 31, 2005, 2004 and 2003, NOVA Chemicals Corporation management' s assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of NOVA Chemicals Corporation, included in the Annual Report (Form 40-F) for the year ended December 31, 2005.

Ernst & Young LLP

Calgary, Canada
 March 1, 2006

Chartered Accountants

CERTIFICATIONS

I, Jeffrey M. Lipton, certify that:

1. I have reviewed this annual report on Form 40-F of NOVA Chemicals Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 1, 2006

/s/ Jeffrey M. Lipton

Jeffrey M. Lipton

Chief Executive Officer

(Principal Executive Officer)

I, Larry A. MacDonald, certify that:

1. I have reviewed this annual report on Form 40-F of NOVA Chemicals Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the issuer' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the issuer' s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer' s internal control over financial reporting; and
5. The issuer' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer' s auditors and the audit committee of the issuer' s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer' s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer' s internal control over financial reporting.

Date: March 1, 2006

/s/ Larry A. MacDonald

Larry A. MacDonald
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying annual report on Form 40-F of NOVA Chemicals Corporation for the year ended December 31, 2005 (the "Report"), I, Jeffrey M. Lipton, Chief Executive Officer of NOVA Chemicals Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of NOVA Chemicals Corporation.

March 1, 2006

/s/ Jeffrey M. Lipton

Jeffrey M. Lipton

Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying annual report on Form 40-F of NOVA Chemicals Corporation for the year ended December 31, 2005 (the "Report"), I, Larry A. MacDonald, Chief Financial Officer of NOVA Chemicals Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of NOVA Chemicals Corporation.

March 1, 2006

/s/ Larry A. MacDonald

Larry A. MacDonald
Chief Financial Officer
