PETRO-CANADA

PETRO-CANADA

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

CONSOLIDATED STATEMENT OF EARNINGS *(unaudited)*
For the periods ended March 31
(millions of Canadian dollars, except per share amounts)

	Three months ended March 31, 2007	2006
Revenue		
Operating	$ 4,867	$ 4,415
Investment and other income (expense) *(Note 5)*	(26)	(227)
	4,841	4,188
Expenses		
Crude oil and product purchases	2,308	2,100
Operating, marketing and general	827	821
Exploration	142	97
Depreciation, depletion and amortization	441	335
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(17)	2
Interest	42	45
	3,743	3,400
Earnings from continuing operations before income taxes	1,098	788
Provision for income taxes		
Current	491	532
Future *(Note 6)*	17	202
	508	734
Net earnings from continuing operations	590	54
Net earnings from discontinued operations *(Note 4)*	-	152
Net earnings	$ 590	$ 206
Earnings per share from continuing operations *(Note 7)*		
Basic	$ 1.19	$ 0.11
Diluted	$ 1.18	$ 0.10
Earnings per share *(Note 7)*		
Basic	$ 1.19	$ 0.40
Diluted	$ 1.18	$ 0.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(unaudited) (Note 3)*
For the periods ended March 31
(millions of Canadian dollars)

	Three months ended March 31, 2007	2006
Net earnings	$ 590	$ 206
Other comprehensive income, net of tax		
Change in foreign currency translation adjustment	7	55
Comprehensive income	$ 597	$ 261

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS *(unaudited)*
For the periods ended March 31
(millions of Canadian dollars)

	Three months ended March 31, 2007	2006
Operating activities		
Net earnings	$ 590	$ 206
Less: Net earnings from discontinued operations	-	152
Net earnings from continuing operations	590	54
Items not affecting cash flow from continuing operating activities:		
Depreciation, depletion and amortization	441	335
Future income taxes	17	202
Accretion of asset retirement obligations	17	13
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(17)	2
Gain on disposal of assets	(62)	(2)
Unrealized loss associated with the Buzzard derivative contracts *(Note 12)*	88	219
Other	-	6
Exploration expenses	92	28
Decrease in non-cash working capital related to continuing operating activities	-	29
Cash flow from continuing operating activities	1,166	886
Cash flow from discontinued operating activities *(Note 4)*	-	15
Cash flow from operating activities	1,166	901
Investing activities		
Expenditures on property, plant and equipment and exploration	(716)	(759)
Proceeds from sale of assets *(Note 4)*	82	645
Increase in other assets	(17)	(9)
(Increase) decrease in non-cash working capital related to investing activities	(59)	12
Cash flow from investing activities	(710)	(111)
Financing activities		
Repayment of long-term debt	(2)	(2)
Proceeds from issue of common shares *(Note 9)*	6	22
Purchase of common shares *(Note 9)*	(87)	(476)
Dividends on common shares	(65)	(50)
Cash flow from financing activities	(148)	(506)
Increase in cash and cash equivalents	308	284
Cash and cash equivalents at beginning of period	499	789
Cash and cash equivalents at end of period	$ 807	$ 1,073

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET *(unaudited)*
As at March 31, 2007
(millions of Canadian dollars)

	March 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 807	$ 499
Accounts receivable	1,560	1,600
Inventories	686	632
Future income taxes	162	95
	3,215	2,826
Property, plant and equipment, net	18,661	18,577
Goodwill	803	801
Other assets *(Note 3)*	371	442
	$ 23,050	$ 22,646
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities *(Note 12)*	$ 3,380	$ 3,319
Income taxes payable	44	22
Current portion of long-term debt *(Note 8)*	6	7
	3,430	3,348
Long-term debt *(Notes 3 and 8)*	2,745	2,887
Other liabilities *(Note 12)*	1,754	1,826
Asset retirement obligations	1,168	1,170
Future income taxes	3,050	2,974
Shareholders' equity		
Common shares *(Note 9)*	1,368	1,366
Contributed surplus *(Note 9)*	389	469
Retained earnings	9,090	8,557
Accumulated other comprehensive income *(Note 3)*		
Foreign currency translation adjustment	56	49
	10,903	10,441
	$ 23,050	$ 22,646

CONSOLIDATED STATEMENT OF RETAINED EARNINGS *(unaudited)*
For the periods ended March 31
(millions of Canadian dollars)

	Three months ended March 31,	
	2007	2006
Retained earnings at beginning of period	$ 8,557	$ 7,018
Cumulative effect of adopting new accounting standards *(Note 3)*	8	-
Net earnings	590	206
Dividends on common shares	(65)	(50)
Retained earnings at end of period	$ 9,090	$ 7,174

See accompanying Notes to Consolidated Financial Statements

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

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS *(Note 4)*
   Three months ended March 31,

	Upstream													
					International and Offshore									
	North American Natural Gas		Oil Sands		East Coast Canada		International		Downstream		Shared Services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue														
Sales to customers	$ 349	$ 451	$ 166	$ 116	$ 601	$ 388	$ 664	$ 704	$ 3,087	$ 2,756	$ -	$ -	$ 4,867	$ 4,415
Investment and other Income (expense) (1)	61	(1)	(2)	-	-	(4)	(90)	(223)	(3)	(3)	8	4	(26)	(227)
Inter-segment sales	85	95	222	155	129	122	-	-	4	4	-	-		
Segmented revenue	495	545	386	271	730	506	574	481	3,088	2,757	8	4	4,841	4,188
Expenses														
Crude oil and product purchases	41	70	130	111	176	45	-	-	1,958	1,872	3	2	2,308	2,100
Inter-segment transactions	2	2	4	11	2	2	-	-	432	361	-	-		
Operating, marketing and general	124	105	131	135	59	47	162	90	352	354	(1)	90	827	821
Exploration	56	48	19	6	4	(1)	63	44	-	-	-	-	142	97
Depreciation, depletion and amortization	108	100	39	37	103	65	118	80	69	53	4	-	441	335
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(17)	2	(17)	2
Interest	-	-	-	-	-	-	-	-	-	-	42	45	42	45
	331	325	323	300	344	158	343	214	2,811	2,640	31	139	3,743	3,400
Earnings (loss) from continuing operations before income taxes	164	220	63	(29)	386	348	231	267	277	117	(23)	(135)	1,098	788
Provision for income taxes														
Current	61	84	6	(15)	138	124	258	360	56	36	(28)	(57)	491	532
Future *(Note 6)*	(9)	(3)	14	5	(8)	(5)	(36)	188	37	6	19	11	17	202
	52	81	20	(10)	130	119	222	548	93	42	(9)	(46)	508	734
Net earnings (loss) from continuing operations	$ 112	$ 139	$ 43	$ (19)	$ 256	$ 229	$ 9	$ (281)	$ 184	$ 75	$ (14)	$ (89)	$ 590	$ 54
Expenditures on property, plant and equipment and exploration from continuing operations (2)	$ 205	$ 213	$ 90	$ 119	$ 38	$ 53	$ 157	$ 121	$ 221	$ 251	$ 5	$ 1	$ 716	$ 758
Cash flow from continuing operating activities	$ 159	$ 241	$ 69	$ 53	$ 481	$ 346	$ 277	$ 303	$ 214	$ 15	$ (34)	$ (72)	$ 1,166	$ 886
Total assets from continuing operations	$ 4,121	$ 3,759	$ 2,967	$ 2,671	$ 2,327	$ 2,432	$ 6,220	$ 5,244	$ 6,894	$ 5,863	$ 521	$ 766	$ 23,050	$ 20,735

(1) Investment and other income for the International segment includes unrealized losses relating to the Buzzard derivative contracts of $88 million for the three months ended March 31, 2007 ($219 million for the three months ended March 31, 2006) *(Notes 5 and 12)*.
(2) Consolidated expenditures include capitalized interest in the amount of $6 million for the three months ended March 31, 2007 ($7 million for the three months ended March 31, 2006).

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, 2006 audited Consolidated Financial Statements. The interim Consolidated Financial Statements are presented in accordance with Canadian generally accepted accounting principles 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

The Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income;* Section 3855, *Financial Instruments – Recognition and Measurement;* Section 3861*, Financial Instruments – Presentation and Disclosure;* and Section 3865, *Hedges* on January 1, 2007.

As a result of adopting CICA Section 1530, *Comprehensive Income,* a new Statement of Comprehensive Income forms part of the Company's consolidated financial statements. Gains and losses from the translation into Canadian dollars of assets and liabilities, including associated long-term debt, of the Company's self-sustaining foreign operations are now presented as a separate component of other comprehensive income (loss) in the Consolidated Statement of Comprehensive Income. Accumulated other comprehensive income (loss) is presented as a separate component of shareholders' equity in the Consolidated Balance Sheet. Previously, these gains and losses were deferred and included in the foreign currency translation adjustment as part of shareholders' equity.

As a result of adopting CICA Section 3855, *Financial Instruments – Recognition and Measurement*, long-term debt is measured at fair value when initially recognized and, after initial recognition, at amortized cost using the effective interest method. Transaction costs and premiums or discounts directly attributable to the issuance of long-term debt are now added to the fair value on initial recognition. Previously, these amounts were deferred and amortized using the straight line method over the term of the debt. Unamortized amounts were separately presented in other assets on the Consolidated Balance Sheet. In accordance with the transitional provisions, prior periods have not been restated as a result of adopting this new accounting standard. To recognize the cumulative prior period effect, the following balance sheet categories were impacted on January 1, 2007:

	Increase / (Decrease)
Other assets	$ (101)
Long-term debt	(112)
Future income taxes liability	3
Retained earnings	8

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

4. DISCONTINUED OPERATIONS

On January 31, 2006, the Company completed the sale of its producing assets in Syria for net proceeds of $640 million, resulting in a gain on disposal of $134 million.

The accounting for discontinued operations results in a reduction of the Consolidated Statement of Earnings balances as follows:

	Three months ended March 31,	
	2007	2006
Revenue [1]	$ -	$ 168
Expenses		
Operating, marketing and general	-	6
	-	6
Earnings from discontinued operations before income taxes	-	162
Provision for income taxes	-	10
Net earnings from discontinued operations	$ -	$ 152

(1) Revenue includes the gain on disposal of $134 million.

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

5. INVESTMENT AND OTHER INCOME (EXPENSE)

Investment and other income (expense) includes net losses on derivative contracts (Note 12) of $94 million for the three months ended March 31, 2007 ($224 million for the three months ended March 31, 2006) and net gains on disposal of assets of $62 million for the three months ended March 31, 2007 ($2 million for the three months ended March 31, 2006).

6. INCOME TAXES

The provision for future income taxes for the three months ended March 31, 2006 includes a $242 million charge due to the enacted increase in the U.K. supplemental corporate income tax rate. The adjustment was allocated to the Company's International business segment.

7. EARNINGS PER SHARE

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

	Three months ended March 31,	
(millions)	2007	2006
Weighted-average number of common shares outstanding - basic	497.0	512.9
Effect of dilutive stock options	5.0	6.9
Weighted-average number of common shares outstanding - diluted	502.0	519.8

8. LONG-TERM DEBT

	Maturity	March 31, 2007 *(Note 3)*	December 31, 2006
Debentures and notes			
5.95% unsecured senior notes ($600 million US)	2035	$ 675	$ 699
5.35% unsecured senior notes ($300 million US)	2033	297	349
7.00% unsecured debentures ($250 million US)	2028	278	291
7.875% unsecured debentures ($275 million US)	2026	312	321
9.25% unsecured debentures ($300 million US)	2021	343	349
5.00% unsecured senior notes ($400 million US)	2014	456	466
4.00% unsecured senior notes ($300 million US)	2013	323	349
Capital leases	2007-2017	67	70
		2,751	2,894
Current portion		(6)	(7)
		$ 2,745	$ 2,887

9. SHAREHOLDERS' EQUITY

Changes in common shares and contributed surplus were as follows:

	Shares	Amount	Contributed Surplus
Balance at December 31, 2006	497,538,385	$ 1,366	$ 469
Issued under employee stock option and share purchase plans	289,640	8	1
Repurchased under normal course issuer bid	(2,000,000)	(6)	(81)
Balance at March 31, 2007	495,828,025	$ 1,368	$ 389

In June 2006, the Company renewed its normal course issuer bid (NCIB) program to repurchase up to 25 million of its outstanding common shares during the period from June 22, 2006 to June 21, 2007, subject to certain conditions. During the three months ended March 31, 2007, the Company purchased 2,000,000 common shares at a cost of $87 million (8,786,800 common shares at a cost of $476 million during the three months ended March 31, 2006). The excess of the purchase price over the carrying amount of the shares purchased was recorded as a reduction of contributed surplus.

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

10. STOCK-BASED COMPENSATION

The total stock-based compensation (recovery) expense recorded was $(14) million for the three months ended March 31, 2007 ($65 million for the three months ended March 31, 2006).

(a) Stock Option and Performance Share Unit (PSU) Plans

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, 2006	20,714,733	$ 31	1,482,986
Granted	3,295,300	44	238,734
Exercised for common shares	(289,640)	21	n/a
Surrendered for cash payment	(30,350)	31	n/a
Cancelled/Expired	(127,750)	43	(538,928)
Balance at March 31, 2007	23,562,293	$ 33	1,182,792

(b) Stock Appreciation Rights (SAR)

Commencing 2007, the Company approved the issuance of SARs to certain employees, which entitle the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of the Company's common shares on date of surrender. The vesting period and other terms are similar to the terms of the Company's existing stock option plan. At the time of grant the exercise price approximates the market price. The following SARs have been granted:

	SARs	
	Number	Weighted-Average Exercise Price
Balance at December 31, 2006	-	$ -
Granted	3,578,500	44
Cancelled	(11,500)	44
Balance at March 31, 2007	3,567,000	$ 44

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

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 March 31,	
	2007	2006
Pension Plans:		
Defined benefit plans		
Employer current service cost	$ 10	$ 10
Interest cost	22	21
Expected return on plan assets	(28)	(25)
Amortization of transitional asset	(1)	(2)
Amortization of net actuarial losses	11	13
	14	17
Defined contribution plans	4	4
	$ 18	$ 21
Other post-retirement plans:		
Employer current service cost	$ 1	$ 1
Interest cost	3	3
Amortization of transitional obligation	2	1
	$ 6	$ 5

The Company expects to contribute $115 million to its pension plans in 2007.

12. FINANCIAL INSTRUMENTS AND DERIVATIVES

Investment and other income includes unrealized gains and losses on the outstanding derivative contracts associated with the 2004 acquisition of an interest in the Buzzard field in the U.K. sector of the North Sea. These contracts resulted in unrealized losses of $88 million for the three months ended March 31, 2007 ($219 million for the three months ended March 31, 2006).

Investment and other income includes unrealized losses on all derivative contracts of $81 million for the three months ended March 31, 2007 ($219 million for the three months ended March 31, 2006). As at March 31, 2007, accounts receivable, accounts payable and other liabilities include $4 million, $368 million, and $1,202 million, respectively, relating to unrealized mark-to-market amounts on derivative contracts.