



# Corporate Governance Practices

Petro-Canada's corporate governance practices comply with Canadian and U.S. regulations, and align with "best practices" of our peers. Here is a list of Petro-Canada governance practices:

- Board of Directors' Responsibilities
- 2006 Report of the Corporate Governance and Nominating Committee
- Principles and Procedures
- Composition of the Board of Directors and Committees
- Director Orientation and Performance Evaluations
- Corporate Standards and Conduct
- Involvement in Company's Strategic Direction
- Risks, Risk Management and Internal Controls
- Succession Planning
- Director Compensation
- Integrity of Communications

## **Board of Directors' Responsibilities**

Details regarding the responsibilities of the Board, its Committees, the Chair of the Board, Committee Chairs, Individual Directors, and the President and CEO can be found in Petro-Canada's Corporate Governance Handbook.

## **2006 Report of the Corporate Governance and Nominating Committee**

The principal role of the Corporate Governance and Nominating Committee (CGNC) is to assist the Board in:

- developing and implementing principles and procedures for the overall management of corporate governance
- assessing the size, competencies and skills of the existing Board and proposing qualified candidates as nominees for election to the Board and its Committees
- conducting Board, Committee and individual Director evaluations
- overseeing the orientation, education and development of members of the Board

## **Principles and Procedures**

The Board of Directors and management of Petro-Canada are committed to adhering to superior corporate governance standards and the Company adopts a “best practices” approach in all of its corporate governance initiatives. In accordance with rules of the Canadian Securities Administrators and the Toronto Stock Exchange (TSX), the Board has developed sound corporate governance policies and procedures, which are monitored and reviewed on a continuous basis. Overall, the Company’s corporate governance practices do not differ significantly from the New York Stock Exchange (NYSE) Corporate Governance Standards. Details of Petro-Canada’s alignment with the NYSE Standards, as well as the Sarbanes Oxley Act of 2002 (SOX) and National Instrument 58-101 (NI 58-101), are included on this Web site.

Petro-Canada has received formal recognition in respect of its corporate governance practices and disclosure. In its 2005 Corporate Governance Awards (Board Games), the Globe and Mail, Report on Business ranked Petro-Canada’s corporate governance practices in the top 6% among well over 200 companies. This is a rating that has consistently improved for Petro-Canada over the past three years. In 2005, Ethical Funds included Petro-Canada in its “50 Best Corporate Citizens” publication, which involved the consideration of various factors including Board independence and diversity. Covalence, a Geneva-based monitoring organization, recently acknowledged Petro-Canada for its strong ethical practices.

The Governance Committee undertook a review of the Company’s governance practices in 2005 and, in particular, considered the Corporate Governance Handbook. Following this review, the Governance Committee approved revisions to the Board Mandate and position descriptions for the Board Chair, Chief Executive Officer, Corporate Secretary and Committee Chairs. In addition, the remaining Board Committees have approved revised versions of their respective mandates upon recommendation from the Governance Committee.

With the approval of the Governance Committee, the Charters of each of Petro-Canada’s standing Committees and the aforementioned position descriptions are published on this Web site as part of the Corporate Governance Handbook. Additional information on the Audit, Finance and Risk Committee, including a copy of its Charter, can also be found in Petro-Canada’s Annual Information Form.

## **Composition of the Board of Directors and Committees**

The Articles of the Company state that the Board of Directors is to be comprised of a minimum of nine and a maximum of 13 Directors. The Governance

Committee is responsible for annually reviewing the size of the Board and the competencies and skills of its members. Using a skills matrix, the Governance Committee annually reviews the size, composition, membership and Charter of the Board and each Board Committee including its own Charter, membership and performance. This review is followed by the Governance Committee's evaluation of the effectiveness of the Board as a whole and the contributions of individual members. The results of this evaluation are reported to the Board of Directors. Based on its most recent review, the Governance Committee is satisfied that the Board has a suitable number of members and the appropriate mix of experience and skills given the size and nature of Petro-Canada's operations.

The Board of Directors currently has five standing committees:

- Audit, Finance and Risk
- Corporate Governance and Nominating
- Management Resources and Compensation
- Pension
- Environment, Health and Safety

Each Committee is typically composed of five members, each of whom are "independent" pursuant to National Instrument NI 58-101, the NYSE Corporate Governance Standards and SOX. In addition, the Audit, Finance and Risk Committee members are all independent pursuant to Multilateral Instrument 52-110, the NYSE Corporate Governance Standards and SOX and are financially literate, with one member recognized as a "financial expert" in accordance with SOX requirements. Ron A. Brenneman, Petro-Canada's President and Chief Executive Officer, is the only non-independent member of the Board and, while he is not a member of any of the Committees, he is invited to attend all Committee meetings, other than the *in camera* sessions.

Each Committee undertakes detailed examinations of the specific aspects of the Company which fall under its purview, as outlined in its Committee Charter. Committee meetings provide a smaller, more focused forum than do meetings of the full Board of Directors and are designed to be more conducive to exhaustive and forthright discussions. The Chair of each Committee provides a report to the Board of Directors following each Committee meeting.

### **Director Orientation and Performance Evaluations**

The Governance Committee is responsible for the orientation process for new Board members and the continuing education and development of incumbent members. Working with Petro-Canada management, one-on-one presentations are set up with each of the business unit leaders; all Board members are invited

to attend seminars dealing with various topics, such as fiduciary or Committee-related trends and issues, and all members are encouraged to attend facility tours. Petro-Canada also encourages its Directors to enroll in relevant continuing education programs offered by various institutions, including director colleges. Cost-sharing arrangements with Petro-Canada for these programs are available and all reasonable expenses are reimbursed.

## **Corporate Standards and Conduct**

All Board members, employees and contractors are bound by the Company's Code of Business Conduct (the Code), a copy of which can be found on this web site. On an annual basis, the Chief Compliance Officer reports to the Governance Committee on the Company's Corporate Standards and Conduct and obtains certificates from named officers verifying that each such individual adheres to the Code. Annual certifications are also provided by Petro-Canada's senior financial officers in accordance with the Company's Code of Ethics for Financial Officers, which can also be found on this web site. In 2005, Petro-Canada revised the Policy for the Prevention of Improper Payments (PIIP), which provides mandatory guidelines on certain activities and conduct to meet internal ethical standards, and which may fall under the scope of international legislation relating to anti-bribery and corruption including, for example, U.S. Foreign Corrupt Practices Act and the OECD Anti-Bribery Convention. Throughout 2004 and 2005, the Company's Chief Compliance Officer implemented online business integrity training, as well as individual and group seminars, relating to PIIP and similar legislation.

This report is submitted by the Corporate Governance and Nominating Committee.

Guylaine Saucier (Chair)  
Thomas E. Kierans  
Maureen McCaw  
Brian F. MacNeill (ex-officio member)

## **Involvement in Company's Strategic Direction**

The Board is actively involved in the Company's strategic direction.

- The Board has ultimate oversight for adoption of a strategic planning process, and monitoring performance in executing its strategies and meeting its plan objectives.

- Each year, after consultations and meetings with management, the Board reviews and approves strategic plans for the Company. The Board considers issues relating to the Company's lines of business and reviews its allocation of resources to those lines of business. The Board also participates in Directors' seminars to better understand the business of the Company.
- The Board receives updates from the President and CEO and other senior management on strategic developments and on the Company's performance vis-à-vis the strategic plan, and ensures plans are adjusted to reflect new conditions or environmental factors. The Board also reviews and approves financial statements, major investments, the raising of capital, organizational restructuring and other items of significance such as mergers, acquisitions and divestitures.

## **Risk Management and Internal Controls**

The Board considers the Company's principal risks, risk management and internal controls.

- The Board considers all principal risks facing the Company, as well as measures to manage these risks. The Board has charged the Audit, Finance and Risk Committee ("AFRC") with ensuring that comprehensive policies, risk management policies and internal control systems are in place to mitigate the Company's exposures. The Committee reviews these matters quarterly.
- The Company's risk policies, risk management processes, internal controls and management information systems are updated on a regular basis to ensure they match the Company's risk profile and comply with applicable Canadian and U.S. regulatory requirements.
- The AFRC has direct communication, including in camera meetings, with the internal and external auditors.
- For additional detail regarding responsibilities of the AFRC, please see the AFRC Charter, which can be found in the *Corporate Governance Handbook*.

## **Succession Planning**

- The Management Resources and Compensation Committee ("MRCC") of the Board of Directors annually reviews Petro-Canada's succession plans for the President and CEO, and senior executive positions, including the procedures to identify, develop and retain the talent of outstanding executives.

- For additional detail regarding the responsibilities of the MRCC, please see the *Corporate Governance Handbook*.

### **Board, Committee and Individual Director Evaluation**

- The CGNC proposes new Board nominees to the full Board and assesses directors on an ongoing basis.
- The Chair meets with individual Directors, as well as the Board, to plan the implementation of recommendations.

### **Director Compensation**

Director's compensation provides a long-term focus through equity ownership.

- Directors are encouraged to invest in the Company and they may elect to receive equity (common shares or DSUs) as part of their remuneration. Directors must establish over five years and maintain an ownership position in the Company equal in value to \$300,000. This helps align their objectives with those of the shareholders and allows the Company to attract and retain talented and experienced Directors. The specific elements of Directors' compensation are outlined in the section headed "Compensation of Directors," and the Board regularly reviews the adequacy and form of director's compensation.

### **Integrity of Communications**

The Board ensures integrity of communications between the Company and its stakeholders, including the treatment and release of Company information.

- The Board of Directors approves policies relating to the treatment and release of Company information in a timely and broadly disseminated basis, as required by securities laws.
- The Board, with help from the Audit, Finance and Risk Committee, approves annual and quarterly reports on the Company's performance, as well as material public communications.
- The Company has reviewed its disclosure policies and practices to ensure full, fair and timely disclosure of information. Petro-Canada shares information with individual shareholders, institutional investors and financial analysts through its Investor Relations (IR) Department, and to the media through its Corporate Communications Department.

- The IR Department reports regularly to the Board on share performance, issues raised by shareholders and analysts, the Company's institutional shareholder base, and a summary of recent IR activities.

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