

2003 Financial Section

— DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS —

The information in this Annual Report contains forward-looking statements with respect to NOVA Chemicals Corporation (NOVA Chemicals), its subsidiaries and affiliated companies. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included 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; cyclical changes in the demand for our products; changes in pricing policies by us or our competitors; our competitive advantages and ability to compete successfully; 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 levels of debt; 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 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 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; 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; changes in, or the introduction of, new laws and regulations relating to our business, including environmental, competition and employment laws; loss of the services of any of our executive officers; and uncertainties associated with the North American, European and Asian economies; 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 forward-looking statements are expressly modified in their entirety by this cautionary statement. The forward-looking statements are only made as of the date of this Annual Report. NOVA Chemicals undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise.

Management's Discussion and Analysis

Management's Discussion and Analysis includes reports on Olefins/Polyolefins, Styrenics and Corporate activities up to and including page 47. This discussion should be read in conjunction with information contained in the consolidated financial statements and the notes thereto starting on page 50. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). References to ' and net income (loss) to common shareholders before unusual items should be read in conjunction with the discussion of Supplemental Measures on page 40. This Management's Discussion and Analysis is prepared as of February 12, 2004.

The Business of Commodity Chemicals

NOVA Chemicals operates two commodity chemical businesses, Olefins/Polyolefins and Styrenics. In both product chains, earnings are driven by three basic elements: price, sales volume and cost. These three factors are the main determinants of the margin that we receive for our products and consequently are the most important components influencing earnings and cash flow generation.

— MARGINS —

The supply/demand balance of our products, not necessarily the cost of feedstocks, is the primary driver of margins in our industry. Margin, on a unit basis, is defined as the difference between the selling price of our products and the direct cost to produce and sell them. During peak conditions, when operating rates are high and products are in short supply, margins may increase rapidly as customers attempt to secure scarce supply for their own production. Conversely, in trough conditions, when operating rates are low, producers often must compete for volume and market share by reducing prices. In the trough portion of our cycle, margins can fall to the point where they may or may not cover the cash costs of operating the business. As a result, margin, rather than price, is the better indicator of profitability.

During downturns, companies are reluctant to add capacity. Recently, relatively little new capacity has been added in our product categories and demand is now absorbing excess supply. Sustained operating rates, in excess of 90% in polyethylene and 92% in styrene monomer, are typical inflection points at which margins may begin to expand.

— PRICE —

The prices for our commodity polymer products are based on what customers are willing to pay when they compare the price of our products to the price of similar products. Prices can change quickly as a result of fluctuations in the supply/demand balance and feedstock costs. Volatile feedstock costs over the last two years made it essential that we shorten the time it takes to realize price increases. While thirty-day price notification terms remain in place, we are working hard to eliminate the past practice of providing extended price protection to our customers beyond that notification period.

— COSTS —

Variable costs are the single largest component of total cost, and account for more than three quarters of the total cost of our products. Feedstock costs account for the majority of our total variable costs.

Fixed costs consist of plant operating costs, selling, general and administrative costs, and research and development costs that do not vary with production; they are the key controllable piece of our operating cost structure. In order to be the low-cost producer of the products we make, we set aggressive fixed-cost reduction targets each year, and we continually look to improve processes that facilitate the reduction of fixed costs.

— VOLUME —

Our commodity sales volumes are most heavily influenced by customer demand and price, while our higher-value product sales volumes are most heavily influenced by product quality and service. Our share of industry demand is the result of the performance properties and price of our products versus our competitors. Our objective is to compete on the basis of product performance. However, we sell primarily commodity products, so being able to earn good returns while we price our products at competitive levels is essential. A low-cost position is critical to successfully compete in commodity chemicals, even with a strong portfolio of higher-margin products.

The following table illustrates how changes in various factors would increase our profitability, assuming all other factors were held constant. Changes in the opposite direction would have the opposite effect.

POTENTIAL IMPACT TO NOVA CHEMICALS' PROFITABILITY OF:	ESTIMATED (MILLIONS OF \$)		(BILLIONS OF LBS.)
	ANNUAL BEFORE-TAX INCOME INCREASE	ANNUAL AFTER-TAX INCOME INCREASE ⁽¹⁾	ANNUAL PRODUCTION CAPACITY ⁽²⁾
Increase of U.S. 1¢ per pound in profit margin			
Ethylene ⁽³⁾	\$48	\$32	4.8
Polyethylene ⁽⁴⁾	35	23	3.5
Styrene ⁽⁵⁾	33	22	3.3
Styrenic polymers — North America ⁽⁶⁾	22	15	2.2
Styrenic polymers — Europe ⁽⁶⁾	13	9	1.3
Propylene	10	7	1.0
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	17	11	—
Decrease in Canadian dollar of 1¢ vs. U.S. dollar	7	5	—

(1) Based on an assumed tax rate of 34%.

(2) Estimate based on current production capacity assuming utilization of 100%. On average in 2003, our ethylene plants operated at 83% of capacity, our polyethylene plants operated at 83% of capacity, our styrene plants operated at 69% of capacity, and our styrenic polymer plants operated at 70% of capacity.

(3) Excludes cost-of-service third-party sales.

(4) Assumes a 275 million pound polyethylene line at our St. Clair River facility will be shut down as planned on May 31, 2004.

(5) Includes long-term purchase agreements.

(6) Includes solid polystyrene and expandable polystyrene.

NOVA Chemicals' Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2003	2002	2001
Net income (loss) before unusual items			
Olefins/Polyolefins	\$ 14	\$ (5)	\$ (2)
Styrenics	(130)	(102)	(181)
Corporate	(10)	(15)	44
Methanex	37	5	11
Net loss before preferred securities dividends and distributions and unusual items	(89)	(117)	(128)
Preferred securities dividends and distributions	(29)	(31)	(33)
Net loss to common shareholders before unusual items	(118)	(148)	(161)
Unusual items (after-tax) ⁽¹⁾			
Gains on sales of assets	125	36	—
Bayport charge	(8)	—	—
	117	36	—
Net loss to common shareholders	\$ (1)	\$ (112)	\$ (161)
Loss per share before unusual items			
— Basic and diluted	\$(1.36)	\$(1.72)	\$(1.88)
Loss per share			
— Basic and diluted	\$(0.02)	\$(1.30)	\$(1.88)
Weighted-average common shares outstanding (millions) ⁽²⁾	87	86	85

(1) Effective March 28, 2003, new Securities and Exchange Commission (SEC) rules in the U.S. came into effect with respect to non-GAAP financial measures, and accordingly, certain information in prior periods has been restated. Unusual items have been limited to those items or events, which do not occur with any frequency and are outside of normal operations. The sale of our interests in non-strategic assets and the explosion and fire at our Bayport, Texas, styrene monomer production facility have no ongoing impact on operations. See Supplemental Measures on page 41 for a complete listing of unusual items.

(2) Common shares outstanding at February 12, 2004 were 87,242,653 million.

Changes in NOVA Chemicals' Net Loss

(MILLIONS OF U.S. DOLLARS)	2003 vs. 2002	2002 vs. 2001
Higher net unit margins	\$ 5	\$ 65
Higher sales volumes	34	65
Higher gross margins	39 ⁽¹⁾	130 ⁽¹⁾
Lower (higher) SG&A and R&D	(16)	23
Lower restructuring charges	5	7
Higher depreciation and amortization	(32)	(36)
Lower (higher) interest expense	(2)	1
Lower tax recovery before unusual items	—	(47)
Other gains	—	(58)
Higher (lower) equity earnings in Methanex	34	(9)
Decrease in net loss before preferred securities dividends and distributions and unusual items	28	11
Unusual items (after-tax) ⁽²⁾	81	36
Lower preferred securities dividends and distributions	2	2
Decrease in net loss to common shareholders	\$111	\$ 49

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

(2) Unusual items in 2003 included \$125 million in after-tax gains from non-strategic asset sales and an \$8 million after-tax charge related to the explosion and fire at our Bayport, Texas styrene monomer production facility. Unusual items in 2002 were limited to the \$36 million after-tax gain on the sale of our interest in the Cochin Pipeline.

Our Results

Our financial performance in 2003 continued to reflect trough conditions that began late in 2000.

This trough has been longer than usual and we have experienced losses in each of the last three years. During this period, we have taken action to ensure that our liquidity and financial position remain strong. We have sold non-strategic assets, reduced working capital to minimal levels and restricted capital spending. As a result of these actions, at the end of 2003, we had \$459 million of cash and available credit facility and a net debt to total capitalization ratio of 32%.

The U.S. economy began to show signs of recovery late in 2003, which resulted in slightly improved margins in the fourth quarter. Revenues increased \$858 million, or 28%, from \$3,091 million in 2002 to \$3,949 million in 2003. Higher volumes, particularly in styrene monomer and Advanced SCLAIRTECH resins, accounted for the majority of our revenue and margin improvement. Higher average selling prices across all of our products were partially offset by increased feedstock and utility costs. As a result, EBITDA improved only marginally to \$223 million in 2003, from \$195 million in 2002. Our net loss to common shareholders before unusual items improved to \$118 million in 2003, compared with a loss of \$148 million in 2002. Our net loss to common shareholders after unusual items improved to a loss of \$1 million in 2003 from a loss of \$112 million in 2002, primarily from the sale of our investments in Methanex Corporation and the Fort Saskatchewan Ethylene Storage Facility in 2003. These sales resulted in \$125 million in gains in 2003, as compared to the \$36 million gain we realized on the Cochin Pipeline sale in 2002. For a discussion of EBITDA and unusual items, see Supplemental Measures on page 40.

Our financial performance in 2002 improved over 2001, but conditions remained challenging due to continued excess supply in our Olefins/Polyolefins and Styrenics businesses. While lower average prices led to lower revenues during 2002, overall demand for our products increased, which led to higher sales volumes and slightly higher margins. Although revenue decreased from \$3,194 million in 2001 to \$3,091 million in 2002, lower average feedstock prices, combined with improved volumes,

resulted in our EBITDA increasing by \$160 million from \$35 million in 2001 to \$195 million in 2002. As a result, our net loss to common shareholders improved to \$112 million in 2002 from a \$161 million loss in 2001. Similarly, our net loss to common shareholders before unusual items improved to a \$148 million loss in 2002 from a \$161 million loss in 2001. For a discussion of EBITDA and unusual items, see Supplemental Measures on page 40.

Olefins/Polyolefins Business

— PETROCHEMICAL AND FEEDSTOCK ECONOMICS —

Our largest volume product is ethylene, which is central to the production of both polyethylene and styrene monomer. Seventy-five percent of our ethylene is produced at our Joffre, Alberta site; the remaining 25% is manufactured at our Corunna, Ontario plant in a flexi-cracker.

All ethylene plants at Joffre use ethane as their primary feedstock. We purchase natural gas to replace the energy value of the ethane extracted from the gas stream. Ethane is extracted and delivered under medium- to long-term contracts with natural gas liquids extraction and fractionation plants located in Alberta. We manage our ethane balance through our inventories and short-term spot purchases. We also have the capability to use propane for up to 10% of our feedstock requirements in Joffre. In 2003, propane represented 3% of Joffre's ethylene feedstock. We use propane when the economics of cracking propane versus ethane are favorable. All of our Joffre polyethylene products are manufactured from internally produced ethylene.

We enjoy a cost advantage on the ethylene produced at our Joffre site versus ethylene produced from ethane/propane on the United States Gulf Coast (USGC). Our Joffre site is the largest ethylene complex in the world and has, on average, a lower cost of production than similar plants in North America. In 2003 and 2002, this advantage was approximately 4¢ per pound, down from about 5¢ per pound in 2001, and down from a 14-year historical average of 6¢ per pound. In 2002 and for most of 2003, excess supply reduced the price for ethane relative to natural gas on the USGC and caused our cost advantage to decline. However, during the fourth quarter of 2003, demand for ethane improved on the USGC, which caused our ethylene advantage to increase to 5¢ per pound for the quarter and 6¢ per pound in December. While Joffre's ethylene advantage will continue to fluctuate from year-to-year, we expect that the structural advantages associated with lower-cost natural gas and the efficiency gained from our large-scale facilities will enable us to maintain the historical average cost advantage of 6¢ per pound over the long-term.

We sell a portion of our Joffre ethylene production to third parties via contracts that allow us to flow through feedstock costs to customers. As a result, NOVA Chemicals' consumption of ethylene for our own production of polyethylene is approximately 40% of our total ethylene capacity at Joffre.

Our Corunna, Ontario ethylene plant has the flexibility to switch part of its feedstock slate between natural gas liquids and crude oil derivatives, depending on market conditions. Feedstock decisions are made by using a model that calculates the most profitable mix of end products that can be produced from the optimal feedstock slate.

Feedstocks for our Corunna olefins facility are obtained from a wide variety of sources. The majority of the feedstocks are crude oil and crude oil derivatives and condensates, with the remainder being propane, butane, and ethane. The crude oil and derivatives are supplied from western Canada, the United States and from overseas. Condensate, a lighter feedstock than crude oil, yields a higher proportion of olefins feedstocks than heavier crude oil products and is sourced primarily from outside North America. Propane, butane and ethane are sourced from western Canada, local producers and U.S. sources. All of the polyethylene produced in eastern Canada is manufactured from internally produced ethylene.

— POLYETHYLENE ECONOMICS —

Financial results in our 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 can be expected to expand. Peak market conditions for polyethylene margins typically exist when nameplate operating rates for polyethylene are at, or above, 90% for a sustained period of time. On average in 2003, our polyethylene plants operated at 83% of capacity.

Olefins/Polyolefins Financial Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2003	2002	2001
Revenue ⁽¹⁾	\$2,559	\$1,930	\$2,014
Operating income	\$ 92	\$ 67	\$ 57
Depreciation and amortization	187	166	132
Segment EBITDA ⁽²⁾	\$ 279	\$ 233	\$ 189
Net income (loss) ⁽³⁾	\$ 14	\$ (5)	\$ (2)
Average capital employed ⁽⁴⁾	\$1,898	\$1,764	\$1,689
After-tax return on capital employed ⁽⁵⁾	2.5%	1.6%	1.6%

(1) Before intersegment eliminations.

(2) See Supplemental Measures on page 40 for the definition of segment EBITDA.

(3) Before distributions and dividends on preferred securities.

(4) 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. Average capital employed increased \$223 million in 2003 as a result of exchange rate fluctuation.

(5) Equals net income (loss) plus after-tax interest expense divided by average capital employed.

— OLEFINS/POLYOLEFINS OPERATING RESULTS, 2003 VERSUS 2002 —

Our results improved in 2003 with net income of \$14 million compared with a \$5 million loss in 2002. Despite a significant increase in feedstock costs during 2003, prices for our polyethylene and ethylene products increased at a slightly faster pace. Polyethylene volumes were up 6%, while ethylene volumes were down slightly. Most of the increase in polyethylene volumes came from our Advanced SCLAIRTECH resins, which were up 46% to 600 million pounds. In 2004, these volumes are expected to increase to roughly 750 million pounds.

Natural gas and crude oil costs rose rapidly in the first quarter of 2003. NYMEX natural gas rose 67%, averaging \$5.44 per mmbTU in 2003 compared with \$3.25 per mmbTU in 2002, while WTI crude oil prices rose 19%, from \$26.08 per barrel to \$31.04 per barrel. We implemented product surcharges in polyethylene to mitigate the impact of these rising costs. Price increases implemented throughout 2003, coupled with strong chemical and energy co-product pricing from the Corunna ethylene flexi-cracker, helped to offset some of the negative impact of increasing costs. Feedstock and operating costs increased \$575 million, or approximately 36%, from \$1,596 million in 2002 to \$2,171 million in 2003.

Higher feedstock costs and increased demand in late 2003 and early 2004 caused us to announce further price increases. We announced a 4¢ per pound polyethylene price increase effective December 1, 2003 and a 5¢ per pound increase effective February 1, 2004. Implementation of announced price increases depends on many factors, including market conditions, the supply/demand balance for each particular product and feedstock costs. Price increases have varying degrees of success. They are typically phased in and can differ by product or market. Benchmark price indices sometimes lag behind price increase announcements due to the timing of publication.

Operating Highlights

(U.S. DOLLARS PER POUND EXCEPT WHERE NOTED)	2003				ANNUAL		
	Q1	Q2	Q3	Q4	2003	2002	2001
Benchmark Principal Product Prices							
(per pound) ⁽¹⁾:							
Ethylene ⁽²⁾	\$ 0.28	\$ 0.30	\$ 0.27	\$ 0.28	\$ 0.29	\$ 0.22	\$ 0.26
Polyethylene (weighted-average) ⁽³⁾	\$ 0.46	\$ 0.51	\$ 0.48	\$ 0.50	\$ 0.49	\$ 0.38	\$ 0.39
Benchmark Raw Material Prices:							
NYMEX Natural Gas (per mmBTU) ⁽⁴⁾	\$ 6.60	\$ 5.49	\$ 5.10	\$ 4.58	\$ 5.44	\$ 3.25	\$ 4.38
WTI Crude Oil (per barrel)	\$33.86	\$28.91	\$30.20	\$31.18	\$31.04	\$26.08	\$25.97

⁽¹⁾ Average benchmark prices are not intended to be actual prices realized by NOVA Chemicals or any other petrochemical company.

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

⁽³⁾ Benchmark prices weighted according to NOVA Chemicals' sales volume mix in North America.

Source for benchmark prices: Townsend Polymers Services Information.

⁽⁴⁾ Source: NYMEX Henry Hub 3-Day Average Close.

Polyethylene Sales Volumes

(MILLIONS OF POUNDS)	2003	2002	2001
NOVAPOL[®] Resins			
Joffre LLDPE	1,256	1,229	1,129
Moore LDPE	261	265	265
Moore HDPE	392	349	381
SCLAIR [®] Resins	500	592	617
Advanced SCLAIRTECH [™] Resins	600	410	188
Total	3,009	2,845	2,580

An August power disruption, impacting the midwestern and northeastern United States and Ontario, reduced earnings in 2003 by approximately \$9 million.

Segment EBITDA, or operating income before depreciation and amortization, increased \$46 million, or 20%, to \$279 million in 2003 from \$233 million in 2002. This margin improvement was mainly due to prices rising faster than feedstock costs.

In 2003, we announced the permanent shutdown of A-Line, one of our polyethylene production lines at the St. Clair River Site, in Corunna, Ontario. The A-Line shutdown is scheduled to occur during the second quarter of 2004 and will reduce linear low-density polyethylene capacity by 275 million pounds per year. Approximately 80% of the highest-margin A-Line products will be moved to lower-cost production lines, including about 30% to the Advanced SCLAIRTECH polyethylene plant in Joffre, Alberta. The shutdown will eliminate 8% of our polyethylene capacity and about 0.6% of total North American polyethylene capacity. This initiative will also impact 60 positions and reduce fixed costs by \$5 million to \$10 million per year.

— OLEFINS/POLYOLEFINS OPERATING RESULTS, 2002 VERSUS 2001 —

Our Olefins/Polyolefins business reported a net loss of \$5 million in 2002, compared to a net loss of \$2 million in 2001. The 2002 results were impacted by higher depreciation costs due to the full-year operation of our new Advanced SCLAIRTECH polyethylene plant. Segment EBITDA increased by \$44 million, or 23%, from \$189 million in 2001 to \$233 million in 2002. The increase resulted from higher sales volumes. Polyethylene volumes were up 10%, or 265 million pounds, over 2001 with the majority of this increase coming from Advanced SCLAIRTECH resin sales in the United States. Volume gains were mainly offset by lower prices for most polyethylene grades. While average margins were similar in both 2001 and 2002, the trends were quite different. During 2001, margins deteriorated through the year, bottoming out in the fourth quarter. In 2002, margins generally increased through the first three quarters of the year, but fell off somewhat in the fourth quarter.

Feedstock and operating costs decreased \$119 million, or approximately 7%, from \$1,715 million in 2001 to \$1,596 million in 2002. Average prices for natural gas and crude oil were flat to down versus 2001 levels. Despite additional costs for the Advanced SCLAIRTECH polyethylene plant, our fixed costs declined due to other cost reduction efforts.

Styrenics Business

— PETROCHEMICAL AND FEEDSTOCK ECONOMICS —

Styrene is produced from benzene and ethylene. All of the ethylene and a significant portion of the benzene requirements for our Sarnia styrene facility are supplied from our Corunna, Ontario olefins facility. The balance of the benzene feedstock is competitively purchased from nearby petroleum refineries. Except for approximately 30% obtained through swaps, the balance of ethylene and the entire benzene requirement for the Bayport and Channelview facilities is purchased from external sources.

Our global styrenic polymer feedstock requirements are currently satisfied through internal styrene monomer production and long-term supply arrangements. To acquire styrene monomer in Europe, we use a series of trans-Atlantic arrangements with other producers, at local-producer economics.

Three separate acquisitions of styrenics assets from ARCO Chemical Company, Huntsman Corporation and The Shell Petroleum Company Limited (Shell) in 1996, 1998 and 2000, respectively, resulted in us being net sellers of styrene monomer. Our current styrene monomer production capacity, together with long-term supply contracts, exceeds our annual requirements for styrenic polymer production by approximately 1 billion pounds. In a tight market, our long styrene position secures styrene for maximum styrenic polymer sales. It also allows us to sell scarce monomer at high prices in the spot market. In contrast, when demand for styrene and polystyrene weakens, we are forced to sell excess styrene monomer at low spot prices, which negatively impacts our profit margins.

— STYRENE MONOMER INDUSTRY DYNAMICS —

Financial results in our Styrenics business are driven in large part by the supply/demand balance for styrene monomer, since there is less capacity to make styrene than there is to consume it. Styrene monomer is a globally traded commodity with an established merchant market. When the global styrene monomer supply/demand balance tightens, operating rates increase and margins can be expected to expand once rates reach peak conditions. Peak market conditions for styrene monomer margins typically exist when nameplate operating rates for styrene monomer are at or above 92% for a sustained period of time. In peak conditions, a long styrene monomer position provides a source of earnings leverage.

Styrenics Financial Highlights

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND WHERE NOTED)	2003	2002	2001
Revenue ⁽¹⁾	\$1,579	\$1,305	\$1,314
Operating loss	\$ (152)	\$ (118)	\$ (225)
Depreciation and amortization	111	100	98
Segment EBITDA ⁽²⁾	\$ (41)	\$ (18)	\$ (127)
Net loss ⁽³⁾	\$ (130)	\$ (102)	\$ (181)
Average capital employed ⁽⁴⁾	\$1,323	\$1,248	\$1,392
After-tax return on capital employed ⁽⁵⁾	(7.1)%	(5.5)%	(10.6)%

(1) Before intersegment eliminations.

(2) See Supplemental Measures on page 40 for the definition of segment EBITDA.

(3) Before distributions and dividends on preferred securities.

(4) Average capital employed equals cash expended on plant, property and equipment (less accumulated depreciation and amortization) and working capital and excludes assets under construction. Average capital employed increased \$80 million in 2003 as a result of exchange rate fluctuation.

(5) Equals net loss plus after-tax interest expense divided by average capital employed.

— STYRENICS OPERATING RESULTS, 2003 VERSUS 2002 —

Styrenics business results declined in 2003, bringing our net loss to \$130 million from a \$102 million loss in 2002. Price increases implemented throughout 2003 kept pace with rapidly rising feedstock costs but were more than offset by higher natural gas-based utilities and distribution costs, as well as the negative impact of the outage on our Bayport styrene monomer facility. As feedstock costs rose in late 2003, and continue to rise in early 2004, we announced further price increases. These price increases were announced for styrene monomer and our full slate of styrenic polymers in both North America and Europe. The price increases were 3¢ to 6¢ per pound, with effective dates between December 2003 and March 2004. Implementation of announced price increases depends on many factors, including market conditions, the supply/demand balance for each particular product and feedstock costs. Price increases have varying degrees of success. They are typically phased in and can differ by product or market. Benchmark price indices sometimes lag behind price increase announcements due to the timing of publication.

Revenues increased \$274 million, or 21%, from \$1,305 million in 2002 to \$1,579 million in 2003 due to pricing improvement and strong styrene monomer sales.

Feedstock and operating costs increased \$290 million, or approximately 24%, from \$1,215 million in 2002 to \$1,505 million in 2003. Average benzene marker prices in North America rose 29% from \$1.19 per gallon in 2002 to an average of \$1.54 per gallon in 2003. Average benchmark prices for ethylene increased from \$0.22 in 2002 to \$0.29 in 2003.

On June 11, 2003, we had an explosion, which resulted in a fire, in the ethylbenzene manufacturing unit at our Bayport, Texas, styrene monomer production facility. The fire was extinguished with no personal injuries and minimal environmental impact. We fully supplied all global styrene monomer and polymer contract customers for the duration of the outage. Styrene monomer production resumed at Bayport at reduced rates on August 18, 2003, using shipments of ethylbenzene from our Sarnia, Ontario production facility and supplemental purchases of ethylbenzene. Ethylbenzene unit repairs have been completed at the Bayport facility, which became fully operational on January 18, 2004. This outage reduced our 2003 earnings by approximately \$10 million (after-tax) due to the higher costs from purchasing and shipping ethylbenzene, lower operating rates and costs not covered by insurance. Our styrene monomer plants operated at 69% of capacity, somewhat lower than industry rates due to the outage at Bayport.

As a result of the damage, and subsequent repair of the ethylbenzene unit, we are delaying our previously announced debottleneck of the Bayport plant. Originally scheduled to be complete in the fourth quarter of 2004, the debottleneck and turnaround will be delayed by approximately six months. The delay will not have an impact on the previously announced long-term styrene monomer supply contract with BASF Corporation (BASF). We are able to supply BASF from existing production.

Styrene monomer benchmark contract prices in North America rose 8¢ per pound in 2003 from 33¢ per pound in 2002. Weighted-average solid polystyrene prices rose 9¢ during the same period due to higher feedstock costs.

Operating Highlights

(U.S. DOLLARS PER POUND EXCEPT WHERE NOTED)	2003				ANNUAL		
	Q1	Q2	Q3	Q4	2003	2002	2001
Benchmark Principal Product Prices (per pound)⁽¹⁾:							
Styrene monomer ⁽²⁾	\$0.43	\$0.41	\$0.40	\$0.40	\$0.41	\$0.33	\$0.31
Polystyrene (weighted-average) ⁽³⁾	\$0.55	\$0.60	\$0.52	\$0.56	\$0.56	\$0.47	\$0.44
Benchmark Raw Material Prices:							
Benzene (per gallon) ⁽²⁾	\$1.78	\$1.48	\$1.41	\$1.49	\$1.54	\$1.19	\$1.02

(1) Average benchmark prices are not intended to be 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 in North America and Europe. Includes solid and expandable polystyrene, but excludes high performance styrenic polymers, DYLARK and other styrenic co-polymers. Source for benchmark prices: CMAI. CMAI's published North American low-range contract/market high-heat crystal benchmark polystyrene prices received a one-time downward, non-market adjustment of 6¢ per pound beginning in June 2003. Months prior to June 2003 were not restated by CMAI.

Styrenic polymer volumes declined 3%, to 2,375 million pounds in 2003, from 2,461 million pounds in 2002, mainly as a result of lower demand. Styrene monomer volumes increased 4% as a result of stronger demand.

Styrenic Sales Volumes

(MILLIONS OF POUNDS)	2003	2002	2001
Styrene monomer ⁽¹⁾	1,305	1,257	1,014
Polystyrene	2,110	2,180	2,282
High performance styrenics including DYLARK	265	281	314
Total	3,680	3,718	3,610

(1) Third-party sales only.

Our Styrenics business segment EBITDA in 2003 was a loss of \$41 million compared to a loss of \$18 million in 2002. The decline over 2002 was mainly due to lower margins.

— STYRENICS OPERATING RESULTS, 2002 VERSUS 2001 —

Our Styrenics business reported a net loss of \$102 million in 2002, compared to a net loss of \$181 million in 2001. Margins improved in 2002, as feedstock costs were lower than 2001. Segment EBITDA in 2002 was a loss of \$18 million versus a loss of \$127 million in 2001. The improvement over 2001 was mainly due to higher margins resulting from higher industry capacity utilization rates and lower average feedstock costs. In addition to better margins, our Styrenics business improved its performance by implementing several cost-cutting initiatives, including asset rationalization and restructurings.

Due to higher industry utilization rates, 2002 was a stronger year for styrene monomer. In 2001, market conditions for styrene monomer were weak, and we were forced to reduce our own styrene monomer production to meet minimum purchase obligations. This resulted in higher fixed-costs per pound on our produced styrene monomer. In addition, we sold higher-cost purchased monomer into a weak styrene monomer market. The negative impact on margins was approximately \$65 million in 2001. In 2002, we did not reduce monomer production rates in our plants to meet minimum supply obligations, so the impact of our long styrene monomer position was neutral.

In addition, we also achieved \$9 million (after-tax) in synergies related to Shell's European solid polystyrene and expandable polystyrene businesses acquired in 2000.

Corporate and Other Items

— ASSET SALES —

Methanex Investment. In June 2003, we sold our 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. During the period we held our investment, we recorded tax expense on equity earnings from Methanex. The recorded tax liability at the time of sale was \$32 million. The sale was completed 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.

Our share of Methanex's earnings in 2003, up to the date of sale, was \$37 million after-tax, compared with \$5 million for the year 2002 and \$11 million in 2001. These results included restructuring charges and asset writedowns of \$27 million in 2002 and \$3 million in 2001. Global methanol prices improved throughout 2002 and into 2003 due to supply limitations and a recovery in demand.

Fort Saskatchewan Ethylene Storage Facility. We sold our interest in the Fort Saskatchewan Ethylene Storage Facility in 2003 for net proceeds of \$123 million, which resulted in a before-tax gain of \$76 million and an after-tax gain of \$64 million. The total gain on this transaction was \$114 million before-tax, of which \$38 million has been deferred and will be amortized over the 20-year term of the storage contract. The deferral will partially offset our annual costs associated with this new Fort Saskatchewan ethylene storage contract.

Cochin Pipeline. We realized a gain in 2002 of \$59 million before-tax (\$36 million after-tax) from the sale of our interest in the Cochin Pipeline.

— OTHER OPERATING EXPENSES —

Depreciation and amortization expense increased by \$32 million, or 12%, from \$266 million in 2002 to \$298 million in 2003. The increase in 2003 was primarily due to higher Canadian dollar and euro denominated asset values when translated into U.S. dollars. Depreciation and amortization also increased in 2002 over 2001 by \$36 million. The increase in 2002 was primarily the result of additional depreciation associated with the full year operation of our Advanced SCLAIRTECH polyethylene plant and related infrastructure. In June 2004, the cost-of-service contract for our second ethylene cracker (E2) in Joffre, Alberta will expire. As a result, depreciation and amortization will be reduced by approximately \$30 million annually as this facility will be fully depreciated at that time.

Research and development spending increased \$6 million, or 15%, from \$39 million in 2002, to \$45 million in 2003, and increased \$5 million over 2001. This increase in spending reflects our continued investment and focus on Advanced SCLAIRTECH and Styrenics higher-margin growth products.

Selling, general and administrative (SG&A) expenses increased \$10 million, or 6%, from \$169 million in 2002, to \$179 million in 2003 due to the higher Canadian dollar and euro. Continued cost reduction and streamlining efforts offset some of this currency related increase.

— RESTRUCTURING CHARGES —

In 2003, a restructuring charge of \$15 million (\$10 million after-tax) was related to the announced shutdown of one of our polyethylene production lines at our St. Clair River Site, in Corunna, Ontario. This charge was comprised mainly of asset writedown and severance costs. In 2002, a charge of \$20 million (\$15 million after-tax) was related to streamlining our operations in many areas of our company and was primarily severance related. In 2001, we had a charge of \$27 million (\$17 million after-tax), which related to employee severance, as well as project and other asset writedown costs.

— INTEREST EXPENSE —

Net interest expense in 2003 remained essentially flat at \$89 million as compared to \$87 million in 2002. In 2001, interest costs were \$88 million, however, we capitalized \$18 million of interest costs relating to the Joffre expansion in 2001.

— INCOME TAXES —

Income tax recoveries increased significantly in 2003 to \$61 million from \$13 million in 2002, and declined slightly from \$83 million in 2001. The increase in 2003 was primarily the result of reversing previously recorded income tax provisions, which were no longer required as a result of non-strategic asset sales and other matters. The decline from \$83 million in 2001 to \$13 million in 2002 was due to reduced losses in 2002, as well as additional tax benefits from unusual items in 2001.

— NET LOSS TO COMMON SHAREHOLDERS —

For 2003, we reported a net loss to common shareholders of \$1 million compared to a net loss to common shareholders of \$112 million in 2002 and a net loss to common shareholders of \$161 million in 2001. Our performance improved in 2003, over 2002 and 2001, as demand recovered slightly over the period and price increases kept ahead of volatile feedstock costs. In addition, the sale of our interest in Methanex and the Fort Saskatchewan Ethylene Storage Facility resulted in gains of \$125 million after-tax in 2003.

Liquidity and Cash Flow

Our principal sources of liquidity in 2003 were cash flows from asset sales, operations, accounts receivable securitization programs and borrowings under our revolving credit facility. Our principal uses of cash were capital expenditures, debt reduction and debt service.

— CASH FLOW —

Increasing total cash flow from the business was our top priority in 2003. We sold non-strategic assets, which allowed us to reduce debt by \$114 million and increase our cash and cash equivalents on hand to \$212 million. We also invested in working capital during the year, primarily due to higher Cash Flow Cycle Time of 28 days versus an unsustainably low 20 days at the end of 2002. This is in contrast to 2002, when we significantly reduced working capital.

A summary of the cash inflows and outflows which contributed to our debt reduction is shown below:

(MILLIONS OF DOLLARS)	2003	2002	2001
Inflows			
Funds generated from operations	\$ 140	\$ 153	\$ 94
Reduction (increase) in operating working capital	(125)	206	184
Cash generated from operations	15	359	278
Asset sale proceeds	564	82	—
Foreign exchange and other	—	12	14
Total inflows	579	453	292
Outflows			
Capital expenditures (net of project advances)	(119)	(70)	(168)
Turnaround costs, long-term investments and other assets	(57)	(18)	(156)
Dividends and distributions	(54)	(54)	(56)
Foreign exchange and other	(37)	—	—
Total outflows	(267)	(142)	(380)
Reduction (increase) in cash	(198)	(4)	17
Debt Reduction (Addition)	\$ 114	\$ 307	\$ (71)

Inflows of Cash. Funds from operations were \$140 million in 2003, down from \$153 million in 2002 and up from \$94 million in 2001. Working capital increased by \$125 million in 2003, due to higher-priced inventories and accounts receivables. We continued our focus on Cash Flow Cycle Time (CFCT), which is measured as operating working capital divided by average sales. In 2002 we reduced our investment in working capital to a very low 20 days. We ended 2003 with 28 days CFCT. We believe we can sustain CFCT between 25 and 30 days of sales, over the long-term, which will allow us sufficient working capital to meet growing demand. In total, we generated \$15 million in cash from operations versus \$359 million in 2002 and \$278 million in 2001.

Asset sales contributed the most significant amount of cash in 2003. The sale of our interest in Methanex Corporation generated net cash of \$441 million; and the Fort Saskatchewan Ethylene Storage Facility sale contributed an additional \$123 million.

Outflows of Cash. We increased our capital spending program to \$119 million, (net of project advances) in 2003 compared to the \$70 million spent in 2002. Capital spending was \$168 million in 2001. From 2003 to 2007, our capital expenditures, net of project advances, are expected to average about \$155 million per year, or approximately 50% of depreciation charges. During 2003, we received \$11 million in cash in the form of project advances, (2002 – \$1 million and 2001 – \$nil), which reduced the cash required for capital expenditures.

We also spent \$29 million in 2003 for scheduled maintenance of facilities, known as turnarounds. We expect to spend approximately \$6 million on scheduled turnarounds in 2004.

— COMMITMENTS —

We have various commercial commitments, including operating leases for office space and railcars and unconditional purchase obligations related to minimum amounts of feedstock and other raw material purchases pursuant to agreements entered into to secure short- and long-term supply. 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 AT DECEMBER 31, 2003 (MILLIONS OF DOLLARS)	PAYMENTS DUE BY PERIOD				
	TOTAL	2004	2005–2006	2007–2008	AFTER 2008
Long-term debt ⁽¹⁾	\$1,101	\$ —	\$ 405	\$ 4	\$ 692
Capital leases	—	—	—	—	—
Operating leases ⁽²⁾	594	48	83	68	395
Unconditional purchase obligations ⁽³⁾	7,734	2,124	2,236	1,502	1,872
Total contractual cash obligations	\$9,429	\$2,172	\$2,724	\$1,574	\$2,959

(1) Includes current portion and bank loans.

(2) Includes property, railcar and other equipment leasing commitments.

(3) We 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 —

We meet our short-term liquidity needs through the generation of funds from operations, cash-on-hand, our accounts receivable securitization programs, and borrowing capacity under our revolving credit facility. In addition, we continue to consider the sale of certain non-strategic assets.

Senior Notes Offering. On January 13, 2004, we issued \$400 million of 6.50% 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. Net proceeds of the offering will be used to redeem, on March 1, 2004, the 9.04% preferred securities due 2048 and the 9.50% preferred securities due 2047. The two issues of preferred securities total \$382.5 million. The balance of the proceeds will be used for general corporate purposes. These transactions will reduce annual financing costs by approximately \$10 million.

Credit Facility. As of December 31, 2003, we had no borrowings under our \$300 million secured credit facility, except for operating letters of credit of \$53 million. In conjunction with the Senior Notes offering described above, we amended the credit facility to extend its expiration date to April 1, 2007, relaxed the Minimum Cash Flow to Interest Expense covenant for the first and second quarters of 2004, and adjusted the definition of debt to consolidated debt, which will include all cash with the exception of any restricted cash. The covenants related to this revised facility are as follows:

COVENANT	REQUIREMENT	DECEMBER 31, 2003	
		ACTUAL	PRO FORMA ⁽⁴⁾
Minimum Cash Flow to Interest Expense ⁽¹⁾ :			
12 months ending December 31, 2003	1.25 : 1.0	1.82	1.96
12 months ending March 31, 2004	1.50 : 1.0	—	—
12 months ending June 30, 2004	1.75 : 1.0	—	—
12 months ending September 30, 2004, and thereafter	2.00 : 1.0	—	—
Maximum Net Debt to Total Capitalization ⁽²⁾ :	55%	36.1%	49.1%
Minimum Shareholders' Equity ⁽³⁾ :	\$1.0 billion plus 50% of positive earnings	\$1.9 billion	\$1.5 billion

(1) As defined in the 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. Interest expense includes preferred securities dividends and distributions.

(2) As defined in the 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 accounts receivable securitization program. The definition also provides for debt to be offset by cash, other than restricted cash, in arriving at net debt for purposes of this covenant.

(3) Shareholders' Equity is defined in accordance with Canadian GAAP and includes changes in the cumulative translation adjustment account (CTA). Previously, the calculation excluded changes in CTA after December 31, 2002.

(4) Pro forma calculations assume that the issuance of \$400 million of Senior Notes and the redemption of preferred securities as described above occurred on December 31, 2003, with respect to net debt to total capitalization and shareholders' equity, and on January 1, 2003 with respect to cash flow to interest expense.

We are in compliance with the amended covenants under the revolving credit facility.

Off-Balance-Sheet Arrangements — Accounts Receivable Securitization. Our off-balance-sheet financing activities are limited to participation in accounts receivable securitization programs. We have been engaged in the current programs since 1999 to obtain lower financing rates than those available to us from other sources. During 2003, the programs were renewed until July 12, 2004. We expect the programs will be renewed prior to July 12, 2004. In the event they are not renewed, we expect we would have sufficient cash and available credit facilities to repay any amounts outstanding. We sell trade accounts receivable to third parties, on a revolving basis, to a maximum of \$195 million (see Note 3 to the Consolidated Financial Statements). At December 31, 2003, \$177 million in receivables were sold under the programs. Of this amount, \$117 million 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. We have no right to any cash collected from these receivables; therefore, neither the receivables nor any obligation to the purchasers is reflected in our financial statements. We conduct no other business through SPE's.

Total Return Swap. In connection with the acquisition of styrenics assets from Huntsman Corporation in 1998, our subsidiary, NOVA Chemicals Inc., issued retractable preferred shares with a liquidation preference of \$198 million as partial consideration. Holders of the retractable preferred shares have the right to exchange the shares (a retraction) for NOVA Chemicals' common shares (plus preferred shares if the market value of such common shares is less than \$198 million).

During 2001, 2002, and 2003, certain changes were made to the terms of the retractable preferred shares and related stockholder agreements. These changes provide us with the right to call the retractable preferred shares on or after December 15, 2001 and repurchase the retractable preferred shares prior to any retraction into NOVA Chemicals common shares. If we do not exercise our repurchase rights prior to March 15, 2005, the market-based exchange rate at which the retractable preferred shares may be retracted into NOVA Chemicals common shares (and, accordingly, the effective price at which the common shares would be issued) will be fixed on that date. The number of NOVA Chemicals common shares issuable upon a retraction remains limited to a maximum of 8.5 million shares with the balance of the obligation, if any, met through the issuance of NOVA Chemicals preferred shares. The dividend rate on the retractable preferred shares is 2% per year.

We also entered into a total return swap, which terminates on March 15, 2005, with respect to the retractable preferred shares. Under the terms of the total return swap: (i) the counterparty pays us an amount equal to the fixed dividend on the retractable preferred shares; (ii) we pay the counterparty LIBOR plus a spread; (iii) we are obligated under the swap to provide initial margin (cash, government securities or a letter of credit) equal to 20% of the original notional amount of \$191 million, which is currently satisfied by a letter of credit issued by a third-party for which we pay a fee; (iv) we are also required to provide maintenance margin in the form of restricted cash for any negative changes in the equity value of the retractable preferred shares; and (v) the counterparty pays us for any positive changes in the equity value of the retractable preferred shares.

We have provided \$65 million of restricted cash to reduce the notional amount of the swap from \$191 million to \$126 million. As a result, prior to March 15, 2005, we can redeem the potentially dilutive security for an additional \$126 million.

Beginning in 2004, changes in the equity value of the retractable preferred shares during the term of the swap will be determined based on changes in the average price of the outstanding 7% Senior Notes due 2005 and 7% Medium-Term Notes due 2006 issued by NOVA Chemicals (see Note 8 to the Consolidated Financial Statements).

If we default on other debt with an aggregate principal amount of \$25 million or more, or the closing price of NOVA Chemicals common shares is \$12.00 U.S. or less, and upon certain other credit events, the counterparty will have the right to sell the retractable preferred shares to a third-party and terminate the swap. We would then owe the counterparty the difference between the actual sale price received by the counterparty and the most recent adjusted notional equity value of the retractable preferred shares (in the event the difference was negative).

Capitalization. At the end of 2003 our net debt to total capitalization ratio was at 32%, after deducting cash and cash equivalents from total debt. In August 2003, we redeemed at par our \$150 million of 7% debentures due August 15, 2026, from available cash. We have no current debt outstanding at December 31, 2003. Our next long-term debt maturity occurs in 2005 for \$100 million.

Financial Ratios

DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT AS NOTED)	2003	2002	2001
Long-term debt ⁽¹⁾	\$1,101	\$1,215	\$1,522
Less: cash and cash equivalents	(212)	(14)	(10)
Total debt net of cash and cash equivalents	889	1,201	1,512
Shareholders' equity	1,890	1,561	1,614
Total capitalization ⁽²⁾	\$2,779	\$2,762	\$3,126
Net debt to total capitalization ⁽³⁾	32.0%	43.5%	48.4%
Interest coverage (deficiency) on long-term debt ⁽⁴⁾	0.9x	(0.1)x	(1.7)x

(1) Includes current portion and bank loans.

(2) Total capitalization reflects shareholders' equity and total debt net of cash and cash equivalents. (See Supplemental Measures below).

(3) If cash and cash equivalents are not netted against long-term debt, the debt to total capitalization ratio would be 37%.

(4) Interest coverage (deficiency) on long-term debt is equal to net income (loss) before interest expense on long-term debt and income taxes divided by annual interest requirements on long-term debt.

Credit Ratings. Our current senior unsecured debt ratings are as follows: DBRS — BBB (low) (stable); Standard & Poor's — BB+ (negative); and Moody's — Ba2 (stable). In January 2004, Standard & Poor's lowered our outlook from stable to negative coincident with the private placement of \$400 million aggregate principal amount of 6.50% Senior Notes due 2012.

— SUPPLEMENTAL MEASURES —

In addition to providing measures in accordance with Canadian GAAP, we present certain supplemental measures. These are EBITDA (defined below) and net income (loss) to common shareholders before unusual items. We also define total capitalization to be net of cash and cash equivalents in accordance with the debt covenants for our \$300 million revolving credit facility. These 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.

Due to new U.S. SEC rules, certain items are no longer excluded when presenting non-GAAP financial measures. EBITDA no longer excludes restructuring charges and net income or loss to common shareholders before unusual items also does not exclude restructuring charges, and certain other items previously considered unusual in nature. Prior periods have been restated to reflect these new determinations.

EBITDA. This measure is provided to assist investors in determining our ability to generate cash from operations. Under the Corporation's definition, EBITDA can be determined from the consolidated statements of income (loss) by adding back income taxes, interest expense, other gains and losses, equity in the earnings (losses) of affiliate, and depreciation and amortization to net income (loss).

	2003	2002	2001
Net income (loss)	\$ 28	\$ (81)	\$(128)
Income tax recovery	(61)	(13)	(83)
Other (gains) and losses	(92)	(59)	(58)
Equity in earnings of affiliate	(39)	(5)	(14)
Interest expense (net)	89	87	88
Depreciation and amortization	298	266	230
EBITDA	\$223	\$195	\$ 35

Segment EBITDA is determined as segment operating income or loss before depreciation and amortization.

Net Loss to Common Shareholders Before Unusual Items. This measure is provided to assist investors in assessing earnings performance from ongoing operations. Certain items such as gains and losses from sales of assets are excluded if they are not considered to be in the ordinary course of business. A listing of unusual items (after-tax) for the periods presented is as follows:

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Net loss to common shareholders before unusual items	\$(118)	\$(148)	\$(161)
Unusual items:			
Gain on sale of Methanex Corporation	61	—	—
Gain on sale of Fort Saskatchewan Ethylene Storage Facility	64	—	—
Gain on sale of Cochin Pipeline	—	36	—
Bayport charge	(8)	—	—
Total unusual items	\$ 117	\$ 36	\$ —
Net loss to common shareholders after unusual items	\$ (1)	\$(112)	\$(161)

Effective March 28, 2003, new SEC rules in the U.S. came into effect with respect to non-GAAP financial measures, and accordingly, certain information in prior periods has been restated. Unusual items have been limited to those items or events which do not occur with any frequency and are outside of normal operations. The sale of our interests in non-strategic assets, and the explosion and fire at our Bayport, Texas styrene monomer production facility have no ongoing impact on operations.

— DIVIDENDS AND DISTRIBUTIONS —

Common Share Dividends. We have paid dividends on our common shares at the current rate of \$0.10 Canadian dollars per quarter. In 2003, we paid \$25 million in dividends on our common shares. There are currently no material contractual restrictions on our ability to declare and pay dividends on our common shares. The declaration and payment of dividends is at the discretion of our Board of Directors, who will consider earnings, capital requirements, our financial condition and other relevant factors. It is, however, our intention to retain most of our earnings to support current operations, further reduce debt and continue to pay dividends at historic levels.

Preferred Securities Distributions. We pay distributions on our preferred securities on a quarterly basis, at an annual rate of 9.50% on \$210 million of preferred securities due 2047 and 9.04% on \$172.5 million of preferred securities due 2048. On March 1, 2004, we will redeem the preferred securities from the net proceeds of a Senior Notes offering described on page 38.

Retractable Preferred Share Dividends. We pay 2% annual dividends on the \$198 million retractable preferred shares. These dividends are deducted from income when determining diluted earnings per share. Holders of the retractable preferred shares have the right to exchange the shares (retraction) for our common shares (plus our preferred shares if the market value of such common shares is less than \$198 million).

If the retractable shares are not retired or the conversion date extended, the market-based exchange rate at which the retractable preferred shares may be retracted into our common shares (and accordingly the effective price at which the common shares would be issued) would be determined on March 15, 2005.

— APPLICATION OF CRITICAL ACCOUNTING ESTIMATES —

We believe the following represent the estimates most critical to the application of our accounting policies. Management has discussed the development and selection of these critical accounting estimates with the Audit, Finance and Risk Committee of our Board of Directors and the Audit, Finance and Risk Committee has reviewed our disclosure relating to such estimates in this Management's Discussion and Analysis.

Plant, Property and Equipment (PP&E). Judgmental aspects of accounting for PP&E involve estimates of the life of the assets, the selection of an appropriate method of depreciation over the life of the assets and determining whether an impairment of our assets exists. These assessments are critical due to their potential impact on our earnings.

Canadian and U.S. 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.

Our Olefins/Polyolefins business has an established long-term record of profitability and, based on current asset carrying values and expected future cash flows, we have concluded the carrying value of its assets is appropriate. In 2003, we announced the shutdown of a single polyethylene line at our St. Clair River facility in Corunna, Ontario. As a result, we wrote off the remaining assets, resulting in a \$6 million (after-tax) charge to earnings in the third quarter of 2003.

Our Styrenics business has not been as profitable, and in recent years has reduced production capacity due to poor market conditions. In 2002, we temporarily idled EPS units at our Carrington, United Kingdom plant and shut down several reactors in Europe and North America. Despite these actions we have determined that the undiscounted sum of the expected future cash flows from all of our Styrenics plants exceed the recorded value of those plants and, as a result, there is no impairment under Canadian or U.S. GAAP.

Our 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. We have assumed that we will earn margins in the future that are similar to margins earned in the past and that we will have a similar cost structure.

In addition, we are able to choose from alternative methods of depreciation. We have chosen the straight-line method rather than other methods, such as unit 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 recognized.

Environmental Liabilities. Canadian GAAP requires 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, 2003, we had \$31 million of accumulated reserve for these activities. This accumulated reserve is comprised of approximately \$12 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 \$19 million for currently operating plant sites.

For currently operating plant sites, we have undertaken an evaluation of the costs to conduct decommissioning and site restoration required to satisfy our projected obligations under applicable environmental requirements upon termination of operations at these sites. Canadian GAAP requires that we record the present value of inflation-adjusted decommissioning and site restoration costs as increases to the carrying values of the assets and depreciate this amount over the estimated remaining lives of the assets. We have determined a further \$112 million, in today's dollars, 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. Since 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, since 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 \$112 million is 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) is approximately \$19 million, which has been accrued in anticipation of these activities. This estimated liability of \$19 million 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.

Pensions. Canadian GAAP requires that actuarial gains and losses be recognized in our income using a systematic and consistent methodology. We have chosen to amortize 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. We chose this alternative because it avoids recognizing into income large unrealized gains or losses in individual years. Immediate recognition of such gains and losses would introduce significant volatility into our earnings. Cumulative unrealized actuarial gains and losses have ranged from a \$61 million gain at December 31, 1999, to a \$118 million loss at December 31, 2003.

We also make assumptions concerning factors such as mortality, termination, retirement and other rates as well as the expected return on plan assets, rate of increase in future compensation and discount rate. These assumptions can impact our pension obligations and pension expense. We use the latest published mortality rate tables and select other assumptions in line with our actual experience, always choosing the conservative end of the range. The expected return on plan assets reflects our estimate of asset returns over the life of the pension plans, not our actual return in any given year. Changes in these assumptions would need to be dramatic to cause a material impact to our pension obligation or pension expense amounts. For example, a 1% change in the expected return on plan assets would only impact earnings by approximately \$3 million after-tax, and a 1% change in our discount rate would impact earnings by approximately \$8 million after-tax.

We contributed \$17 million to all of our defined benefit pension plans in 2003. The contributions were based on the most recently filed valuations with pension regulators in various countries. Funding for our pension plans is largely driven by the North American pension plans, as they constitute the significant portion of our pension plan assets and obligations. For 2004, funding is expected to rise to \$27 million for all of our plans as employees accrue additional pension benefits and special payments are made to cover the shortfall between assets and liabilities. Further increases in contributions are anticipated in 2005, when the next valuation is done on the Canadian defined benefit plan.

— ACCOUNTING STANDARDS —

Asset Retirement Obligations. In March 2003, the CICA issued new recommendations regarding accounting for asset retirement obligations, which are effective for fiscal years beginning on or after January 1, 2004. This standard harmonizes Canadian GAAP with U.S. Financial Accounting Standards Board Statement No. 143, "Accounting for Asset Retirement Obligations," which became effective January 1, 2003. We chose to adopt the CICA recommendations early, effective January 1, 2003, to be consistent with U.S. GAAP reporting.

The new standard changes the method for recognition of obligations, or liabilities, associated with the retirement of plant, property and equipment. The liabilities are initially recorded at their estimated fair value, which is 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 and associated capital assets are also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. Previously, asset retirement obligations were accrued over the estimated remaining useful lives of the plants. See Note 20 to the consolidated financial statements for further information.

Stock-Based Compensation. In 2003, the Canadian Accounting Standards Board (ASB) issued revisions to CICA Handbook Section 3870, Stock-Based Compensation. Public companies will now be required to expense all stock-based compensation awards including those made to employees, senior executives and board members effective January 1, 2004. Prior to January 1, 2004, we utilized the intrinsic-value method of accounting where compensation expense, if any, was measured based on the excess of the market price of the stock over the option's exercise price on the date of grant. As options are generally granted at the market price on the date of grant, no compensation cost resulted. We will change our method of accounting for stock options to the fair-value based method beginning January 1, 2004 on a retroactive basis with no restatement of prior periods. We have provided disclosures of what net income (loss) would have been had we followed the fair-value method in 2001 to 2003. These disclosures are provided in Note 13 to the consolidated financial statements.

Derivative Instruments and Hedging Activities. In 2003, the ASB issued Accounting for Derivative Instruments and Hedging Activities (CICA Accounting Guideline 13) effective January 1, 2004. This statement requires that all derivative instruments not used in qualifying "hedging activities" must be recorded on the balance sheet at fair value and marked-to-market through earnings. Certain derivative instruments commonly used in NOVA Chemicals' commodity risk management program will not qualify for hedge accounting treatment and changes in their market value will be reflected in earnings.

— DISCLOSURE OF MARKET AND REGULATORY RISK —

The Audit, Finance and Risk Committee of our Board of Directors regularly reviews foreign exchange, interest rate and commodity hedging activity and monitors compliance with our hedging policy. Our policy prohibits the use of financial instruments for speculative purposes and limits hedging activity to the underlying net economic exposure.

Foreign Exchange Hedging. We conduct business in various countries where certain revenues and expenses are determined in currencies other than the U.S. dollar. Our earnings exposure to the Canadian dollar was hedged, through March 2003, with forward contracts to fix the exchange rate. The Canadian dollar averaged 0.65¢ per U.S. dollar during the first quarter of 2003, which was lower than the fixed rates in the forward contracts. As a result, after-tax earnings in 2003 was \$3 million lower than it would have otherwise been.

We have not hedged our exposure to fluctuations in the Canadian dollar since March 2003 nor have we hedged fluctuations in any other currency.

Commodity Hedging and Feedstock Acquisition. We manage our exposure to fluctuating commodity prices on our physical feedstock requirements by varying our 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 our hedging policy. We also limit our positions in futures markets to our feedstock requirements and do not use hedging instruments for speculative purposes.

Our feedstock acquisition team manages our exposure in the volatile natural gas and crude markets in an effort to moderate the risks of fluctuations in feedstock prices and to reduce overall feedstock costs. As a result of our hedging activities, after-tax earnings in 2003 decreased by \$5 million compared to an increase of \$9 million in 2002. On December 31, 2003, the unrecognized after-tax, mark-to-market value of all outstanding commodity positions was a net gain of \$4 million (\$3 million after-tax) which includes \$12 million (\$8 million after-tax) related to certain liquidated natural gas and crude positions. Liquidated gains are recognized in earnings over the remaining terms of the related feedstock purchase commitments to March 2005.

Interest Rate Hedging. We use interest rate swaps to manage our mix between fixed and floating interest rate exposure. In October and November of 2003, we entered into floating-for-fixed interest rate swap transactions on \$550 million of Medium-Term Notes. As a result, at December 31, 2003, 48% of our debt had fixed interest rates averaging 7.5% and 52% of our debt had floating interest rates averaging 4.8%. These positions had an estimated fair-market value of \$4 million at December 31, 2003.

Credit Risk Management. We are exposed to credit risk on financial instruments given the possibility a counterparty to an instrument in which we are 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.

Concentration of credit risk can result primarily from our receivables, as certain customer groups are located in the same geographic area and operate in the same industry. We manage our credit risk relating to these receivables through credit approval and monitoring procedures. For further details on our hedging activities, please see Note 23 to the consolidated financial statements.

— SUMMARIZED QUARTERLY FINANCIAL INFORMATION —

THREE MONTHS ENDED (UNAUDITED; MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003				2002			
	MAR 31	JUNE 30	SEPT 30	DEC 31	MAR 31	JUNE 30	SEPT 30	DEC 31
Revenue	\$ 977	964	967	1,041	\$ 662	777	806	846
Operating income (loss)	\$ 14	(36)	(56)	3	\$ (53)	1	(1)	(18)
Net income (loss)	\$ 12	82	(58)	(8)	\$ (23)	(14)	(5)	(39)
Net income (loss) per share								
— Basic	\$0.05	0.86	(0.75)	(0.18)	\$(0.35)	(0.25)	(0.14)	(0.56)
— Diluted	\$0.05	0.79	(0.75)	(0.18)	\$(0.35)	(0.25)	(0.14)	(0.56)
Weighted-average common shares outstanding (millions)								
— Basic	86.7	86.8	86.8	87.0	86.0	86.3	86.4	86.5
— Diluted	87.4	96.0	86.8	87.0	86.0	86.3	86.4	86.5

Consolidated Six-Year Review

(MILLIONS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS, RATIOS AND MISCELLANEOUS DATA) ⁽¹⁾	2003	2002	2001	2000	1999	1998
Operating Results						
Revenue	\$3,949	3,091	3,194	3,916	2,808	2,075
Operating income (loss)	\$ (75)	(71)	(195)	414	305	103
Net income (loss)	\$ 28	(81)	(128)	302	253	18
Total assets	\$4,413	4,154	4,359	4,754	4,559	3,580
Capitalization						
Current bank loans	\$ —	3	14	28	—	—
Long-term debt ⁽²⁾	1,101	1,212	1,508	1,423	1,525	1,297
Less: Cash and cash equivalents	(212)	(14)	(10)	(27)	(59)	(37)
Net debt	\$ 889	1,201	1,512	1,424	1,466	1,260
Shareholders' equity	1,890	1,561	1,614	1,926	1,964	1,512
Total capitalization net of cash and cash equivalents ⁽³⁾	\$2,779	2,762	3,126	3,350	3,430	2,772
Cash Flow Data						
Plant, property and equipment additions	\$ 130	71	168	440	620	367
Cash from operations	\$ 15	359	278	351	395	198
Net debt additions (repayments) ⁽⁴⁾	\$ (157)	(307)	68	(72)	219	502
Supplemental Measures						
Net income (loss) to common shareholders before unusual items ⁽⁵⁾	\$ (118)	(148)	(161)	245	93	16
Net income (loss) to common shareholders after unusual items	\$ (1)	(112)	(161)	266	217	16
EBITDA ⁽⁶⁾	\$ 223	195	35	602	460	254
Data per Common Share⁽⁷⁾						
Net income (loss) before unusual items ⁽⁵⁾						
— Basic	\$ (1.36)	(1.72)	(1.88)	2.76	1.00	0.17
— Diluted	\$ (1.36)	(1.72)	(1.88)	2.49	0.98	0.17
Net income (loss) after unusual items						
— Basic	\$ (0.02)	(1.30)	(1.88)	3.00	2.35	0.17
— Diluted	\$ (0.02)	(1.30)	(1.88)	2.84	2.26	0.17
Common shareholders' equity at year-end ⁽⁸⁾	\$15.76	12.40	13.05	16.52	15.58	12.96
Ratios						
Return (loss) on average common equity ⁽⁹⁾	(9.8)%	(14.5)%	(13.2)%	18.1%	7.4%	1.3%
Net debt to total capitalization ⁽³⁾	32.0%	43.5%	48.4%	42.5%	42.7%	45.5%
Funds flow coverage of financial charges ⁽¹⁰⁾	2.5x	2.7x	1.7x	6.0x	4.2x	3.6x
Miscellaneous Data						
Employees at year-end ⁽¹¹⁾	4,300	4,300	4,600	4,700	4,700	4,200
Closing share price TSX (\$Cdn)	\$35.04	28.89	30.75	28.10	28.25	20.00
NYSE (\$U.S.)	\$26.95	18.30	19.27	18.81	19.31	13.06
Dividends and Distributions						
Common shares	\$ 25	23	23	23	25	12
Preferred securities and shares	\$ 29	31	33	36	36	2

- (1) For all periods prior to July 2, 1998, Canadian dollar amounts have been restated in U.S. dollars using an exchange of \$1.00 Canadian = U.S. \$0.68.
- (2) Includes current portion of long-term debt.
- (3) Total capitalization reflects shareholders' equity and total debt net of cash and cash equivalents. See Supplemental Measures on page 40 of Management's Discussion and Analysis.
- (4) Includes current bank loans.
- (5) Unusual items were \$117 million in 2003, \$36 million in 2002, \$nil in 2001 (see page 41 of Management's Discussion and Analysis for a complete listing). Unusual items were \$21 million in 2000 (gain on sale of Dynegy Inc. preferred shares), \$124 million in 1999 (\$60 million — loss on hedges and \$184 million — gain on sale of Dynegy Inc. preferred shares), \$nil in 1998. Due to new U.S. SEC rules, certain items are no longer excluded when presenting non-GAAP financial measures. Net income (loss) to common shareholders before unusual items also does not exclude restructuring charges and certain other items previously considered unusual in nature. Prior periods have been restated to reflect these new determinations. See Supplemental Measures on page 40 of Management's Discussion and Analysis.
- (6) Net income (loss) before income taxes, other gains and losses, equity in earnings (losses) of affiliate, interest expense and depreciation and amortization. Periods prior to 2003 have been restated to reflect U.S. SEC rules concerning non-GAAP financial measures, see page 41 of Management's Discussion and Analysis.
- (7) 87 million weighted-average common shares outstanding in 2003 (86 million in 2002, 85 million in 2001, 89 million in 2000, 93 million in 1999 and 92 million in 1998).
- (8) All years assume the retractable preferred shares were exchanged for 8.5 million common shares.
- (9) Net income (loss) to common shareholders before unusual items divided by average common equity (excluding preferred securities and retractable preferred shares). All ratios prior to 2003 have been restated to reflect U.S. SEC rules concerning non-GAAP financial measures, see page 41 of Management's Discussion and Analysis.
- (10) Funds from operations plus interest expense (net) less interest income divided by gross interest expense.
- (11) 1999 includes the addition of Shell employees; 1998 includes the addition of Huntsman employees.

— WHERE YOU CAN FIND MORE INFORMATION —

We file additional information relating to NOVA Chemicals, including our Annual Information Form (AIF), with Canadian securities administrators. This information can be accessed through the System for Electronic Document Analysis and Retrieval (SEDAR), at www.sedar.com.

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.

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 non-management 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.



JEFFREY M. LIPTON
President & Chief Executive Officer



LARRY A. MACDONALD
Senior Vice President & Chief Financial Officer

February 12, 2004
Calgary, Canada

Auditors' Report

To the Shareholders of NOVA Chemicals Corporation

We have audited the consolidated balance sheets of NOVA Chemicals Corporation as at December 31, 2003, 2002, and 2001 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, 2003. 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 and United States generally accepted auditing standards. 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of NOVA Chemicals Corporation as at December 31, 2003, 2002, and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



ERNST & YOUNG LLP
Chartered Accountants

February 12, 2004
Calgary, Canada

Consolidated Statements of Income (Loss) and Reinvested Earnings

(MILLIONS OF U.S. DOLLARS, EXCEPT NUMBER OF SHARES AND PER SHARE AMOUNTS) YEAR ENDED DECEMBER 31	2003	2002	2001
Revenue	\$3,949	\$3,091	\$3,194
Feedstock and operating costs	3,487	2,668	2,901
Depreciation and amortization	298	266	230
Selling, general and administrative	179	169	191
Research and development	45	39	40
Restructuring charges (Note 15)	15	20	27
	4,024	3,162	3,389
Operating loss	(75)	(71)	(195)
Interest expense (net) (Note 8)	(89)	(87)	(88)
Equity in earnings of affiliate (Note 5)	39	5	14
Other gains and (losses) (Note 16)	92	59	58
	42	(23)	(16)
Loss before income taxes	(33)	(94)	(211)
Income tax recovery (Note 17)	61	13	83
Net Income (Loss)	\$ 28	\$ (81)	\$ (128)
Reinvested earnings, beginning of year	605	740	924
Change in accounting policy (Notes 2 and 20)	5	—	—
Common share dividends	(25)	(23)	(23)
Preferred securities dividends and distributions	(29)	(31)	(33)
Reinvested earnings, end of year	\$ 584	\$ 605	\$ 740
Weighted-average number of common shares outstanding (millions)	87	86	85
Net loss per common share (Note 12)			
— Basic and diluted	\$ (0.02)	\$ (1.30)	\$ (1.88)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(MILLIONS OF U.S. DOLLARS) DECEMBER 31	2003	2002	2001
Assets			
Current assets			
Cash and cash equivalents	\$ 212	\$ 14	\$ 10
Accounts receivable (Note 3)	316	249	362
Inventories (Note 4)	392	321	279
	920	584	651
Investments and other assets (Note 5)	157	537	549
Plant, property and equipment, net (Note 6)	3,336	3,033	3,159
	\$4,413	\$4,154	\$4,359
Liabilities and Shareholders' Equity			
Current liabilities			
Bank loans	\$ —	\$ 3	\$ 14
Accounts payable and accrued liabilities (Note 7)	587	562	437
Long-term debt installments due within one year (Note 8)	—	1	186
	587	566	637
Long-term debt (Note 8)	1,101	1,211	1,322
Deferred credits (Note 9)	835	816	786
	2,523	2,593	2,745
Shareholders' Equity			
Preferred securities (Notes 10 and 25)	383	383	383
Retractable preferred shares (Note 11)	198	198	198
Common shares (Note 12)	493	484	472
Cumulative translation adjustment	232	(109)	(179)
Reinvested earnings	584	605	740
	1,890	1,561	1,614
	\$4,413	\$4,154	\$4,359
Contingencies and commitments (Notes 8, 11, 21 and 23)			
Subsequent events (Note 25)			

See accompanying Notes to Consolidated Financial Statements.

On behalf of the board:



Kerry L. Hawkins, Director



Jeffrey M. Lipton, Director

Consolidated Statements of Cash Flows

(MILLIONS OF U.S. DOLLARS) YEAR ENDED DECEMBER 31	2003	2002	2001
Operating Activities			
Net income (loss)	\$ 28	\$ (81)	\$(128)
Depreciation and amortization	298	266	230
Future income tax (recovery) expense (Note 17)	(78)	8	(4)
Other gains (net of current tax) (Note 16)	(92)	(39)	—
Equity in earnings of affiliate	(39)	(5)	(14)
Methanex dividends received	14	4	—
Asset writedowns	9	—	10
Funds from operations	140	153	94
Changes in non-cash working capital (Note 18)	(125)	206	184
Cash from operations	15	359	278
Investing Activities			
Proceeds on sales of assets and investments	564	82	—
Plant, property and equipment additions	(130)	(71)	(168)
Turnaround costs, long-term investments and other assets	(57)	(18)	(156)
Change in non-cash working capital (Note 18)	7	—	(16)
	384	(7)	(340)
Financing Activities			
Decrease in current bank loans	(3)	(11)	(14)
Proceeds on liquidation of swap positions	—	13	27
Long-term debt additions	—	—	302
Long-term debt repayments	(152)	(2)	(61)
Decrease in revolving debt	(2)	(294)	(159)
Preferred securities dividends and distributions	(29)	(31)	(33)
Common shares issued	9	11	12
Common share dividends	(25)	(23)	(23)
Project advances (Note 18)	11	1	—
Changes in non-cash working capital (Note 18)	(10)	(12)	(6)
	(201)	(348)	45
Increase (decrease) in cash and cash equivalents	198	4	(17)
Cash and cash equivalents, beginning of year	14	10	27
Cash and cash equivalents, end of year	\$ 212	\$ 14	\$ 10

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

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

1

Basis of Presentation

NOVA Chemicals is incorporated under the laws of Alberta, Canada. Where used in these financial statements, "NOVA Chemicals" or "the Corporation" means NOVA Chemicals Corporation alone or together with its subsidiaries and affiliate, 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.

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 24, "United States Generally Accepted Accounting Principles" (U.S. GAAP).

The Corporation measures and reports its consolidated financial statements in U.S. dollars.

2

Summary of Significant Accounting Policies

— CHANGE IN ACCOUNTING POLICIES —

Asset Retirement Obligations. On January 1, 2003, NOVA Chemicals adopted the new accounting standard related to asset retirement obligations as prescribed by the Canadian Institute of Chartered Accountants (CICA). The new recommendations change 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. Previously, asset retirement obligations were accrued over the estimated remaining useful lives of the assets on a straight-line basis. 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. These closures are expected to occur in 25 to 40 years, depending on the plant. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, and remediation and restoration of sites. The Corporation chose early adoption for the CICA recommendations to be consistent with U.S. GAAP. Under Canadian GAAP, a change in accounting policy generally requires retroactive restatement of financial statements presented for prior periods, however, as the effect of these new recommendations is less than \$1 million for each prior period, opening reinvested earnings was adjusted for the cumulative effect on adoption. The change in accounting policy did not have a material effect on net income in 2003 (see Note 20).

— COST OF SERVICE —

Under the terms of certain sales agreements, the Corporation sells ethylene on a take-or-pay basis, for a price determined by a cost-of-service formula that includes 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 includes a 20% after-tax return on equity based on a deemed debt to equity ratio.

— 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 (CTA) until there is a realized reduction of the investment in the foreign operations.

— HEDGING ACTIVITIES —

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

NOVA Chemicals has U.S., Canadian and European-based petrochemical operations. The Corporation has managed its exposure to fluctuations in these exchange rates by using forward exchange contracts. Gains or losses realized on settlement of the forward exchange contracts are recognized in income in the same period as the related expenditures.

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. Gains or losses realized on the settlement of commodity-based instruments are recognized in income in the same period as the related revenues or expenditures.

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. The amounts paid or received are recorded as an adjustment to interest expense on the hedged debt instrument.

Gains or losses on termination or liquidation of derivative instruments are deferred as current or non-current assets or liabilities on the balance sheet, as appropriate, and are amortized to income in the period in which the underlying hedged transaction is recognized.

— 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 affiliate, 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.

— 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 related 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 writeoff the assets to their salvage values over their estimated useful lives. The Alberta cost-of-service ethylene plants and the hydrogen plant are 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 of commercial service. Any revenues earned during this period are recorded as a reduction in deferred start-up costs. These costs are amortized over a five-year period, commencing on the date of commercial service.

— INCOME TAXES —

Cost-of-service activities operate under billing structures that allow NOVA Chemicals to recover related income tax costs from customers based on the taxes-payable method. NOVA Chemicals records income tax expense on these operations equal to recoverable amounts.

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 curtailments 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.

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

— STOCK-BASED COMPENSATION —

The Corporation uses the intrinsic-value method of accounting for stock-based compensation awards granted to employees, where compensation expense, if any, is measured based on the excess of the market price of the stock over the option exercise price on the date of grant. As options are generally granted at the market price on the date of grant, no compensation cost results.

— 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.

— EQUITY APPRECIATION PLAN —

Units granted and vested under this Plan are marked-to-market each period based on the value of NOVA Chemicals' common stock as reported on the Toronto Stock Exchange. Any changes in value are recorded through earnings in the period.

— 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.

— MEASUREMENT UNCERTAINTY —

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, currency exchange rates, interest rates, changes in economic conditions and regulatory changes.

— COMPARATIVE FIGURES —

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

3

Accounts Receivable

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Trade	\$239	\$173	\$154
Other	73	53	74
Allowance for doubtful accounts ⁽¹⁾	(7)	(8)	(13)
	305	218	215
Income taxes receivable	11	31	147
	\$316	\$249	\$362

⁽¹⁾ The Corporation's special purpose entity maintained an allowance for doubtful accounts of \$5 million at December 31, 2003 (2002—\$5 million and 2001—\$10 million) related to securitized trade receivables.

— 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 credit rating. 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 \$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). The current securitization agreements expire July 12, 2004 and are renewable for a further one-year term.

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

DECEMBER 31 (MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)	2003	2002	2001
Amount sold at end of year ⁽¹⁾	\$177	\$163	\$154
Loss, dilution and other reserves (as a % of eligible accounts receivable)	18%	17%	16%
Interest expense, net of servicing fees	\$ 3	\$ 4	\$ 7

⁽¹⁾ At December 31, 2003, \$nil (2002—\$11 million and 2001—\$24 million) is reflected in accrued liabilities as an amount repayable under the facility due to decreases in accounts receivable balances (see Note 7).

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:

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Proceeds from (repayment of) new securitizations	\$ 14	\$ (6)	\$ (26)
Proceeds from collections reinvested in revolving period securitizations ⁽¹⁾	\$1,406	\$1,289	\$1,410
Servicing fees received	\$ 2	\$ 2	\$ 2
Other cash flows received	\$ 306	\$ 74	\$ 48

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

4

Inventories

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Materials and supplies	\$ 46	\$ 39	\$ 38
Raw materials	170	121	93
Finished goods	176	161	148
	\$392	\$321	\$279

5

Investments and Other Assets

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003		2002		2001	
	INVESTMENT	EQUITY EARNINGS	INVESTMENT	EQUITY EARNINGS	INVESTMENT	EQUITY EARNINGS
Methanex Corporation ⁽¹⁾⁽²⁾	\$ —	\$39	\$399	\$ 5	\$397	\$14
Other investments ⁽³⁾	28	—	27	—	17	—
Other assets ⁽⁴⁾	129	—	111	—	135	—
	\$157	\$39	\$537	\$ 5	\$549	\$14

⁽¹⁾ Equity earnings include before-tax charges (2002—\$33 million and 2001—\$3 million) representing NOVA Chemicals' share of Methanex's restructuring charges.

⁽²⁾ Dividends received of \$14 million (2002—\$4 million and 2001—\$nil) were recorded as reductions in the Corporation's investment.

⁽³⁾ Includes an investment of \$15 million (2002—\$15 million and 2001—\$15 million) in a special purpose entity with respect to the accounts receivable securitization program described in Note 3.

⁽⁴⁾ See schedule on next page.

— METHANEX CORPORATION —

The Corporation's original investment in Methanex was \$265 million. 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. The market value of the Corporation's investment in Methanex at December 31, 2002 was approximately \$393 million (2001 – \$260 million).

— OTHER ASSETS —

Other assets are comprised of the following:

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Restricted cash on retractable preferred shares (Note 11)	\$ 65	\$ 45	\$ 78
Deferred debt issue costs ⁽¹⁾	18	17	16
Deferred start-up costs ⁽²⁾	12	14	18
Other	34	35	23
	\$129	\$111	\$135

⁽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, which were deferred until commercial production levels were achieved in 2001.

— PETROCHEMICAL JOINT VENTURES —

NOVA Chemicals owns a 50% interest in an ethylene plant, and a 20% interest in a cogeneration facility located at Joffre, Alberta, and a 33.3% interest in an ethane gathering system in Alberta.

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

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Revenue	\$ 216	\$ 171	\$ 144
Operating expenses, depreciation and income taxes	(204)	(161)	(138)
Net income	\$ 12	\$ 10	\$ 6

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Current assets	\$ 21	\$ 21	\$ 20
Plant, property and equipment and other assets	556	489	514
Current liabilities	(29)	(22)	(25)
Long-term liabilities	(33)	(28)	(28)
Venturers' equity	\$515	\$460	\$481

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Cash inflows (outflows) from:			
Operating activities	\$51	\$34	\$ 31
Financing activities	\$ (5)	\$ (1)	\$ 2
Investing activities	\$ (9)	\$ (8)	\$(14)

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 has been deferred and will be recognized in earnings over the 20-year storage contract with the new owners. The Corporation's 20% interest in the Cochin Pipeline was sold in January 2002 for cash proceeds of \$64 million, resulting in an after-tax gain of \$36 million.

6

Plant, Property and Equipment

DECEMBER 31 (MILLIONS OF DOLLARS)	2003 ⁽¹⁾	2002	2001
Plant and equipment	\$ 5,638	\$ 4,847	\$ 4,818
Land	35	32	33
Under construction	169	55	85
	5,842	4,934	4,936
Accumulated depreciation	(2,506)	(1,901)	(1,777)
Net book value	\$ 3,336	\$ 3,033	\$ 3,159

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

During 2002, the Corporation sold and leased back certain buildings for total proceeds of \$13 million, resulting in an after-tax gain of \$3 million. The gain realized on the sale has been deferred and is being amortized to income over the remaining term of the lease, which expires in 2020.

7

Accounts Payable and Accrued Liabilities

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Accounts payable			
Trade	\$406	\$350	\$241
Other	25	25	20
	431	375	261
Accrued liabilities			
Interest	18	22	21
Accounts receivable securitization programs ⁽¹⁾	—	11	24
Deferred credit on hedges of former economic exposures	—	3	16
Site clean-up and restoration	4	3	3
Dividends	6	6	7
Deferred commodity hedging gains ⁽²⁾	9	8	—
Deferred gains on interest rate swaps ⁽³⁾	7	—	—
Pension and post-retirement benefit obligations	20	—	—
Trade accruals and other	92	134	105
	156	187	176
	\$587	\$562	\$437

(1) Represents amounts repayable pursuant to the Corporation's accounts receivable securitization programs (see Note 3).

(2) Represents the portion of deferred gains realized on liquidation of natural gas option positions to be recognized within one year (see Notes 9 and 23).

(3) Represents the portion of deferred gains realized on liquidation of floating-for-fixed interest rate swaps to be recognized within one year (see Notes 9 and 23).

8

Long-Term Debt

(MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)							
DECEMBER 31		2003		2002		2001	
	MATURITY	DEBT	WEIGHTED-AVERAGE YEAR-END INTEREST RATE ⁽¹⁾	DEBT	WEIGHTED-AVERAGE YEAR-END INTEREST RATE ⁽¹⁾	DEBT	WEIGHTED-AVERAGE YEAR-END INTEREST RATE ⁽¹⁾
Unsecured debentures and notes							
	2005 to 2028	\$ 518	7.5%	\$ 633	7.3%	\$ 632	7.3%
Secured loan	2006	—	—	—	—	295	2.9%
Medium-Term Notes	2006 to 2009	550	4.7%	550	6.0%	550	3.7%
Other ⁽²⁾	2004 to 2020	33	6.0%	29	6.2%	31	6.3%
		1,101		1,212		1,508	
Less installments due within one year							
		—		(1)		(186)	
		\$1,101		\$1,211		\$1,322	

(1) Weighted-average year-end interest rates include the effects of interest rate swaps (see Note 23).

(2) Comprised primarily of non-recourse joint venture secured debt (2003—\$33 million and 2002—\$27 million and 2001—\$28 million). Security is limited to NOVA Chemicals' net investment in the Joffre co-generation joint venture.

— UNSECURED DEBENTURES AND NOTES —

On August 15, 2003, NOVA Chemicals redeemed at par its \$150 million of 7% debenture 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:

(MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)				
DECEMBER 31		2003	2002	2001
MATURITY	STATED INTEREST RATE %	DEBT	DEBT	DEBT
2005 ⁽¹⁾	7.0	\$100	\$100	\$100
2010 ⁽²⁾	7.85	193	158	157
2025 ⁽³⁾	7.875	100	100	100
2026	7.0	—	150	150
2028 ⁽⁴⁾	7.25	125	125	125
		\$518	\$633	\$632

(1) Not redeemable by the Corporation or the holders prior to maturity.

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

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

(4) 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 \$300 million. The facility expires in April 2007 and is secured by \$1.2 billion in net book value of assets in Canada, including real estate.

At December 31, 2003, NOVA Chemicals was in compliance with all required financial covenants under the credit facility.

— 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 23, the Corporation has entered into floating-for-fixed interest rate swaps on these notes.

— REPAYMENT REQUIREMENTS —

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

(MILLIONS OF DOLLARS)	
2004	\$ —
2005	103
2006	302
2007	2
2008	2
Thereafter	692
	\$1,101

— INTEREST EXPENSE —

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Interest on long-term debt	\$84	\$80	\$ 96
Interest on bank loans and securitizations	4	5	8
Other	4	5	4
Gross interest expense	92	90	108
Interest capitalized during plant construction	—	—	(18)
Interest income	(3)	(3)	(2)
Interest expense (net)	\$89	\$87	\$ 88

9

Deferred Credits

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Future income taxes (Note 17)	\$586	\$611	\$615
Pension and post-retirement benefit obligations	92	91	82
Deferred commodity hedging gains ⁽¹⁾	3	9	—
Deferred gains on interest rate swaps ⁽²⁾	16	31	24
Deferred gain on sale of investment ⁽³⁾	37	—	—
Site clean-up and restoration	27	27	26
Deferred share unit plan obligations	20	16	13
Equity appreciation plan obligations (Note 13)	12	1	1
Other	42	30	25
	\$835	\$816	\$786

⁽¹⁾ Represents the long-term portion of deferred gains realized on liquidation of natural gas options (see Notes 7 and 23).

⁽²⁾ Represents the long-term portion of deferred gains realized on liquidation of floating-for-fixed interest rate swaps (see Notes 7 and 23).

⁽³⁾ Represents the long-term portion of a deferred gain realized on the sale of a 50% interest in the Fort Saskatchewan Ethylene Storage Limited Partnership (see Note 5).

10

Preferred Securities

On January 26, 1999 and October 22, 1998, NOVA Chemicals issued \$172.5 million (9.04%) and \$210 million (9.50%) of preferred securities due March 31, 2048 and December 31, 2047, respectively. The securities are redeemable by the Corporation at any time on or after January 26, 2004 and October 22, 2003, respectively (see Note 25).

11

Retractable 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 have the right to exchange the shares (a retraction) for NOVA Chemicals' common shares (plus preferred shares if the market value of such common shares is less than \$198 million).

During 2001, 2002, and 2003, certain changes were made to the terms of the retractable preferred shares and related stockholder agreements. These changes provide the Corporation with the right to call the retractable preferred shares on or after December 15, 2001 and repurchase the retractable preferred shares prior to any retraction into NOVA Chemicals common shares. If the Corporation does not exercise its repurchase rights prior to March 15, 2005, the market-based exchange rate at which the retractable preferred shares may be retracted into NOVA Chemicals common shares (and, accordingly, the effective price at which the common shares would be issued) will be fixed on that date. The number of NOVA Chemicals common shares issuable upon a retraction remains limited to a maximum of 8.5 million shares with the balance of the obligation, if any, met through the issuance of NOVA Chemicals preferred shares. The dividend rate on the retractable preferred shares is 2% per year.

NOVA Chemicals also entered into a total return swap, which terminates on March 15, 2005, with respect to the retractable preferred shares. Under the terms of the total return swap: (i) the counterparty pays NOVA Chemicals an amount equal to the fixed dividend on the retractable preferred shares; (ii) NOVA Chemicals pays the counterparty LIBOR plus a spread; (iii) NOVA Chemicals is obligated under the swap to provide initial margin (cash, government securities or a letter of credit) equal to 20% of the original notional amount of \$191 million, which is currently satisfied by a letter of credit issued by a third-party for which we pay a fee; (iv) NOVA Chemicals is also required to provide maintenance margin in the form of restricted cash for any negative changes in the equity value of the retractable preferred shares; and (v) the counterparty pays NOVA Chemicals for any positive changes in the equity value of the retractable preferred shares.

NOVA Chemicals has provided \$65 million of restricted cash to reduce the notional amount of the swap from \$191 million to \$126 million. As a result, prior to March 15, 2005, NOVA Chemicals can redeem the potentially dilutive security for an additional \$126 million.

Beginning in 2004, changes in the equity value of the retractable preferred shares during the term of the swap will be determined based on changes in the average price of the outstanding 7% Senior Notes due 2005 and 7% Medium-Term Notes due 2006 issued by NOVA Chemicals (see Note 8).

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 credit events, the counterparty will have the right to sell the retractable 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 the most recent adjusted notional equity value of the retractable preferred shares (in the event the difference was negative).

12

Common Shares

— AUTHORIZED —

Unlimited number of voting common shares without par value.

— ISSUED AND OUTSTANDING —

(MILLIONS OF DOLLARS, EXCEPT NUMBER OF SHARES)	2003		2002		2001	
Beginning of year	86,527,812	\$484	85,778,788	\$472	84,884,333	\$460
Issued for cash on exercise of stock options	571,969	9	749,024	12	894,455	12
End of year ⁽¹⁾	87,099,781	\$493	86,527,812	\$484	85,778,788	\$472

⁽¹⁾ Stated common share capital for legal purposes at December 31, 2003 is \$1,665 million.

— SHARES RESERVED FOR FUTURE ISSUE —

DECEMBER 31 (NUMBER OF SHARES)	2003	2002	2001
Under the employee incentive stock option plan ⁽¹⁾⁽²⁾	10,672,994	11,244,963	11,993,987
Under the director compensation plan	47,800	47,800	47,800
Under the terms of the retractable preferred share agreement (Note 11)	8,500,000	8,500,000	8,500,000
	19,220,794	19,792,763	20,541,787

⁽¹⁾ Under the employee incentive stock option plan, options are outstanding to officers and employees to purchase 8,822,440 shares at prices ranging from \$15.279 to \$34.32 (Canadian \$) per share with expiration dates between March 3, 2004, and July 15, 2013. A total of 1,850,554 common shares are reserved but unallocated. See Note 13 for further details regarding the plan.

⁽²⁾ Shareholders have approved reserving 13 million common shares for issuance under the employee incentive stock option plan.

— EARNINGS PER SHARE —

The following table outlines the calculation of basic and diluted net loss per common share:

YEAR ENDED DECEMBER 31	2003	2002	2001
(MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	BASIC AND DILUTED	BASIC AND DILUTED	BASIC AND DILUTED
Net income (loss)	\$ 28	\$ (81)	\$ (128)
Preferred securities dividends and distributions	(29)	(31)	(33)
Net loss available to common shareholders	\$ (1)	\$ (112)	\$ (161)
Weighted-average common shares outstanding ⁽¹⁾	86.8	86.3	85.4
Net loss per common share	\$(0.02)	\$(1.30)	\$(1.88)

⁽¹⁾ Retractable preferred shares and stock options representing 17 million common shares have been excluded from the computation of diluted earnings per share for the year ended December 31, 2003 (2002—17 million and 2001—17 million), as their impact would not be dilutive.

— 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, but is subject to shareholder re-confirmation at the sixth annual meeting following the date of approval.

13

Stock-Based Compensation

— EMPLOYEE INCENTIVE STOCK OPTION PLAN —

The Corporation may grant options to its employees for up to 13 million common shares. The exercise price of each option equals the closing market price on the Toronto Stock Exchange 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.

A summary of the status of the Corporation's employee incentive stock option plan as of December 31, 2003, 2002, and 2001, and changes during the years then ended is presented below:

	2003		2002		2001	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)
Outstanding at beginning of year	8,625,532	\$26.662	8,558,109	\$25.648	8,003,725	\$24.762
Granted	999,700	\$25.788	855,900	\$34.319	1,547,350	\$28.182
Exercised	(571,969)	\$23.525	(749,024)	\$23.613	(894,455)	\$21.813
Cancelled	(230,823)	\$25.723	(39,453)	\$30.713	(98,511)	\$28.267
Outstanding at end of year	8,822,440	\$26.791	8,625,532	\$26.662	8,558,109	\$25.648
Exercisable at end of year	7,414,052	\$26.448	6,116,910	\$25.159	5,404,057	\$24.193

The following table summarizes information about employee incentive stock options outstanding at December 31, 2003:

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 \$)
\$15.279–\$18.376	336,382	0.9	\$17.592	336,382	\$17.592
\$20.234–\$21.225	915,809	2.5	\$20.738	915,809	\$20.738
\$24.950–\$26.346	4,184,100	6.2	\$25.741	3,469,325	\$25.733
\$28.050–\$34.320	3,386,149	6.5	\$30.639	2,692,536	\$30.419
	8,822,440			7,414,052	

Had compensation cost for stock options been determined and expensed based on the fair-value method, the following pro forma amounts would have resulted:

DECEMBER 31 (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Net income (loss)			
As reported	\$ 28	\$ (81)	\$(128)
Pro forma	\$ 21	\$ (92)	\$(134)
Loss per share — basic and diluted			
As reported	\$(0.02)	\$(1.30)	\$(1.88)
Pro forma	\$(0.09)	\$(1.43)	\$(1.95)

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 in 2003, 2002, and 2001:

WEIGHTED-AVERAGE ASSUMPTIONS		2003	2002	2001
Expected dividend yield	%	1.4	1.0	1.0
Expected volatility	%	36.7	39.1	39.6
Risk-free interest rate	%	4.20	3.38	5.65
Expected life	years	4	2½	2½
Fair value of options granted during the year	U.S.	\$5.34	\$5.57	\$5.16

— 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 price 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, 2003, the mark-to-market value of the vested units was approximately \$12 million (2002 and 2001 – \$1 million).

EQUITY APPRECIATION UNITS	2003		2002		2001	
	UNITS	WEIGHTED-AVERAGE REDEMPTION (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE REDEMPTION (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE REDEMPTION (CANADIAN \$)
Cumulative amount at beginning of year	1,836,841	\$31.22	843,167	\$27.69	288,000	\$26.25
Granted	1,499,400	\$25.78	1,012,950	\$34.21	555,167	\$28.44
Redeemed	(18,166)	\$27.77	—	—	—	—
Cancelled	(25,088)	\$31.60	(19,276)	—	—	—
Cumulative amount at end of year	3,292,987	\$28.76	1,836,841	\$31.22	843,167	\$27.69

14

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, prior to the relevant performance period, to receive all or a portion of their management incentive award or 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 primarily on the average closing price, on the NYSE, 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, 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 exercisable upon retirement or termination from the Corporation. A summary of the status of the Corporation's deferred share unit plans as of December 31, 2003, 2002 and 2001, and changes during the years ended on those dates is presented below:

EMPLOYEE DEFERRED SHARE UNITS	2003		2002		2001	
	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (U.S. \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (U.S. \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (U.S. \$)
Cumulative amount at beginning of year	379,114	\$16.97	352,393	\$16.52	280,454	\$15.88
Earned	55,235	\$19.41	65,622	\$19.14	91,063	\$18.48
Exercised	—	\$ —	(38,901)	\$16.53	(19,124)	\$16.52
Cumulative amount at end of year	434,349	\$17.28	379,114	\$16.97	352,393	\$16.52

NON-EMPLOYEE DEFERRED SHARE UNITS	2003		2002		2001	
	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)	UNITS	WEIGHTED-AVERAGE EXERCISE PRICE (CANADIAN \$)
Cumulative amount at beginning of year	57,383	\$29.90	44,040	\$28.91	27,806	\$29.24
Earned	22,293	\$27.57	13,343	\$33.16	16,234	\$28.34
Exercised	—	\$ —	—	—	—	—
Cumulative amount at end of year	79,676	\$29.24	57,383	\$29.90	44,040	\$28.91

The amount expensed in aggregate related to the award of units was approximately \$3 million (2002—\$4 million and 2001—\$5 million).

15

Restructuring Charges

During 2003, NOVA Chemicals took action to streamline its operations and reduce costs. The Corporation announced plans for the closure of its oldest and highest-cost polyethylene production line, at its St. Clair River site. As a result, NOVA Chemicals recognized \$15 million before-tax (\$10 million after-tax) in restructuring costs related to asset writedown, severance, and other costs. The Corporation expects these restructuring actions to be substantially complete in the first half of 2004.

Restructuring charges in 2002 and 2001 related to organizational changes involving plant closures and idling, capital project cancellations, writedowns of certain non-productive assets and severance activities. All actions related to these restructuring activities have been substantially completed.

16

Other Gains and Losses

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003		2002		2001	
	BEFORE-TAX	AFTER-TAX	BEFORE-TAX	AFTER-TAX	BEFORE-TAX	AFTER-TAX
Gain on sale of 50% interest in Fort Saskatchewan Ethylene Storage Limited Partnership (Note 5)	\$ 76	\$ 64	\$—	\$—	\$—	\$—
Gain on sale of investment in Methanex Corporation (Note 5)	29	61	—	—	—	—
Bayport charge ⁽¹⁾	(13)	(8)	—	—	—	—
Gain on sale of 20% interest in Cochin Pipeline (Note 5)	—	—	59	36	—	—
IRS settlement	—	—	—	—	58	44
	\$ 92	\$117	\$59	\$36	\$58	\$44

⁽¹⁾ 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.

17

Income Taxes

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

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Loss before income taxes	\$ (33)	\$ (94)	\$ (211)
Statutory income tax rate	36.74%	39.24%	42.12%
Computed income tax recovery	\$ (12)	\$ (37)	\$ (89)
Increase (decrease) in taxes resulting from:			
Manufacturing and processing deduction	(2)	3	4
Lower effective foreign tax rates	19	8	25
Lower effective tax rate on equity in earnings of affiliate	(12)	(2)	(3)
Lower tax rates and higher recoveries on asset sales	(56)	—	—
Non-provision of future income taxes on cost-of-service operations ⁽¹⁾	9	8	8
Reduction in tax reserves ⁽²⁾	(20)	—	—
Income tax rate adjustments ⁽³⁾	15	—	(17)
Lower tax rate on gain related to tax settlement ⁽⁴⁾	—	—	(10)
Other	(2)	7	(1)
Income tax recovery	\$ (61)	\$ (13)	\$ (83)
Current income tax (recovery) expense	\$ 17	\$ (21)	\$ (79)
Future income tax (recovery) expense	(78)	8	(4)
Income tax recovery	\$ (61)	\$ (13)	\$ (83)

⁽¹⁾ Certain agreements for cost-of-service operations provide for the recovery of income taxes from customers. The Corporation records income tax expense on these operations equal to the amounts recoverable under the agreements, resulting in no effect on net income. Some agreements limit the recoverable amount to current taxes payable. Accordingly, the provision for income taxes excludes future income tax recoveries relating to these operations. Cumulative unrecorded future income taxes payable amounted to \$nil at December 31, 2003 (2002—\$6 million and 2001—\$13 million).

⁽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 2003, determined that it was over-provided.

⁽³⁾ As a result of Canadian provincial tax rate increases in 2003 and federal and provincial tax rate reductions in 2001, income tax rates on future tax liabilities have been increased in 2003 and reduced in 2001.

⁽⁴⁾ In 2001, NOVA Chemicals recorded a \$58 million gain (\$44 million after-tax) related to a settlement with the IRS.

The principal temporary difference in calculating future income taxes, for both cost-of-service and non-cost-of-service operations, relates to deductions for tax purposes in respect of plant, property and equipment in excess of depreciation provided for in the accounts. Future tax liabilities resulting from these temporary differences have been reduced by the tax benefits associated with unused tax losses.

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

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Income (loss) before income taxes			
Canadian	\$ 98	\$(35)	\$ (19)
Foreign	(131)	(59)	(192)
	\$ (33)	\$(94)	\$(211)
Current income tax (recovery) expense			
Canadian	\$ 14	\$(17)	\$ (46)
Foreign	3	(4)	(33)
	17	(21)	(79)
Future income tax (recovery) expense			
Canadian	(41)	19	18
Foreign	(37)	(11)	(22)
	(78)	8	(4)
Total income tax recovery	\$ (61)	\$(13)	\$ (83)

18

Changes in Non-Cash Working Capital

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Accounts receivable	\$ (67)	\$113	\$ 89
Inventories	(71)	(42)	254
Accounts payable and accrued liabilities	25	125	(180)
Changes in non-cash working capital	(113)	196	163
Reclassification and other items not having a cash effect	(4)	(1)	(1)
Changes in non-cash working capital having a cash effect	\$(117)	\$195	\$ 162
These changes relate to the following activities:			
Operating	\$(125)	\$206	\$ 184
Investing	7	—	(16)
Financing ⁽¹⁾	1	(11)	(6)
Decrease (increase) in working capital	\$(117)	\$195	\$ 162

⁽¹⁾ Changes in non-cash working capital related to financing activities include project advances of \$11 million (2002—\$1 million) (see Note 6).

— INTEREST AND INCOME TAX PAYMENTS —

Third-party interest payments were \$100 million in 2003 (2002—\$86 million and 2001—\$108 million). Income tax receipts were \$28 million in 2003 (2002—\$176 million and 2001—\$13 million).

19

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 and are partially indexed to inflation for some plans. Actuarial reports are prepared regularly by independent actuaries for accounting and funding purposes. The Corporation funds the plans using a valuation based on the projected unit credit method and the plans' assets consist primarily of publicly traded equity and fixed income securities.

Plan assets are measured at fair value while pension obligations are discounted using current yield rates of bonds with terms to maturity that approximate the duration of the Corporation's pension liabilities. The Corporation uses a measurement date of December 31 for its pension and post-retirement plans.

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

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	PENSION PLANS			POST-RETIREMENT PLANS		
	2003	2002	2001	2003	2002	2001
Current service cost	\$21	\$ 16	\$ 17	\$ 2	\$ 2	\$ 1
Interest cost on projected benefit obligations	30	25	26	4	3	3
Expected return on plan assets	(26)	(26)	(25)	—	—	—
Prior service cost	2	2	2	—	—	—
Actuarial (gain) loss	4	1	—	1	—	—
Amortization of transition obligation	(4)	(5)	(4)	—	—	—
Amortization of settlement/curtailment (gain) loss	—	—	1	—	—	—
Net total of other components	—	—	1	—	1	2
Net expense	\$27	\$ 13	\$ 18	\$ 7	\$ 6	\$ 6

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

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	PENSION PLANS			POST-RETIREMENT PLANS		
	2003	2002	2001	2003	2002	2001
Change in benefit obligations						
Benefit obligation at beginning of year	\$ 430	\$ 388	\$372	\$ 53	\$ 50	\$ 38
Current service cost	21	16	17	2	2	1
Interest cost	30	25	26	4	3	3
Experience (gain) loss	24	(1)	9	10	—	10
Settlement/curtailment	(2)	(1)	—	(1)	—	—
Plan amendments	—	1	—	—	—	—
Business combination	—	2	—	—	—	—
Special termination benefits	—	—	2	—	—	1
Employee contributions	5	9	2	—	—	—
Benefits paid	(20)	(19)	(21)	(2)	(2)	(2)
Foreign currency exchange rate (gain) loss	81	10	(19)	3	—	(1)
Net benefit obligation at end of year	\$ 569	\$ 430	\$388	\$ 69	\$ 53	\$ 50
Change in plan assets						
Fair value of plan assets at beginning of year	\$ 312	\$ 329	\$357	\$ —	\$ —	\$ —
Actual return (loss) on plan assets	50	(28)	3	—	—	—
Employer and employee contributions	20	22	10	2	—	—
Settlement/curtailment	(2)	(1)	—	—	—	—
Benefits paid	(20)	(19)	(21)	(2)	—	—
Foreign currency exchange rate gain (loss)	65	9	(18)	—	—	—
Net total of other components	—	—	(2)	—	—	—
Fair value of plan assets at end of year	\$ 425	\$ 312	\$329	\$ —	\$ —	\$ —
Funded status						
Plan assets in deficiency of benefit obligation	\$(144)	\$(118)	\$(59)	\$(69)	\$(53)	\$(50)
Unrecognized net transitional (asset) obligation	(49)	(44)	(48)	10	10	10
Unrecognized prior service cost	7	8	9	—	—	—
Unrecognized net actuarial loss	118	105	49	22	13	14
Net amounts recognized in consolidated balance sheets	\$ (68)	\$ (49)	\$ (49)	\$(37)	\$(30)	\$(26)
Weighted-average assumptions as at December 31:						
Discount rate	5.9%	6.4%	6.4%	6.1%	6.8%	7.0%
Assumed long-term rate of return on plan assets ⁽¹⁾	7.3%	7.7%	7.8%	—	—	—
Rate of increase in future compensation	3.2%	3.1%	3.8%	4.2%	3.7%	3.0%
Long-term health care inflation ⁽²⁾	—	—	—	5.0%	5.0%	4.8%

(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 2010 and 2012, depending on the plan. The assumed health care cost trend rate used to measure the 2003 expected cost of benefits covered by the plan is 11% on average for the plans.

Virtually all of NOVA Chemicals' pension plans have accumulated benefit obligations which exceed the fair value of assets. The accumulated benefit obligation and the fair value of assets for these plans were \$549 million and \$425 million, respectively, at December 31, 2003 (\$426 million and \$308 million, respectively, at December 31, 2002 and \$305 million and \$246 million, respectively, at December 31, 2001).

In 2004, NOVA Chemicals expects to fund its defined benefit plans by \$27 million.

— PENSION ASSETS —

The Corporation's investment strategy is set 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 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 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 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 80% of total pension assets and 87% of total plan members in these plans. The asset allocation for these pension plans at the end of 2003, 2002 and 2001 and the target allocation for 2004, 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	TARGET	PERCENTAGE OF PLAN ASSETS		
	ALLOCATION	2003	2002	2001
YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2004			
Equities	60%	61%	57%	60%
Fixed income	40%	39%	43%	40%
Real estate	—	—	—	—
Other	—	—	—	—
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 \$3 million at December 31, 2003 for Canadian plans and \$7 million for U.S. plans. A 1% decrease in the same health care inflation rate would have decreased the post-retirement benefit obligation by \$3 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 contribution to these plans in 2003 was \$6 million (2002—\$6 million and 2001—\$6 million). In 2004, NOVA Chemicals expects to fund its defined contribution plans by approximately \$6 million.

20

Asset Retirement Obligations

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 has been developed pursuant to provisions of the new CICA standard, and 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 January 1, 2003 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 \$19 million at December 31, 2003 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 \$12 million and is considered to be adequate at this time. The effect of adopting the new CICA standard on January 1, 2003 was an increase to plant, property and equipment (net) of \$4 million, a reduction in the January 1, 2003 asset retirement obligation of \$3 million, and an increase in future income tax liabilities of \$2 million, resulting in an increase in reinvested earnings of \$5 million.

21

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 \$455 million in total with annual amounts of \$49 million in 2004, \$46 million in 2005, \$38 million in 2006, \$35 million in 2007, \$33 million in 2008, and \$254 million thereafter. Rental expense under operating leases was \$53 million in 2003 (2002—\$55 million and 2001—\$58 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 \$7,734 million in total with annual amounts of \$2,124 million in 2004, \$1,129 million in 2005, \$1,107 million in 2006, \$897 million in 2007, \$605 million in 2008, and \$1,872 million thereafter.

22

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/Polystyrene (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)	2003	2002	2001
Revenue			
Olefins and polyolefins	\$2,559	\$1,930	\$2,014
Styrenics	1,579	1,305	1,314
Intersegment eliminations	(189)	(144)	(134)
	\$3,949	\$3,091	\$3,194
Depreciation			
Olefins and polyolefins	\$ 187	\$ 166	\$ 132
Styrenics	111	100	98
	\$ 298	\$ 266	\$ 230
Operating income (loss)			
Olefins and polyolefins	\$ 92	\$ 67	\$ 57
Styrenics	(152)	(118)	(225)
Restructuring charges	(15)	(20)	(27)
	\$ (75)	\$ (71)	\$ (195)
Net income (loss)			
Olefins and polyolefins	\$ 14	\$ (5)	\$ (2)
Styrenics	(130)	(102)	(181)
Equity investments	37	5	11
Other	107	21	44
	\$ 28	\$ (81)	\$ (128)
Plant, property, and equipment additions			
Olefins and polyolefins	\$ 74	\$ 43	\$ 125
Styrenics	56	28	43
	\$ 130	\$ 71	\$ 168
DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Assets			
Olefins and polyolefins	\$2,246	\$1,923	\$1,960
Styrenics	1,767	1,643	1,638
Investment in Methanex	—	399	397
Corporate and other ⁽¹⁾	400	189	364
	\$4,413	\$4,154	\$4,359

⁽¹⁾ Amounts include all cash and cash equivalents.

— FINANCIAL INFORMATION BY GEOGRAPHIC AREA —

YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Revenue ⁽¹⁾			
Canada	\$1,414	\$1,081	\$1,236
United States	1,789	1,410	1,408
Europe and other	746	600	550
	\$3,949	\$3,091	\$3,194
Export sales from Canadian operations			
United States	\$1,054	\$ 748	\$ 694
Europe and other	148	113	137
	\$1,202	\$ 861	\$ 831
Operating income (loss)			
Canada	\$ 4	\$ 11	\$ (75)
United States	(66)	(85)	(31)
Europe and other	(13)	3	(89)
	\$ (75)	\$ (71)	\$ (195)
Equity in earnings of affiliate			
Canada	\$ 39	\$ 5	\$ 14

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Assets ⁽²⁾			
Canada	\$2,600	\$2,055	\$2,237
United States	1,113	1,090	1,189
Europe and other	673	583	520
Investments	27	426	413
	\$4,413	\$4,154	\$4,359

(1) Based on location of customer.

(2) Based on location of the operating facility.

23

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 and accrued liabilities approximate their fair value. Fair values and carrying amounts for long-term debt are as follows:

DECEMBER 31 (MILLIONS OF DOLLARS)	CARRYING AMOUNT			ESTIMATED FAIR VALUE ⁽¹⁾		
	2003	2002	2001	2003	2002	2001
Long-term debt ⁽²⁾	\$1,101	\$1,212	\$1,508	\$1,163	\$1,134	\$1,410

(1) 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.

(2) Includes debt installments due within one year.

— 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. Prior to April 2003, NOVA Chemicals managed its exposure to fluctuations in the Canadian/U.S. dollar exchange rate by using forward exchange contracts. At December 31, 2003, NOVA Chemicals had no foreign currency forward exchange contracts nor any plans to enter into any such contracts.

— COMMODITY PRICE RISK MANAGEMENT —

NOVA Chemicals uses commodity-based derivatives to hedge a portion of 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, 2003, 2002 and 2001, the notional volume and estimated fair value of outstanding derivative contracts for natural gas are as follows:

DECEMBER 31		2003	2002	2001
Pricing swaps				
Notional volume	GJ millions	—	3.2	12.0
Weighted-average price per GJ	Cdn.	\$ —	\$ 5.92 ⁽²⁾	\$ 6.89 ⁽²⁾
Estimated fair value ⁽¹⁾	U.S. millions	\$ —	\$ (2)	\$ 21
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	—	1–10	1–10
Basis swaps				
Notional volume	mcf millions	76.0	113.0	3.0
Weighted-average basis differential per mcf	U.S.	\$ 0.52⁽⁴⁾	\$ 0.47 ⁽³⁾	\$ 0.02 ⁽³⁾
Estimated fair value ⁽¹⁾	U.S. millions	\$ (18)⁽⁴⁾	\$ (10)	\$ (1)
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	1–15	1–34	1–10
Options				
Notional volume — calls	mcf millions	3.6	1.1	20.5
Notional volume — puts	mcf millions	33.5	68.1	36.6
Weighted-average price per mcf — calls	U.S.	\$ 6.27	\$ 4.10	\$ 4.93
Weighted-average price per mcf — puts	U.S.	\$ 2.42⁽⁵⁾	\$ 2.32 ⁽⁵⁾	\$ 2.67
Estimated fair value ⁽¹⁾	U.S. millions	\$ 1	\$ (1)	\$ 6
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	1–22	1–34	1–22

(1) Unrealized before-tax gain (loss).

(2) The Corporation pays floating prices and receives a fixed price from the counterparty.

(3) 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.

(4) The Corporation has crystallized the losses on substantially all of the basis swaps by placing offsetting positions with an average basis differential of 75¢. The net effect of these positions will result in an aggregate loss of \$18 million before-tax, when all positions have matured.

(5) The Corporation will pay the difference between the NYMEX market price and the contract price (if contract is higher than market).

At December 31, 2003, 2002 and 2001, the notional volume and estimated fair value of outstanding derivative contracts for crude oil, refined products, and alternative feedstock are as follows:

DECEMBER 31		2003	2002	2001
Notional volume	bbls millions	6.4	13.8	10.8
Weighted-average price per bbl ⁽¹⁾	U.S.	\$29.96	\$29.84	\$29.05
Estimated fair value ⁽²⁾	U.S. millions	\$ 9	\$ 8	\$ (4)
Carrying value	U.S. millions	\$ —	\$ —	\$ —
Term to maturity	Months	1-36	1-48	1-60

⁽¹⁾ Crude oil swaps, options, collars.

⁽²⁾ Unrealized gain (loss).

In addition to the outstanding contracts described above, NOVA Chemicals has liquidated certain natural gas and crude oil option positions, realizing a gain of \$3 million in 2003 (2002—\$17 million and 2001—\$nil). Gains and losses on liquidated positions are deferred on the balance sheet and recognized in income over the periods in which the cost of the related feedstock purchases will be recognized. The unamortized portion of liquidated gains was \$12 million at December 31, 2003 (see Notes 7 and 9). The net fair value of NOVA Chemicals' outstanding and liquidated positions is \$4 million at December 31, 2003 (2002—\$12 million and 2001—\$22 million).

— 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 2003, the Corporation entered into floating-for-fixed interest rate swaps on \$550 million of Medium-Term Notes. These positions had an estimated fair-market value of \$4 million at December 31, 2003.

In 2002 and 2001, a series of interest rate swaps on \$550 million (2001—\$650 million) of fixed-rate debt were liquidated, resulting in a before-tax gain of \$13 million (2001—\$27 million) (see Notes 7 and 9). The gains have been deferred and will be recognized in income as a reduction of interest expense over the terms of the related debt instruments, which mature in 2005, 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, 2003, 2002 and 2001, NOVA Chemicals' credit exposure was \$nil for foreign currency instruments, \$4 million (2002—\$nil and 2001—\$nil) for interest rate instruments, and \$3 million (2002—\$4 million and 2001—\$27 million) for commodity-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.

24

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 GAAP used in the United States. 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)	2003	2002	2001
Net income (loss) in accordance with Canadian GAAP	\$ 28	\$ (81)	\$ (128)
Add (deduct) adjustments for:			
Start-up costs ⁽¹⁾	4	3	(11)
Foreign exchange derivative instruments and hedging activity ⁽²⁾	3	15	14
Other derivative instruments and hedging activity ⁽²⁾	(7)	5	10
Future income taxes ⁽³⁾	—	—	29
Inventory costing ⁽⁴⁾	(1)	1	(2)
Preferred securities distributions ⁽⁵⁾	(23)	(23)	(23)
Equity in earnings (losses) of affiliate ⁽⁶⁾	(1)	(4)	1
Change in accounting policy ⁽⁷⁾	5	—	—
Other gains ⁽⁸⁾	42	—	—
Other	1	1	1
Net income (loss) in accordance with U.S. GAAP	\$ 51	\$ (83)	\$ (109)
Earnings (loss) per share using U.S. GAAP			
— Basic	\$0.52	\$(1.05)	\$(1.39)
— Diluted	\$0.51	\$(1.05)	\$(1.39)
Comprehensive income (loss) (net of tax) ⁽⁹⁾			
Net income (loss) in accordance with U.S. GAAP	\$ 51	\$ (83)	\$ (109)
Cumulative translation adjustment (less tax of \$nil, \$nil, and \$nil) ⁽¹⁰⁾	395	70	(140)
Less: reclassification of amounts included in net income	(54)	—	—
Unrealized gain (loss) on cash flow hedging instruments (less tax of \$(2), \$(15) and \$17) ⁽²⁾	4	26	(30)
Equity in comprehensive income (loss) of affiliate (less tax of \$nil, \$(1) and \$1) ⁽⁶⁾	(3)	7	(4)
Minimum pension liability adjustments (less tax of \$2, \$1, and \$nil) ⁽¹¹⁾	(3)	(1)	—
Comprehensive income (loss) in accordance with U.S. GAAP	\$ 390	\$ 19	\$ (283)
Accumulated other comprehensive income (loss) ⁽⁹⁾			
Cumulative translation adjustment ⁽¹⁰⁾	\$ 211	\$ (130)	\$ (200)
Unrealized loss on cash flow hedging instruments ⁽²⁾	—	(4)	(30)
Equity in comprehensive income (loss) of affiliate ⁽⁶⁾	—	3	(4)
Minimum pension liability ⁽¹¹⁾	(4)	(1)	—
Accumulated other comprehensive income (loss)	\$ 207	\$ (132)	\$ (234)

DECEMBER 31 (MILLIONS OF DOLLARS)	2003	2002	2001
Balance sheet items in accordance with U.S. GAAP			
Current assets ^{(2) (4)}	\$ 959	\$ 626	\$ 716
Investment and other assets ^{(1) (2) (6) (11)}	157	492	496
Plant, property, and equipment (net) ^{(1) (7)}	3,311	3,007	3,131
Current liabilities ⁽²⁾	(585)	(577)	(725)
Long-term debt:			
Preferred securities ⁽⁵⁾	(383)	(383)	(383)
Other long-term debt ⁽²⁾	(1,122)	(1,234)	(1,323)
Deferred credits ^{(2) (3) (11)}	(829)	(790)	(771)
Retractable preferred shares	(198)	(198)	(198)
Common shareholders' equity	\$ 1,310	\$ 943	\$ 943

(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. 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. 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, see Note 23.

(3) **Future Income Taxes.** Canadian GAAP permits recognition of the impact of changes in tax laws and rates on the measurement of future income tax assets and liabilities in the period in which the tax laws and rates are considered to be substantively enacted. Under U.S. GAAP rules the impact of tax rate changes on future income tax assets and liabilities is only recognized on enactment of the change in tax law and rates.

(4) **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.

(5) **Compound Financial Instruments.** Canadian GAAP requires the classification and recording of a financial instrument, or its component parts, as a liability or equity in accordance with the substance of the contractual arrangements governing the instrument. U.S. GAAP requires that no portion of the proceeds from issuance of convertible debt securities be attributed to the conversion feature and classified as equity. Accordingly, the Corporation's preferred securities discussed in Note 10 are accounted for as debt under U.S. GAAP and the related distributions as interest expense.

(6) **Equity in Earnings (Losses) of Affiliate.** NOVA Chemicals' share of adjustments to financial information and results of operations of equity investments to comply with U.S. accounting principles.

(7) **Change in Accounting Policy.** 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 20, are essentially the same. However, under U.S. GAAP, the cumulative effect of adopting a new standard is reflected in net income in the period of adoption, whereas under Canadian GAAP, it is reflected as a charge or credit to reinvested earnings.

(8) **Other Gains.** Difference in gain on disposition of investment in Methanex resulting from different cost basis under U.S. GAAP.

(9) **Comprehensive Income.** U.S. GAAP SFAS No. 130, Reporting Comprehensive Income, requires the presentation of a statement containing the components of comprehensive income 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. This statement is not required under Canadian GAAP.

(10) **Cumulative Translation Adjustment.** 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.

(11) **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, 2003, an AML and an intangible asset, in the amount of \$10 million and \$4 million, respectively, have been recognized, resulting in a charge of \$4 million (net of tax) to other comprehensive income.

— 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. It does, however, permit an entity to continue to measure compensation cost using the intrinsic-value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Entities using the intrinsic method must disclose pro forma net income (loss) and net income (loss) per share assuming the fair-value method had been applied. NOVA Chemicals has elected to follow APB 25 and related interpretations in accounting for employee stock options. Options are issued at the market price on date of grant and therefore, under APB 25, no compensation expense has been recorded.

The following table outlines the impact on the Corporation's 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, EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Net income (loss) in accordance with U.S. GAAP			
As reported	\$ 51	\$ (83)	\$ (109)
Pro forma	\$ 44	\$ (94)	\$ (115)
Earnings (loss) per share — basic			
As reported	\$0.52	\$(1.05)	\$(1.39)
Pro forma	\$0.44	\$(1.18)	\$(1.46)
Earnings (loss) per share — diluted			
As reported	\$0.51	\$(1.05)	\$(1.39)
Pro forma	\$0.44	\$(1.18)	\$(1.46)

— U.S. ACCOUNTING DEVELOPMENTS —

FASB Statement No. 123, Accounting for Stock-Based Compensation, issued in December 2002, provides alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. As the Corporation intends to adopt the fair-value method as required for Canadian GAAP reporting in 2004, the implications of FASB Statement No. 123 are expected to be minimal.

FASB Statement No. 132, Employers' Disclosures about Pensions and Other Post-Retirement Benefits, was revised in December 2003 and requires additional disclosures about pension plans and other post-retirement benefit plans. Certain disclosures are required for 2003 financial statements and others for 2004 financial statements. Canadian GAAP disclosure requirements for pension and post-retirement plans have also been amended and as such, the Corporation does not anticipate this Statement will have an impact on the Corporation's disclosure requirements.

FASB Statement No. 150, Accounting for Certain Financial Instruments with the Characteristics of both Liabilities and Equity, issued in May 2003, requires the classification of certain financial instruments, previously classified as equity, as liabilities. While Statement No. 150 has not had an impact on the current classification of the Corporation's financial instruments, the FASB intends to continue deliberations on this topic. Future recommendations by the FASB may have an impact on the Corporation's financial position and are not determinable at this time.

25

Subsequent Events

In January 2004, NOVA Chemicals issued \$400 million of 6.5% Senior Notes due 2012. The net proceeds of the offering will be used to redeem, in March 2004, the 9.04% preferred securities due 2048 and 9.50% preferred securities due 2047. The two issues of preferred securities total \$383 million. The balance of the proceeds will be used for general corporate purposes.