PETRO-CANADA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008

CONSOLIDATED STATEMENT OF EARNINGS *(unaudited)*
For the periods ended June 30
(millions of Canadian dollars, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenue				
Operating	$ 7,766	$ 5,529	$ 14,383	$ 10,396
Investment and other income (expense) *(Notes 4 and 6)*	(120)	(51)	(151)	(77)
	7,646	5,478	14,232	10,319
Expenses				
Crude oil and product purchases	3,775	2,522	6,738	4,830
Operating, marketing and general	1,092	986	1,935	1,813
Exploration	185	100	328	242
Depreciation, depletion and amortization	472	516	995	957
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	15	(124)	70	(141)
Interest	47	41	95	83
	5,586	4,041	10,161	7,784
Earnings before income taxes	2,060	1,437	4,071	2,535
Provision for income taxes				
Current	813	606	1,657	1,097
Future *(Note 5)*	(251)	(14)	(160)	3
	562	592	1,497	1,100
Net earnings	$ 1,498	$ 845	$ 2,574	$ 1,435
Earnings per share *(Note 7)*				
Basic	$ 3.10	$ 1.71	$ 5.32	$ 2.90
Diluted	$ 3.07	$ 1.70	$ 5.27	$ 2.87

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(unaudited)*
For the periods ended June 30
(millions of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net earnings	$ 1,498	$ 845	$ 2,574	$ 1,435
Other comprehensive income, net of tax				
Change in foreign currency translation adjustment	(49)	(203)	158	(196)
Comprehensive income	$ 1,449	$ 642	$ 2,732	$ 1,239

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS *(unaudited)*
For the periods ended June 30
(millions of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Operating activities				
Net earnings	$ 1,498	$ 845	$ 2,574	$ 1,435
Items not affecting cash flow from operating activities:				
Depreciation, depletion and amortization	472	516	995	957
Future income taxes *(Note 5)*	(251)	(14)	(160)	3
Accretion of asset retirement obligations	18	17	37	34
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	15	(124)	70	(141)
(Gain) loss on sale of assets *(Notes 4 and 6)*	134	(8)	130	(70)
Unrealized losses related to Buzzard derivative contracts	-	40	-	128
Other	(44)	7	(33)	7
Exploration expenses	137	71	218	163
Decrease in non-cash working capital related to operating activities	500	85	83	85
Cash flow from operating activities	2,479	1,435	3,914	2,601
Investing activities				
Expenditures on property, plant and equipment and exploration	(2,141)	(768)	(3,157)	(1,484)
Proceeds from sale of assets *(Note 6)*	33	12	45	94
Increase in other assets	-	(15)	-	(32)
(Increase) decrease in non-cash working capital related to investing activities	907	(92)	941	(151)
Cash flow used in investing activities	(1,201)	(863)	(2,171)	(1,573)
Financing activities				
Decrease in short-term notes payable *(Note 8)*	(431)	-	(109)	-
Proceeds from issue of long-term debt *(Note 8)*	1,482	-	1,482	-
Repayment of long-term debt *(Note 8)*	(300)	(1)	(996)	(3)
Proceeds from issue of common shares *(Note 9)*	13	18	16	24
Purchase of common shares *(Note 9)*	-	(428)	-	(515)
Dividends on common shares	(63)	(64)	(126)	(129)
Cash flow from (used in) financing activities	701	(475)	267	(623)
Increase in cash and cash equivalents	1,979	97	2,010	405
Cash and cash equivalents at beginning of period	262	807	231	499
Cash and cash equivalents at end of period	$ 2,241	$ 904	$ 2,241	$ 904

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET *(unaudited)*
As at June 30, 2008
(millions of Canadian dollars)

	June 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 2,241	$ 231
Accounts receivable	3,232	1,973
Income taxes receivable	-	280
Inventories *(Note 3)*	2,335	668
Future income taxes	25	26
	7,833	3,178
Property, plant and equipment, net *(Notes 5 and 6)*	21,482	19,497
Goodwill	796	731
Other assets	415	446
	$ 30,526	$ 23,852
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities *(Note 5)*	$ 4,876	$ 3,512
Income taxes payable	991	-
Short-term notes payable *(Note 8)*	-	109
Current portion of long-term debt *(Note 8)*	2	2
	5,869	3,623
Long-term debt *(Note 8)*	3,932	3,339
Other liabilities *(Note 5)*	1,128	717
Asset retirement obligations	1,354	1,234
Future income taxes *(Notes 3 and 5)*	3,195	3,069
Shareholders' equity		
Common shares *(Note 9)*	1,383	1,365
Contributed surplus *(Note 9)*	22	24
Retained earnings	13,696	10,692
Accumulated other comprehensive income		
Foreign currency translation adjustment	(53)	(211)
	15,048	11,870
	$ 30,526	$ 23,852

CONSOLIDATED STATEMENT OF RETAINED EARNINGS *(unaudited)*
For the periods ended June 30
(millions of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Retained earnings at beginning of period	$ 12,261	$ 9,090	$ 10,692	$ 8,565
Cumulative effect of adopting new accounting standards *(Note 3)*	-	-	556	-
Net earnings	1,498	845	2,574	1,435
Dividends on common shares	(63)	(64)	(126)	(129)
Excess cost for normal course issuer bid *(Note 9)*	-	(45)	-	(45)
Retained earnings at end of period	$ 13,696	$ 9,826	$ 13,696	$ 9,826

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
(millions of Canadian dollars)

1. SEGMENTED INFORMATION
Three months ended June 30,

	Upstream															
					International & Offshore											
	North American Natural Gas		Oil Sands		East Coast Canada		International		Downstream		Shared Services		Eliminations[4]		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue																
Sales to customers	$ 581	$ 359	$ 589	$ 147	$ 820	$ 780	$ 1,295	$ 911	$ 4,481	$ 3,332	$ -	$ -	$ -	$ -	$ 7,766	$ 5,529
Investment and other income (expense)[1]	(146)	4	(3)	2	(3)	(6)	28	(39)	(24)	(1)	28	(11)	-	-	(120)	(51)
Inter-segment sales	127	83	381	221	108	109	-	-	4	3	-	-	(620)	(416)	-	-
Segmented revenue	562	446	967	370	925	883	1,323	872	4,461	3,334	28	(11)	(620)	(416)	7,646	5,478
Expenses																
Crude oil and product purchases[2]	138	62	511	124	222	211	-	-	2,942	2,121	-	-	(38)	4	3,775	2,522
Inter-segment transactions	1	2	6	6	2	2	-	-	611	406	-	-	(620)	(416)	-	-
Operating, marketing and general	132	120	170	156	55	59	112	115	410	358	213	178	-	-	1,092	986
Exploration	21	41	-	5	-	5	164	49	-	-	-	-	-	-	185	100
Depreciation, depletion and amortization	118	109	26	40	85	111	165	180	77	72	1	4	-	-	472	516
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	15	(124)	-	-	15	(124)
Interest	-	-	-	-	-	-	-	-	-	-	47	41	-	-	47	41
	410	334	713	331	364	388	441	344	4,040	2,957	276	99	(658)	(412)	5,586	4,041
Earnings (loss) before income taxes	152	112	254	39	561	495	882	528	421	377	(248)	(110)	38	(4)	2,060	1,437
Provision for income taxes																
Current	33	41	55	(16)	185	187	513	368	67	61	(40)	(34)	-	(1)	813	606
Future (Note 5)	19	(10)	22	21	(9)	(26)	(303)	(35)	54	57	(34)	(21)	-	-	(251)	(14)
	52	31	77	5	176	161	210	333	121	118	(74)	(55)	-	(1)	562	592
Net earnings (loss)	$ 100	$ 81	$ 177	$ 34	$ 385	$ 334	$ 672	$ 195	$ 300	$ 259	$ (174)	$ (55)	$ 38	$ (3)	$ 1,498	$ 845
Expenditures on property, plant and equipment and exploration[3]	$ 91	$ 116	$ 225	$ 106	$ 44	$ 48	$ 1,269	$ 172	$ 503	$ 319	$ 9	$ 7	$ -	$ -	$ 2,141	$ 768
Cash flow from operating activities	$ 379	$ 247	$ 162	$ 160	$ 670	$ 346	$ 1,031	$ 356	$ 41	$ 320	$ 196	$ 6	$ -	$ -	$ 2,479	$ 1,435
Total assets	$ 4,037	$ 4,032	$ 4,235	$ 2,985	$ 2,140	$ 2,369	$ 7,555	$ 5,766	$10,957	$ 7,293	$ 1,674	$ 708	$ (72)	$ (7)	$30,526	$23,146

1 Investment and other income (expense) for the International segment includes unrealized losses related to the Buzzard derivative contracts of $nil for the three months ended June 30, 2008 ($40 million for the three months ended June 30, 2007) *(Note 4)*.
2 Downstream crude oil and product purchases accounts for substantially all of the Downstream inventories recognized as an expense during the period.
3 Consolidated expenditures include capitalized interest in the amount of $15 million for the three months ended June 30, 2008 ($7 million for the three months ended June 30, 2007).
4 Eliminations relate to sales between segments recorded at transfer prices based on current market prices, and to unrealized inter-segment profits in inventories. Prior period figures have been reclassified to conform to the current period's presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(millions of Canadian dollars)

1. SEGMENTED INFORMATION
   Six months ended June 30,

	Upstream															
					International & Offshore											
	North American Natural Gas		Oil Sands		East Coast Canada		International		Downstream		Shared Services		Eliminations[4]		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue																
Sales to customers	$ 1,011	$ 708	$ 934	$ 313	$ 1,502	$ 1,381	$ 2,689	$ 1,575	$ 8,247	$ 6,419	$ -	$ -	$ -	$ -	$14,383	$10,396
Investment and other income (expense) [1]	(143)	65	(1)	-	(2)	(6)	(3)	(129)	(32)	(4)	30	(3)	-	-	(151)	(77)
Inter-segment sales	226	168	678	443	312	238	-	-	8	7	-	-	(1,224)	(856)	-	-
Segmented revenue	1,094	941	1,611	756	1,812	1,613	2,686	1,446	8,223	6,422	30	(3)	(1,224)	(856)	14,232	10,319
Expenses																
Crude oil and product purchases[2]	231	103	759	254	410	387	-	-	5,381	4,079	-	-	(43)	7	6,738	4,830
Inter-segment transactions	3	4	14	10	4	4	-	-	1,203	838	-	-	(1,224)	(856)	-	-
Operating, marketing and general	260	244	374	287	112	118	242	277	814	710	133	177	-	-	1,935	1,813
Exploration	71	97	5	24	-	9	252	112	-	-	-	-	-	-	328	242
Depreciation, depletion and amortization	272	217	53	79	182	214	335	298	152	141	1	8	-	-	995	957
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	70	(141)	-	-	70	(141)
Interest	-	-	-	-	-	-	-	-	-	-	95	83	-	-	95	83
	837	665	1,205	654	708	732	829	687	7,550	5,768	299	127	(1,267)	(849)	10,161	7,784
Earnings (loss) before income taxes	257	276	406	102	1,104	881	1,857	759	673	654	(269)	(130)	43	(7)	4,071	2,535
Provision for income taxes																
Current	60	102	70	(10)	362	325	1,160	626	90	117	(85)	(61)	-	(2)	1,657	1,097
Future (Note 5)	23	(19)	47	35	(18)	(34)	(311)	(71)	99	94	-	(2)	-	-	(160)	3
	83	83	117	25	344	291	849	555	189	211	(85)	(63)	-	(2)	1,497	1,100
Net earnings (loss)	$ 174	$ 193	$ 289	$ 77	$ 760	$ 590	$ 1,008	$ 204	$ 484	$ 443	$ (184)	$ (67)	$ 43	$ (5)	$ 2,574	$ 1,435
Expenditures on property, plant and equipment and exploration [3]	$ 258	$ 321	$ 403	$ 196	$ 82	$ 86	$ 1,520	$ 329	$ 881	$ 540	$ 13	$ 12	$ -	$ -	$ 3,157	$ 1,484
Cash flow from (used in) operating activities	$ 578	$ 406	$ 328	$ 229	$ 1,155	$ 827	$ 1,537	$ 633	$ 25	$ 534	$ 291	$ (28)	$ -	$ -	$ 3,914	$ 2,601
Total assets	$ 4,037	$ 4,032	$ 4,235	$ 2,985	$ 2,140	$ 2,369	$ 7,555	$ 5,766	$10,957	$ 7,293	$ 1,674	$ 708	$ (72)	$ (7)	$30,526	$23,146

1 Investment and other income (expense) for the International segment includes unrealized losses related to the Buzzard derivative contracts of $nil for the six months ended June 30, 2008 ($128 million for the six months ended June 30, 2007) *(Note 4)*.

2 Downstream crude oil and product purchases accounts for substantially all of the Downstream inventories recognized as an expense during the period.

3 Consolidated expenditures include capitalized interest in the amount of $28 million for the six months ended June 30, 2008 ($13 million for the six months ended June 30, 2007).

4 Eliminations relate to sales between segments recorded at transfer prices based on current market prices, and to unrealized inter-segment profits in inventories. Prior period figures have been reclassified to conform to the current period's presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
(millions of Canadian dollars, unless otherwise stated)

2. BASIS OF PRESENTATION

The note disclosure requirements for annual financial statements provide additional disclosure to that required for interim financial statements. Accordingly, these interim Consolidated Financial Statements should be read in conjunction with the December 31, 2007 audited Consolidated Financial Statements. The interim Consolidated Financial Statements are presented in accordance with Canadian generally accepted accounting principles (GAAP) and follow the accounting policies summarized in the notes to the annual Consolidated Financial Statements, except for changes as described in Note 3.

3. CHANGES IN ACCOUNTING POLICIES

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as currently used by the Company, being converged with International Financial Reporting Standards (IFRS) over a transitional period, with a changeover date for the fiscal year beginning on January 1, 2011. Public companies in Canada currently have the option to either converge with IFRS or adopt United States GAAP, provided they are a United States Securities and Exchange Commission registrant. The Company has elected to converge with IFRS and is in the process of completing the scoping phase of its changeover plan, which has a detailed timeline for assessing resources and training, analyzing key differences and selecting accounting policies.

The Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*; Section 3031, *Inventories*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863, *Financial Instruments – Presentation* on January 1, 2008.

As a result of adopting CICA Section 1535, *Capital Disclosures*, the Company now discloses details about its capital management (Note 12).

As a result of adopting CICA Section 3031, *Inventories*, the Company now assigns costs to its crude oil and refined petroleum products inventories on a "first-in, first-out" (FIFO) basis. Previously, costs were assigned to these inventories on a "last-in, first-out" (LIFO) basis. In accordance with the transitional provisions of this new accounting standard, the Company has elected to adjust 2008 opening retained earnings by the difference in the measurement of 2008 opening inventory and not restate prior period amounts. As such, the following balance sheet categories were impacted on January 1, 2008:

	Increase
Inventories	$ 812
Future income taxes liability	256
Retained earnings	556

As a result of adopting CICA Section 3862, *Financial Instruments – Disclosures*, the Company has expanded its financial risks and financial instruments disclosures (Note 13).

There is no other material impact on the Consolidated Financial Statements from adoption of these new standards.

4. INVESTMENT AND OTHER INCOME (EXPENSE)

Investment and other income (expense) consists of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Foreign exchange gains (losses)	$ 42	$ (20)	$ 20	$ (26)
Loss on Downstream derivative contracts *(Note 13)*	(31)	(8)	(44)	(13)
Unrealized losses related to Buzzard derivative contracts	-	(40)	-	(128)
Gain (loss) on sale of assets *(Note 6)*	(134)	8	(130)	70
Other	3	9	3	20
Total investment and other income (expense)	$ (120)	$ (51)	$ (151)	$ (77)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
(millions of Canadian dollars, unless otherwise stated)

5. LIBYA EXPLORATION AND PRODUCTION SHARING AGREEMENTS

On June 19, 2008, the Company signed six new Exploration and Production Sharing Agreements (EPSAs) with the Libya National Oil Corporation (NOC) to convert its existing concession agreements and old EPSA into new EPSA IV agreements. The new EPSAs were ratified as of the signing with an effective date of January 1, 2008. The new EPSAs will have an expected duration of 30 years and will enable the Company to implement jointly with the NOC the redevelopment of major fields and conduct a 100% operated exploration program in the Libyan Sirte Basin.

The Company will pay a signature bonus of $1 billion US in several instalments with the first instalment of $500 million US paid on July 17, 2008 and the remaining instalments to be paid through 2013. This cost has been discounted to $951 million based on this payout schedule using the Company's estimated cost of debt at the time of acquisition. The discounted acquisition cost was recorded as $533 million in accounts payable and accrued liabilities and $418 million in other liabilities.

Net earnings for the three months ended June 30, 2008 include a $230 million future income tax recovery which the Company recognized on ratification of the new EPSAs, and a $47 million after-tax adjustment to recognize incremental earnings on properties covered by the old agreements based on the financial terms of the new EPSAs relating to the period January 1 to March 31, 2008, which could not be recognized until ratification on June 19, 2008.

6. SALE OF ASSETS

In June 2008, the Company completed the sale of its Minehead assets in Western Canada, which are part of the Company's North American Natural Gas business segment, resulting in a loss on sale of $153 million ($112 million after-tax). The sale of these assets is aligned with North American Natural Gas' strategy to continuously optimize the assets in its portfolio. The loss is included in Investment and other income (expense) in the Consolidated Statement of Earnings.

7. EARNINGS PER SHARE

The following table provides the number of common shares used in calculating earnings per share amounts:

	Three months ended June 30,		Six months ended June 30,	
(millions)	2008	2007	2008	2007
Weighted-average number of common shares outstanding - basic	483.8	493.1	483.8	495.1
Effect of dilutive stock options	4.3	5.2	4.2	5.1
Weighted-average number of common shares outstanding - diluted	488.1	498.3	488.0	500.2

8. LONG-TERM DEBT

	Maturity	June 30, 2008	December 31, 2007
Debentures and notes			
6.80% unsecured senior notes ($900 million US)	2038	$ 905	$ -
5.95% unsecured senior notes ($600 million US)	2035	595	577
5.35% unsecured senior notes ($300 million US)	2033	258	248
7.00% unsecured debentures ($250 million US)	2028	245	237
7.875% unsecured debentures ($275 million US)	2026	275	267
9.25% unsecured debentures ($300 million US)	2021	303	294
6.05% unsecured debentures ($600 million US)	2018	605	-
5.00% unsecured senior notes ($400 million US)	2014	404	391
4.00% unsecured senior notes ($300 million US)	2013	287	275
Syndicated credit facilities	2012	-	995
Capital leases	2008-2022	57	57
		3,934	3,341
Current portion		(2)	(2)
		$ 3,932	$ 3,339

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
(millions of Canadian dollars, unless otherwise stated)

8. LONG-TERM DEBT, *continued*

On March 31, 2008, the Company filed a final shelf prospectus for the offering of up to $4 billion US of debt securities with the securities commission or equivalent regulatory authority in each of the provinces and territories of Canada. On April 1, 2008, the same was filed with the United States Securities and Exchange Commission. In May 2008, the Company completed a public offering of debt securities under this prospectus in the form of $600 million US 6.05% 10-year unsecured senior notes due May 15, 2018 and $900 million US 6.80% 30-year unsecured senior notes due May 15, 2038. The net proceeds of this offering were used to repay the Company's short-term notes payable and indebtedness outstanding under its syndicated credit facilities. The balance was added to the Company's working capital to fund future capital expenditures.

At June 30, 2008, the Company had in place revolving, committed syndicated credit facilities totalling $3,570 million (December 31, 2007 – $2,200 million) which mature in 2013 and revolving bilateral demand credit facilities of $766 million (December 31, 2007 – $1,500 million). At June 30, 2008, a total of $285 million of the credit facilities was used for letters of credit and overdraft coverage.

At June 30, 2008, the Company had repaid all amounts previously drawn on its syndicated and demand credit facilities. At December 31, 2007, the Company had drawn on its syndicated credit facilities for $995 million and on its demand credit facilities for $109 million, all in the form of Canadian dollar Bankers' Acceptances.

9. SHAREHOLDERS' EQUITY

Changes in common shares and contributed surplus were as follows:

	Shares	Amount	Contributed Surplus
Balance at December 31, 2007	483,459,119	1,365	24
Issued under employee stock option and share purchase plans	924,922	18	(2)
Repurchased under normal course issuer bid	-	-	-
Balance at June 30, 2008	484,384,041	1,383	22

The Company has in place a normal course issuer bid (NCIB) program for the repurchase of its outstanding common shares. This program was renewed in June 2008 to repurchase up to 24 million outstanding common shares during the period from June 22, 2008 to June 21, 2009, subject to certain conditions. During the three and six months ended June 30, 2008, the Company did not repurchase any common shares. For the three and six months ended June 30, 2007, the Company repurchased 8,000,000 common shares at a cost of $428 million and 10,000,000 common shares at a cost of $515 million, respectively. For the three and six months ended June 30, 2007, the excess of the purchase price over the carrying amount of the shares repurchased was recorded as a $361 million and $442 million reduction of contributed surplus, respectively and a $45 million reduction of retained earnings for both the three and six months ended June 30, 2007.

10. STOCK-BASED COMPENSATION

The total stock-based compensation expense recorded was $189 million and $92 million for the three and six months ended June 30, 2008, respectively ($153 million and $139 million for the three and six months ended June 30, 2007).

(a) Stock Options and Performance Share Units (PSUs)

Changes in the number of outstanding stock options and PSUs were as follows:

	Stock Options		PSUs
	Number	Weighted-Average Exercise Price	Number
Balance at December 31, 2007	21,035,064	$ 34	1,166,044
Granted	3,460,200	47	239,670
Exercised for common shares	(924,922)	17	n/a
Surrendered for cash payment	(860,604)	35	n/a
Cancelled/Expired	(134,310)	47	(587,533)
Balance at June 30, 2008	22,575,428	$ 37	818,181

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
(millions of Canadian dollars, unless otherwise stated)

10. STOCK-BASED COMPENSATION, *continued*

(b) Stock Appreciation Rights (SARs)

Changes in the number of outstanding SARs were as follows:

	SARs	
	Number	Weighted-Average Exercise Price
Balance at December 31, 2007	3,659,450	$ 44
Granted	3,980,480	47
Exercised	(136,705)	44
Cancelled	(191,610)	46
Balance at June 30, 2008	7,311,615	$ 46

11. EMPLOYEE FUTURE BENEFITS

The Company maintains pension plans with defined benefit and defined contribution provisions and provides certain health care and life insurance benefits to its qualifying retirees. The expenses associated with these plans are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Pension Plans:				
Defined benefit plans				
Employer current service cost	$ 10	$ 10	$ 21	$ 20
Interest cost	24	22	47	44
Expected return on plan assets	(27)	(28)	(55)	(56)
Amortization of transitional asset	(2)	(2)	(3)	(3)
Amortization of net actuarial losses	12	11	24	22
	17	13	34	27
Defined contribution plans	6	5	11	9
	$ 23	$ 18	$ 45	$ 36
Other post-retirement plans:				
Employer current service cost	$ 2	$ 2	$ 3	$ 3
Interest cost	4	3	7	6
Amortization of transitional obligation	-	-	1	2
Amortization of net actuarial losses	-	-	1	-
	$ 6	$ 5	$ 12	$ 11

The Company expects to contribute $58 million to its pension plans in 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
(millions of Canadian dollars, unless otherwise stated)

12. CAPITAL MANAGEMENT

The Company's capital management strategy is designed to maintain financial strength and flexibility to support profitable growth in all business environments. The Company's capital consists of debt, which is comprised of long-term debt, shareholders' equity and at December 31, 2007, short-term notes payable. The Company measures financial strength and flexibility using two key measures: debt-to-cash flow from operating activities, the key short-term measure, and debt-to-debt plus equity, the key long-term measure. These are calculated as follows:

	June 30, 2008	December 31, 2007
Long-term debt (non-current portion)	$ 3,932	$ 3,339
Add: Current portion of long-term debt	2	2
Total long-term debt	3,934	3,341
Add: Short-term notes payable	-	109
Debt (A)	$ 3,934	$ 3,450
Shareholders' equity	15,048	11,870
Debt plus equity (B)	$ 18,982	$ 15,320
Cash flow from operating activities (C)[1]	$ 4,652	$ 3,339
Debt-to-cash flow from operating activities (A/C) *(times)*	0.8	1.0
Debt-to-debt plus equity (A/B) *(%)*	20.7	22.5

1 Cash flow from operating activities is on a 12-month rolling basis.

At June 30, 2008, the debt-to-cash flow from operating activities ratio was within the Company's target range of no more than 2.0 times. Debt-to-debt plus equity was below the target range of 25% to 35%, providing the financial flexibility to fund the Company's capital program and profitable growth opportunities. The Company may exceed target ranges for short periods of time, but always with the goal to return back within the target ranges.

Financial covenants associated with the Company's various bank and debt arrangements are reviewed regularly and controls are in place to maintain compliance with these covenants. The Company complied with all covenants for the three and six months ended June 30, 2008.

The Company's priority uses of cash are to fund the capital program and profitable growth opportunities, and then to return cash to shareholders through dividends and a share buyback program.

The Company regularly reviews its dividend strategy to ensure the alignment of the dividend policy with shareholder expectations, and financial and growth objectives. Consistent with this objective, on July 23, 2008, the Company declared a 54% increase in its quarterly dividend to $0.20 per share, commencing with the dividend payable on October 1, 2008. During June 2008, the Company renewed its NCIB program for the repurchase of its common shares from June 22, 2008 to June 21, 2009, entitling the Company to purchase up to 5% of its outstanding common shares, subject to certain conditions (Note 9). Due to an increasing capital program, share buybacks are expected to be lower in this and future years, compared with 2006 and 2007.

The Company's capital management strategy has not changed from the prior period.

13. FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

Financial Risks

The Company is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in commodity prices, interest rates and foreign currency exchange rates, as well as credit risks and liquidity risks. The nature of the financial risks and the Company's strategy for managing these risks has not changed significantly from the prior period.

(a) Market Risks

The Company monitors its exposure to market fluctuations and may use derivative contracts to manage these risks, as it considers appropriate. The Company does not use derivative contracts for speculative purposes.

Commodity Price Risk

The Company is exposed to commodity price risk as fluctuations in crude oil or natural gas prices could have a materially adverse effect on its financial condition, as well as on the value and amount of the Company's reserves. Prices for crude oil and natural gas fluctuate in response to changes in supply and demand, market uncertainty and a variety of other factors beyond the Company's control.

The margins realized for the Company's refined products are also affected by factors such as crude oil price fluctuations due to the impact on refinery feedstock costs, third-party refined product purchases and the demand for refined petroleum products. The Company's ability to maintain product margins in an environment of higher feedstock costs depends on its ability to pass higher costs on to customers. The Company enters into derivative contracts to reduce exposure in its Downstream operations to these margin fluctuations, including margins on fixed-price product sales, and short-term price fluctuations on the purchase of foreign and domestic crude oil and refined petroleum products. The Company's exposure to these margin fluctuations is limited. As such, the fair value of the outstanding derivative contracts is not material.

Interest Rate Risk

The Company is exposed to interest rate risk as changes in market interest rates affect the fair values of fixed-interest rate liabilities and the cash flows of both floating-interest rate liabilities and future borrowings. Notes, debentures and capital leases all bear interest at fixed rates. Drawings on the syndicated and demand credit facilities and obligations under the securitization program all bear interest at floating rates. The Company regularly reviews the mix of floating and fixed rate debt for consistency with its financing objectives.

Foreign Currency Exchange Risk

Due to the fact that energy commodity prices are primarily in U.S. dollars, the Company's revenues, crude oil and product purchases, and associated accounts receivable, accounts payable and accrued liabilities, and off-balance sheet commitments are affected by the Cdn/U.S. dollar exchange rate. These U.S. dollar denominated accounts receivable and accounts payable and accrued liabilities account for a significant portion of the Company's total accounts receivable and accounts payable and accrued liabilities.

Notwithstanding this, the majority of the Company's foreign currency exchange risk arising from financial instruments typically arises from long-term debt, substantially all of which is in the form of U.S. dollar denominated debentures and notes. This exposure partially mitigates the foreign currency exchange risk arising from U.S. dollar denominated revenues. For the three months ended June 30, 2008, the Company had additional exposure to foreign currency exchange risk from U.S. dollar cash and cash equivalents of approximately $1 billion US.

The Company's International business segment and the U.S. Rockies operations included in the North American Natural Gas business segment expose the Company to fluctuations in foreign currency exchange rates, predominantly U.S. dollars.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
(millions of Canadian dollars, unless otherwise stated)

13. FINANCIAL RISKS AND FINANCIAL INSTRUMENTS, *continued*

(b) Credit Risk

The Company is exposed to credit risk from its counterparties' abilities to fulfil their obligations to the Company. The Company manages this risk through the establishment of credit policies and limits, which are applied in the selection of counterparties. The Company ensures that it has no significant concentrations of credit risk.

The Company's maximum exposure to credit risk at June 30, 2008 is equal to the carrying amount of its financial assets recorded on the Consolidated Balance Sheet and $480 million of outstanding accounts receivable sold under the Company's securitization program, which has been derecognized from the Consolidated Balance Sheet. The Company carries adequate provisions for expected losses arising from credit risk associated with all financial assets, including the receivables derecognized under the securitization program. These provisions are not material.

(c) Liquidity Risk

The Company is exposed to liquidity risk from the potential inability to generate or obtain sufficient cash and cash equivalents in a timely and cost-effective manner to discharge its financial liabilities as they come due. The Company manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed and demand credit facilities, and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions. Any debt issued by the Company is managed in accordance with specified liquidity and maturity profiles.

Financial Instruments

Excluding debentures, senior notes and capital leases, which are recorded as long-term debt, the fair values of financial instruments equals or approximates their carrying amount. The fair value of debentures, senior notes and capital leases was $3,946 million at June 30, 2008 (December 31, 2007 – $2,500 million) compared with a carrying amount of $3,934 million (December 31, 2007 – $2,346 million). The fair values of debentures, senior notes and capital leases are based on publicly quoted market values for instruments with similar terms and risks.