PETRO-CANADA

PETRO-CANADA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

CONSOLIDATED STATEMENT OF EARNINGS *(unaudited)*
For the period ended June 30, 2006
(millions of Canadian dollars, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
		(Note 3)	***(Note 3)***	*(Note 3)*
Revenue				
Operating	**$ 4,836**	$ 4,174	**$ 9,251**	$ 7,941
Investment and other income *(Note 5)*	**(106)**	(229)	**(333)**	(721)
	4,730	3,945	**8,918**	7,220
Expenses				
Crude oil and product purchases	**2,578**	2,096	**4,678**	3,948
Operating, marketing and general	**782**	737	**1,603**	1,406
Exploration	**78**	58	**175**	140
Depreciation, depletion and amortization	**312**	306	**647**	608
Unrealized gain on translation of foreign currency denominated long-term debt	**(73)**	(10)	**(71)**	(5)
Interest	**42**	39	**87**	73
	3,719	3,226	**7,119**	6,170
Earnings from continuing operations before income taxes	**1,011**	719	**1,799**	1,050
Provision for income taxes				
Current *(Note 6)*	**626**	433	**1,158**	838
Future *(Note 6)*	**(87)**	(36)	**115**	(220)
	539	397	**1,273**	618
Net earnings from continuing operations	**472**	322	**526**	432
Net earnings from discontinued operations *(Note 3)*	**-**	23	**152**	31
Net earnings	**$ 472**	$ 345	**$ 678**	$ 463
Earnings per share from continuing operations *(Notes 4 and 7)*				
Basic	**$ 0.93**	$ 0.62	**$ 1.03**	$ 0.83
Diluted	**$ 0.92**	$ 0.61	**$ 1.02**	$ 0.82
Earnings per share *(Notes 4 and 7)*				
Basic	**$ 0.93**	$ 0.66	**$ 1.33**	$ 0.89
Diluted	**$ 0.92**	$ 0.66	**$ 1.32**	$ 0.88

CONSOLIDATED STATEMENT OF RETAINED EARNINGS *(unaudited)*
For the period ended June 30, 2006
(millions of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
Retained earnings at beginning of period	**$ 7,174**	$ 5,487	**$ 7,018**	$ 5,408
Net earnings	**472**	345	**678**	463
Dividends on common shares	**(51)**	(39)	**(101)**	(78)
Retained earnings at end of period	**$ 7,595**	$ 5,793	**$ 7,595**	$ 5,793

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS *(unaudited)*
For the period ended June 30, 2006
(millions of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
		(Note 3)	***(Note 3)***	*(Note 3)*
Operating activities				
Net earnings	**$ 472**	$ 345	**$ 678**	$ 463
Less: Net earnings from discontinued operations	**-**	23	**152**	31
Net earnings from continuing operations	**472**	322	**526**	432
Items not affecting cash flow from continuing operating activities:				
Depreciation, depletion and amortization	**312**	306	**647**	608
Future income taxes	**(87)**	(36)	**115**	(220)
Accretion of asset retirement obligations	**14**	13	**27**	29
Unrealized gain on translation of foreign currency denominated long-term debt	**(73)**	(10)	**(71)**	(5)
Gain on disposal of assets	**(18)**	(14)	**(20)**	(14)
Unrealized loss associated with the Buzzard derivative contracts *(Note 13)*	**108**	272	**327**	764
Other	**7**	(7)	**13**	3
Exploration expenses	**19**	23	**47**	73
Proceeds from sale of accounts receivable *(Note 8)*	**-**	-	**-**	80
(Increase) decrease in non-cash working capital related to continuing operating activities	**45**	105	**74**	(262)
Cash flow from continuing operating activities	**799**	974	**1,685**	1,488
Cash flow from discontinued operating activities *(Note 3)*	**-**	37	**15**	86
Cash flow from operating activities	**799**	1,011	**1,700**	1,574
Investing activities				
Expenditures on property, plant and equipment and exploration	**(752)**	(1,076)	**(1,511)**	(1,955)
Proceeds from sale of assets *(Note 3)*	**18**	20	**663**	21
Increase in deferred charges and other assets	**(23)**	(27)	**(32)**	(41)
(Increase) decrease in non-cash working capital related to investing activities	**(82)**	191	**(70)**	210
	(839)	(892)	**(950)**	(1,765)
Financing activities				
Decrease in short-term notes payable	**-**	(588)	**-**	(279)
Proceeds from issue of long-term debt *(Note 9)*	**-**	762	**-**	762
Repayment of long-term debt	**(2)**	(2)	**(4)**	(3)
Proceeds from issue of common shares *(Note 10)*	**11**	18	**33**	45
Purchase of common shares *(Note 10)*	**(350)**	(75)	**(826)**	(142)
Dividends on common shares	**(51)**	(39)	**(101)**	(78)
Increase in non-cash working capital related to financing activities	**-**	(1)	**-**	(1)
	(392)	75	**(898)**	304
Increase (decrease) in cash and cash equivalents	**(432)**	194	**(148)**	113
Cash and cash equivalents at beginning of period	**1,073**	89	**789**	170
Cash and cash equivalents at end of period	**$ 641**	$ 283	**$ 641**	$ 283

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET *(unaudited)*
As at June 30, 2006
(millions of Canadian dollars)

		June 30, 2006		December 31, 2005 *(Note 3)*
Assets				
Current assets				
Cash and cash equivalents	**$**	**641**	$	721
Accounts receivable *(Note 8)*		**1,558**		1,617
Inventories		**555**		596
Assets of discontinued operations *(Note 3)*		**-**		237
		2,754		3,171
Property, plant and equipment, net		**16,840**		15,921
Goodwill		**749**		737
Deferred charges and other assets		**432**		415
Assets of discontinued operations *(Note 3)*		**-**		411
	$	**20,775**	$	20,655
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**2,707**	$	2,854
Income taxes payable		**199**		82
Liabilities of discontinued operations *(Note 3)*		**-**		102
Current portion of long-term debt *(Note 9)*		**7**		7
		2,913		3,045
Long-term debt *(Note 9)*		**2,768**		2,906
Other liabilities		**2,179**		1,888
Asset retirement obligations		**998**		923
Future income taxes		**2,547**		2,405
Shareholders' equity				
Common shares *(Note 10)*		**1,356**		1,362
Contributed surplus *(Note 10)*		**640**		1,422
Retained earnings		**7,595**		7,018
Foreign currency translation adjustment		**(221)**		(314)
		9,370		9,488
	$	**20,775**	$	20,655

See accompanying Notes to Consolidated Financial Statements

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

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS *(Note 3)*
Three months ended June 30,

	Upstream													
	North American Natural Gas		East Coast Oil		Oil Sands		International		Downstream		Shared Services		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005 *(Note 3)*	2006	2005	2006	2005	2006	2005 *(Note 3)*
Revenue														
Sales to customers	$ 357	$ 452	$ 531	$ 359	$ 132	$ 168	$ 611	$ 550	$ 3,205	$ 2,645	$ -	$ -	$ 4,836	$ 4,174
Investment and other income [1]	2	1	3	-	-	1	(111)	(254)	5	35	(5)	(12)	(106)	(229)
Inter-segment sales	83	76	35	58	208	171	-	-	3	3	-	-		
Segmented revenue	442	529	569	417	340	340	500	296	3,213	2,683	(5)	(12)	4,730	3,945
Expenses														
Crude oil and product purchases	66	106	127	-	90	133	-	-	2,299	1,861	(4)	(4)	2,578	2,096
Inter-segment transactions	-	-	3	3	6	17	-	-	320	288	-	-		
Operating, marketing and general	118	109	61	36	128	104	70	104	388	345	17	39	782	737
Exploration	24	22	2	-	6	3	46	33	-	-	-	-	78	58
Depreciation, depletion and amortization	98	90	54	73	24	30	76	60	57	52	3	1	312	306
Unrealized gain on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(73)	(10)	(73)	(10)
Interest	-	-	-	-	-	-	-	-	-	-	42	39	42	39
	306	327	247	112	254	287	192	197	3,064	2,546	(15)	65	3,719	3,226
Earnings (loss) from continuing operations before income taxes	136	202	322	305	86	53	308	99	149	137	10	(77)	1,011	719
Provision for income taxes														
Current *(Note 6)*	82	69	109	87	5	7	308	229	56	71	66	(30)	626	433
Future *(Note 6)*	(43)	16	(41)	10	(20)	12	63	(52)	(46)	(23)	-	1	(87)	(36)
	39	85	68	97	(15)	19	371	177	10	48	66	(29)	539	397
Net earnings (loss) from continuing operations	$ 97	$ 117	$ 254	$ 208	$ 101	$ 34	$ (63)	$ (78)	$ 139	$ 89	$ (56)	$ (48)	$ 472	$ 322
Expenditures on property, plant and equipment and exploration from continuing operations [2]	$ 121	$ 131	$ 81	$ 68	$ 76	$ 396	$ 175	$ 243	$ 294	$ 224	$ 5	$ 4	$ 752	$ 1,066
Cash flow from continuing operating activities	$ 167	$ 255	$ 259	$ 215	$ 54	$ 73	$ 186	$ 206	$ 277	$ 262	$ (144)	$ (37)	$ 799	$ 974
Total assets from continuing operations	$ 3,701	$ 3,538	$ 2,452	$ 2,393	$ 2,770	$ 2,557	$ 5,290	$ 5,057	$ 6,036	$ 4,983	$ 526	$ 233	$ 20,775	$ 18,761

(1) Investment and other income for the International segment includes $108 million for the three months ended June 30, 2006 ($272 million for the three months ended June 30, 2005) of unrealized losses relating to the Buzzard derivative contracts *(Note 13)*.

(2) Consolidated expenditures include capitalized interest in the amount of $7 million for the three months ended June 30, 2006 ($9 million for the three months ended June 30, 2005).

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

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS *(Note 3)*
Six months ended June 30,

	Upstream													
	North American Natural Gas		East Coast Oil		Oil Sands		International		Downstream		Shared Services		Consolidated	
	2006	2005	2006	2005	2006	2005	2006 *(Note 3)*	2005 *(Note 3)*	2006	2005	2006	2005	2006 *(Note 3)*	2005 *(Note 3)*
Revenue														
Sales to customers	$ 808	$ 883	$ 919	$ 596	$ 248	$ 297	$ 1,315	$ 1,029	$ 5,961	$ 5,136	$ -	$ -	$ 9,251	$ 7,941
Investment and other income [1]	1	1	(1)	-	-	-	(334)	(735)	2	28	(1)	(15)	(333)	(721)
Inter-segment sales	178	149	157	176	363	281	-	-	7	7	-	-		
Segmented revenue	987	1,033	1,075	772	611	578	981	294	5,970	5,171	(1)	(15)	8,918	7,220
Expenses														
Crude oil and product purchases	136	201	172	-	263	242	-	-	4,171	3,505	(2)	-	4,678	3,948
Inter-segment transactions	2	4	5	3	17	32	-	-	681	574	-	-		
Operating, marketing and general	223	201	108	80	201	199	160	188	742	672	107	66	1,603	1,406
Exploration	72	64	1	-	12	31	90	45	-	-	-	-	175	140
Depreciation, depletion and amortization	198	184	119	136	61	50	156	132	110	105	3	1	647	608
Unrealized gain on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(71)	(5)	(71)	(5)
Interest	-	-	-	-	-	-	-	-	-	-	87	73	87	73
	631	654	405	219	554	554	406	365	5,704	4,856	124	135	7,119	6,170
Earnings (loss) from continuing operations before income taxes	356	379	670	553	57	24	575	(71)	266	315	(125)	(150)	1,799	1,050
Provision for income taxes														
Current *(Note 6)*	166	148	233	172	(10)	(22)	668	422	92	171	9	(53)	1,158	838
Future *(Note 6)*	(46)	11	(46)	4	(15)	31	251	(207)	(40)	(58)	11	(1)	115	(220)
	120	159	187	176	(25)	9	919	215	52	113	20	(54)	1,273	618
Net earnings (loss) from continuing operations	$ 236	$ 220	$ 483	$ 377	$ 82	$ 15	$ (344)	$ (286)	$ 214	$ 202	$ (145)	$ (96)	$ 526	$ 432
Expenditures on property, plant and equipment and exploration from continuing operations [2]	$ 334	$ 380	$ 134	$ 127	$ 195	$ 546	$ 296	$ 396	$ 545	$ 478	$ 6	$ 4	$ 1,510	$ 1,931
Cash flow from continuing operating activities	$ 408	$ 490	$ 605	$ 442	$ 107	$ 110	$ 489	$ 337	$ 292	$ 273	$ (216)	$ (164)	$ 1,685	$ 1,488
Total assets from continuing operations	$ 3,701	$ 3,538	$ 2,452	$ 2,393	$ 2,770	$ 2,557	$ 5,290	$ 5,057	$ 6,036	$ 4,983	$ 526	$ 233	$ 20,775	$ 18,761

[1] Investment and other income for the International segment includes $327 million for the six months ended June 30, 2006 ($764 million for the six months ended June 30, 2005) of unrealized losses relating to the Buzzard derivative contracts *(Note 13).*

[2] Consolidated expenditures include capitalized interest in the amount of $14 million for the six months ended June 30, 2006 ($17 million for the six months ended June 30, 2005).

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

2. BASIS OF PRESENTATION

The note disclosure requirements for annual Consolidated Financial Statements provide additional disclosure to that required for interim Consolidated Financial Statements. Accordingly, these interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements included in the Company's 2005 Annual Report. 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.

3. DISCONTINUED OPERATIONS

On December 20, 2005, the Company reached an agreement to sell its producing assets in Syria for EUR 484 million before adjustments. Accordingly, the producing assets in Syria were classified as held for sale at December 31, 2005 and are presented as discontinued operations in the International segment.

On January 31, 2006, the Company completed the sale of these assets 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 June 30,		**Six months ended June 30,**	
	2006	2005	2006	2005
Revenue	**$ -**	$ 115	**$ 168** [1]	$ 222
Expenses				
Operating, marketing and general	**-**	21	**6**	48
Depreciation, depletion and amortization	**-**	43	**-**	89
	-	64	**6**	137
Earnings from discontinued operations before income taxes	**-**	51	**162**	85
Provision for income taxes	**-**	28	**10**	54
Net earnings from discontinued operations	**$ -**	$ 23	**$ 152**	$ 31

The assets and liabilities of the discontinued operations were comprised of the following:

	December 31, 2005
Assets	
Current assets [2]	$ 237
Property, plant and equipment, net	300
Goodwill	111
Total assets	$ 648
Liabilities	
Current liabilities	$ 102
Net assets of discontinued operations	$ 546

(1) Revenue includes the gain on disposal of $134 million.
(2) Current assets include cash and cash equivalents of $68 million as at December 31, 2005.

4. STOCK DIVIDEND

In July 2005, the Company effected a two-for-one stock split in the form of a stock dividend. Common shareholders of record at the close of business on September 3, 2005 received one additional common share for each common share held. Information related to common shares, stock options and performance share units has been restated to reflect this transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

5. INVESTMENT AND OTHER INCOME

Investment and other income includes net losses on derivative contracts (Note 13) of $110 million and $334 million for the three and six months ended June 30, 2006 ($254 million and $759 million for the three and six months ended June 30, 2005).

6. INCOME TAXES

The provision for future income taxes for the six months ended June 30, 2006 includes a $242 million charge due to the substantively enacted increase in the U.K. supplemental corporate income tax rate.

The provision for future income taxes for the three and six months ended June 30, 2006 was reduced by $127 million due to the substantively enacted reduction in Canadian federal and provincial income tax rates. The adjustment was allocated to the segments as a decrease (increase) to the tax provision as follows: North American Natural Gas - $6 million, East Coast Oil - $37 million, Oil Sands - $44 million, Downstream - $41 million, and Shared Services - $(1) million.

The provision for current taxes for the three and six months ended June 30, 2006 was increased by $70 million due to the Quebec government enacting retroactive tax legislation. The adjustment was allocated to Shared Services.

7. EARNINGS PER SHARE

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

	Three months ended June 30,		**Six months ended June 30,**	
(millions)	**2006**	2005	**2006**	2005
Weighted-average number of common shares outstanding - basic	**505.3**	519.4	**508.8**	519.7
Effect of dilutive stock options	**6.4**	6.6	**6.7**	6.7
Weighted-average number of common shares outstanding - diluted	**511.7**	526.0	**515.5**	526.4

8. SECURITIZATION PROGRAM

During 2004, the Company entered into a securitization program, expiring in 2009, to sell an undivided interest in eligible accounts receivable to a third party, on a revolving and fully serviced basis.

In March 2005, Petro-Canada increased the limit to sell eligible accounts receivable under the program from $400 million to $500 million. During the six months ended June 30, 2005, the Company sold an additional $80 million of outstanding receivables for net proceeds of $80 million. As at June 30, 2006, $480 million of outstanding accounts receivable had been sold under the program.

9. LONG-TERM DEBT

	Maturity	**June 30, 2006**	December 31, 2005
Debentures and notes			
5.95% unsecured senior notes ($600 million US)	2035	**$ 669**	$ 700
5.35% unsecured senior notes ($300 million US)	2033	**334**	350
7.00% unsecured debentures ($250 million US)	2028	**279**	292
7.875% unsecured debentures ($275 million US)	2026	**307**	321
9.25% unsecured debentures ($300 million US)	2021	**334**	350
5.00% unsecured senior notes ($400 million US)	2014	**446**	466
4.00% unsecured senior notes ($300 million US)	2013	**334**	350
Capital leases	2007-2017	**72**	77
Retail licensee trust loans	2012-2014	**-**	7
		2,775	2,913
Current portion		**(7)**	(7)
		$ 2,768	$ 2,906

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

10. SHAREHOLDERS' EQUITY

Changes in common shares and contributed surplus were as follows:

	Shares		Amount		Contributed Surplus
Balance at December 31, 2005	515,138,904	$	1,362	$	1,422
Issued under employee stock option and share purchase plans	1,596,166		33		-
Repurchased under normal course issuer bid	(15,886,800)		(42)		(784)
Stock-based compensation	-		3		2
Balance at June 30, 2006	**500,848,270**	**$**	**1,356**	**$**	**640**

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 and six months ended June 30, 2006, the Company purchased 7,100,000 common shares at a cost of $350 million and 15,886,800 common shares at a cost of $826 million, respectively (2,043,600 common shares at a cost of $75 million and 3,933,400 common shares at a cost of $142 million during the three and six months ended June 30, 2005). The excess of the purchase price over the carrying amount of the shares purchased is recorded as a reduction of contributed surplus.

11. STOCK-BASED COMPENSATION

Changes in the number of outstanding stock options and performance share units (PSUs) were as follows:

	Stock Options			PSUs
	Number		Weighted-Average Exercise Price	Number
Balance at December 31, 2005	18,361,617	$	24	1,158,967
Granted	4,754,600		52	378,239
Exercised	(1,596,166)		20	-
Cancelled	(256,053)		36	(30,959)
Balance at June 30, 2006	**21,263,998**	**$**	**31**	**1,506,247**

The total stock-based compensation (recovery) expense recorded was $(3) million and $62 million during the three and six months ended June 30, 2006, respectively ($19 million and $37 million for the three and six months ended June 30, 2005).

Compensation expense has not been recorded for stock options issued prior to 2003. The following table presents the pro forma net earnings and the pro forma earnings per share computed assuming the fair value based accounting method had been used to account for the compensation cost of stock options granted in 2002.

	Three months ended June 30,											
		2006		2005		**2006**				2005		
					Earnings per share							
	Net earnings					Basic		Diluted		Basic		Diluted
Net earnings as reported	**$**	**472**	$	345	**$**	**0.93**	**$**	**0.92**	$	0.66	$	0.66
Pro forma adjustment		**-**		2		**-**		**-**		-		0.01
Pro forma net earnings	**$**	**472**	$	343	**$**	**0.93**	**$**	**0.92**	$	0.66	$	0.65

	Six months ended June 30,											
		2006		2005		**2006**				2005		
					Earnings per share							
	Net earnings					Basic		Diluted		Basic		Diluted
Net earnings as reported	**$**	**678**	$	463	**$**	**1.33**	**$**	**1.32**	$	0.89	$	0.88
Pro forma adjustment		**1**		4		**-**		**0.01**		0.01		0.01
Pro forma net earnings	**$**	**677**	$	459	**$**	**1.33**	**$**	**1.31**	$	0.88	$	0.87

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

12. 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,**	
	2006	2005	**2006**	2005
Pension Plans:				
Defined benefit plans				
Employer current service cost	**$ 10**	$ 8	**$ 20**	$ 16
Interest cost	**21**	21	**42**	42
Expected return on plan assets	**(25)**	(21)	**(50)**	(43)
Amortization of transitional asset	**(2)**	(1)	**(4)**	(2)
Amortization of net actuarial losses	**13**	8	**26**	17
	17	15	**34**	30
Defined contribution plans	**4**	3	**8**	7
	$ 21	$ 18	**$ 42**	$ 37
Other post-retirement plans:				
Employer current service cost	**$ 1**	$ 1	**$ 2**	$ 2
Interest cost	**3**	3	**6**	6
Amortization of transitional obligation	**1**	-	**2**	1
	$ 5	$ 4	**$ 10**	$ 9

The Company expects to contribute approximately $100 million to its pension plans in 2006. As at June 30, 2006, $49 million in contributions have been made.

13. 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 an unrealized loss of $108 million and $327 million for the three and six months ended June 30, 2006, respectively ($272 million and $764 million for the three and six months ended June 30, 2005).

Unrealized gains and losses on all derivative contracts decreased investment and other income by $108 million and $327 million for the three and six months ended June 30, 2006, respectively ($263 million and $757 million for the three and six months ended June 30, 2005). As at June 30, 2006, accounts receivable and other liabilities have been increased by $4 million and $1,549 million, respectively, as a result of unrealized mark-to-market amounts on derivative contracts.