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.

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

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

Jeffrey M. Lipton
President & Chief Executive Officer

Larry A. MacDonald
Senior Vice President & Chief Financial Officer

February 8, 2007
Calgary, Canada

Management's Annual Report on Internal Control Over Financial Reporting

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

1. NOVA Chemicals' management is responsible for establishing and maintaining adequate internal control over financial reporting for NOVA Chemicals.
2. Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of NOVA Chemicals' internal control over financial reporting. Management believes that the COSO framework is a suitable framework for its evaluation of NOVA Chemicals' internal control over financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of NOVA Chemicals' internal controls, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of NOVA Chemicals' internal controls are not omitted and is relevant to an evaluation of internal control over financial reporting.
3. NOVA Chemicals' Consolidated Financial Statements include the accounts of the NOVA Innovene joint venture via proportionate consolidation in accordance with Canadian GAAP. Management has been unable to assess the effectiveness of internal control within the joint venture due to the fact that NOVA Chemicals does not have the ability to dictate or modify the controls of the joint venture and does not have the ability, in practice, to assess those controls. Management's conclusion regarding the effectiveness of internal controls does not extend to the internal controls of the joint venture. The 2006 Consolidated Financial Statements of NOVA Chemicals included $230 million and $130 million of total and net assets, respectively, related to the NOVA Innovene joint venture, as of December 31, 2006, and $669 million and $32 million of revenues and net loss, respectively, for the year then ended.
4. Management has assessed the effectiveness of NOVA Chemicals' internal control over financial reporting, as at December 31, 2006, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses in NOVA Chemicals' internal control over financial reporting that have been identified by management.
5. Ernst & Young LLP, who has audited the Consolidated Financial Statements of NOVA Chemicals for the year ended December 31, 2006, has also issued a report on internal controls under Auditing Standard No. 2 of the Public Company Accounting Oversight Board (United States). This report is located on page 76 of this Annual Report.

Jeffrey M. Lipton
President & Chief Executive Officer

Larry A. MacDonald
Senior Vice President & Chief Financial Officer

February 8, 2007
Calgary, Canada

Independent Auditors' Report on Financial Statements

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

To the Shareholders of NOVA Chemicals Corporation

We have audited the Consolidated Balance Sheets of NOVA Chemicals Corporation as at December 31, 2006, 2005, and 2004 and the Consolidated Statements of Income (Loss) and Reinvested Earnings (Deficit) and Cash Flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of NOVA Chemicals Corporation as at December 31, 2006, 2005, and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian Generally Accepted Accounting Principles.

As discussed in Note 2 to the Consolidated Financial Statements, the Corporation made changes to its method of measuring stock-based compensation. In addition, as described in Note 21, the Corporation has restated its segmented reporting for the years ended December 31, 2005 and 2004.

We have also audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), the effectiveness of NOVA Chemicals Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 8, 2007, expressed an unqualified opinion thereon.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

February 8, 2007
Calgary, Canada

Independent Auditor's Report on Internal Controls

Under Standards of the Public Company Accounting Oversight Board (United States)

To the Shareholders of NOVA Chemicals Corporation

We have audited management's assessment, included on page 74 of this annual report, that NOVA Chemicals Corporation (NOVA Chemicals) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). NOVA Chemicals' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Corporation's internal control over financial reporting based on our audit.

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

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

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

As indicated in Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the NOVA Innovene joint venture, included in NOVA Chemicals' 2006 Consolidated Financial Statements and constituting $230 million and $130 million of total and net assets, respectively, as of December 31, 2006, and $669 million and $32 million of revenues and net loss, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting at the joint venture because NOVA Chemicals does not have the ability to dictate or modify the controls of the joint venture, nor the ability, in practice, to assess those controls. Our audit of internal control over financial reporting of NOVA Chemicals did not include an evaluation of the internal controls over financial reporting of NOVA Innovene.

In our opinion, management's assessment that NOVA Chemicals maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, NOVA Chemicals maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on the COSO criteria.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of NOVA Chemicals Corporation as at December 31, 2006, 2005 and 2004 and the Consolidated Statements of Income (Loss) and Reinvested Earnings (Deficit) and Cash Flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 8, 2007, expressed an unqualified opinion thereon.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

February 8, 2007
Calgary, Canada

Consolidated Statements of Income (Loss) And Reinvested Earnings (Deficit)

year ended December 31 (millions of U.S. dollars, except number of shares and per share amounts)	2006	2005[1]	2004[1]
Revenue	$6,519	$5,616	$5,270
Feedstock and operating costs	5,663	4,906	4,378
Depreciation and amortization	299	290	297
Selling, general and administrative	201	199	274
Research and development	51	50	48
Restructuring charges (Note 14)	985	168	8
	7,199	5,613	5,005
Operating income (loss)	(680)	3	265
Interest expense, net (Note 8)	(168)	(113)	(108)
Other gains (Note 15)	1	8	177
	(167)	(105)	69
Income (loss) before income taxes	(847)	(102)	334
Income tax recovery (expense) (Note 16)	144	1	(81)
Net Income (Loss)	$ (703)	$ (101)	$ 253
Reinvested earnings, beginning of year	381	621	584
Changes in accounting policies (Note 2)	—	—	(20)
Common share repurchases (Note 10)	—	(107)	(155)
Stock options retired for cash (Note 12)	(3)	(5)	(13)
Common share dividends	(29)	(27)	(28)
Reinvested earnings (deficit), end of year	$ (354)	$ 381	$ 621
Weighted-average number of common shares outstanding (millions)			
— Basic	83	83	87
— Diluted	83	83	95
Net income (loss) per common share (Note 10)			
— Basic	$ (8.52)	$ (1.22)	$ 2.92
— Diluted	$ (8.52)	$ (1.22)	$ 2.72

See accompanying Notes to Consolidated Financial Statements.

(1) 2005 and 2004 have been retrospectively adjusted due to a change in accounting policy – see Note 2.

Consolidated Balance Sheets

December 31 (millions of U.S. dollars)	2006	2005[1]	2004[1]
Assets			
Current assets			
Cash and cash equivalents	$ 75	$ 166	$ 245
Accounts receivable (Note 3)	507	564	567
Inventories (Note 4)	669	680	634
Restricted cash and other assets	72	—	—
	1,323	1,410	1,446
Investments and other assets (Note 5)	113	181	147
Plant, property and equipment, net (Note 6)	2,719	3,626	3,454
	$4,155	$5,217	$5,047
Liabilities and Shareholders' Equity			
Current liabilities			
Bank loans	$ 1	$ 1	$ —
Accounts payable and accrued liabilities (Note 7)	926	974	790
Long-term debt due within one year (Note 8)	262	301	100
	1,189	1,276	890
Long-term debt (Note 8)	1,615	1,737	1,614
Deferred credits and long-term liabilities (Note 9)	370	346	388
Future income taxes (Note 16)	435	643	671
	3,609	4,002	3,563
Shareholders' Equity			
Common shares (Note 10)	497	494	499
Contributed surplus (Note 11)	25	16	11
Cumulative translation adjustment	378	324	353
Reinvested earnings (deficit)	(354)	381	621
	546	1,215	1,484
	$4,155	$5,217	$5,047
Contingencies and commitments (Notes 8, 20 and 22)			

See accompanying Notes to Consolidated Financial Statements.

(1) 2005 and 2004 have been retrospectively adjusted due to a change in accounting policy – see Note 2.

On behalf of the board:

Kerry L. Hawkins
Director

Jeffrey M. Lipton
Director

Consolidated Statements of Cash Flows

year ended December 31 (millions of U.S. dollars)	**2006**	2005[1]	2004[1]
Operating Activities			
Net income (loss)	**$(703)**	$(101)	$ 253
Depreciation and amortization	**299**	290	297
Future income tax expense (recovery) (Note 16)	**(219)**	(69)	36
Other gains and losses (Note 15)	**(1)**	(8)	(177)
Stock option expense (Note 12)	**8**	8	2
(Gains) loss on derivatives, net	**6**	(19)	—
Asset writedowns (Note 14)	**907**	161	—
Funds from operations	**297**	262	411
Changes in non-cash working capital (Note 17)	**27**	(43)	(76)
Cash provided by operating activities	**324**	219	335
Investing Activities			
Proceeds on sales of assets, investments and other capital transactions	**3**	11	225
Plant, property and equipment additions	**(198)**	(419)	(242)
Settlement of derivatives	**15**	7	(6)
Turnaround costs, long-term investments and other assets	**(48)**	(176)	(4)
Change in non-cash working capital (Note 17)	**(2)**	110	(110)
Cash used by investing activities	**(230)**	(467)	(137)
Financing Activities			
Increase in current bank loans	**—**	1	—
Long-term debt additions	**38**	419	400
Long-term debt repayments	**(308)**	(103)	(2)
Long-term debt – increase in revolving debt	**108**	—	—
Affiliate long-term notes	**3**	—	—
Preferred securities redeemed (Note 8)	**—**	—	(383)
Common shares issued (Note 10)	**3**	13	37
Common share repurchases (Note 10)	**—**	(125)	(188)
Options retired for cash (Note 12)	**(2)**	(11)	(18)
Common share dividends	**(29)**	(27)	(28)
Project advances from third parties (Note 17)	**—**	—	15
Changes in non-cash working capital (Note 17)	**2**	2	2
Cash (used) provided by financing activities	**(185)**	169	(165)
Increase (decrease) in cash and cash equivalents	**(91)**	(79)	33
Cash and cash equivalents, beginning of year	**166**	245	212
Cash and cash equivalents, end of year	**$ 75**	$ 166	$ 245
Cash tax payments	**$ 53**	$ 55	$ 11
Cash interest payments	**$ 168**	$ 131	$ 107

See accompanying Notes to Consolidated Financial Statements.

(1) 2005 and 2004 have been retrospectively adjusted due to a change in accounting policy – see Note 2.