



**PETRO-CANADA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006**

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005 <i>(Note 3)</i>	2006 <i>(Note 3)</i>	2005 <i>(Note 3)</i>
Revenue				
Operating	\$ 5,065	\$ 4,839	\$ 14,316	\$ 12,780
Investment and other income <i>(Note 4)</i>	136	(118)	(197)	(839)
	5,201	4,721	14,119	11,941
Expenses				
Crude oil and product purchases	2,745	2,469	7,423	6,417
Operating, marketing and general	742	750	2,345	2,156
Exploration	57	54	232	194
Depreciation, depletion and amortization	311	329	958	937
Unrealized loss (gain) on translation of foreign currency denominated long-term debt	1	(90)	(70)	(95)
Interest	41	39	128	112
	3,897	3,551	11,016	9,721
Earnings from continuing operations before income taxes	1,304	1,170	3,103	2,220
Provision for income taxes				
Current <i>(Note 5)</i>	460	579	1,618	1,417
Future <i>(Note 5)</i>	166	(2)	281	(222)
	626	577	1,899	1,195
Net earnings from continuing operations	678	593	1,204	1,025
Net earnings from discontinued operations <i>(Note 3)</i>	-	21	152	52
Net earnings	\$ 678	\$ 614	\$ 1,356	\$ 1,077
Earnings per share from continuing operations <i>(Note 6)</i>				
Basic	\$ 1.36	\$ 1.14	\$ 2.38	\$ 1.97
Diluted	\$ 1.34	\$ 1.13	\$ 2.35	\$ 1.95
Earnings per share <i>(Note 6)</i>				
Basic	\$ 1.36	\$ 1.19	\$ 2.68	\$ 2.07
Diluted	\$ 1.34	\$ 1.17	\$ 2.65	\$ 2.05

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Retained earnings at beginning of period	\$ 7,595	\$ 5,793	\$ 7,018	\$ 5,408
Net earnings	678	614	1,356	1,077
Dividends on common shares	(50)	(52)	(151)	(130)
Retained earnings at end of period	\$ 8,223	\$ 6,355	\$ 8,223	\$ 6,355

See accompanying Notes to Consolidated Financial Statements

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
		<i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>
<b>Operating activities</b>				
Net earnings	\$ 678	\$ 614	\$ 1,356	\$ 1,077
Less: Net earnings from discontinued operations	-	21	152	52
Net earnings from continuing operations	678	593	1,204	1,025
Items not affecting cash flow from continuing operating activities:				
Depreciation, depletion and amortization	311	329	958	937
Future income taxes	166	(2)	281	(222)
Accretion of asset retirement obligations	14	12	41	41
Unrealized loss (gain) on translation of foreign currency denominated long-term debt	1	(90)	(70)	(95)
Gain on disposal of assets	(4)	(9)	(24)	(23)
Unrealized (gain) loss associated with the Buzzard derivative contracts <i>(Note 12)</i>	(117)	135	210	899
Other	10	5	23	8
Exploration expenses	26	28	73	101
Proceeds from sale of accounts receivable <i>(Note 7)</i>	-	-	-	80
(Increase) decrease in non-cash working capital related to continuing operating activities	(126)	9	(52)	(253)
Cash flow from continuing operating activities	959	1,010	2,644	2,498
Cash flow from discontinued operating activities <i>(Note 3)</i>	-	58	15	144
Cash flow from operating activities	959	1,068	2,659	2,642
<b>Investing activities</b>				
Expenditures on property, plant and equipment and exploration	(768)	(770)	(2,279)	(2,725)
Proceeds from sale of assets <i>(Note 3)</i>	12	8	675	29
Increase in deferred charges and other assets	(9)	(14)	(41)	(55)
Decrease (increase) in non-cash working capital related to investing activities	27	(8)	(43)	202
	(738)	(784)	(1,688)	(2,549)
<b>Financing activities</b>				
Decrease in short-term notes payable	-	(24)	-	(303)
Proceeds from issue of long-term debt	-	-	-	762
Repayment of long-term debt	(1)	(2)	(5)	(5)
Proceeds from issue of common shares <i>(Note 9)</i>	4	16	37	61
Purchase of common shares <i>(Note 9)</i>	(135)	(115)	(961)	(257)
Dividends on common shares	(50)	(52)	(151)	(130)
Decrease in non-cash working capital related to financing activities	-	1	-	-
	(182)	(176)	(1,080)	128
Increase (decrease) in cash and cash equivalents	39	108	(109)	221
Cash and cash equivalents at beginning of period	641	283	789	170
Cash and cash equivalents at end of period	\$ 680	\$ 391	\$ 680	\$ 391

See accompanying Notes to Consolidated Financial Statements

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

	September 30, 2006	December 31, 2005
		<i>(Note 3)</i>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 680	\$ 721
Accounts receivable <i>(Notes 7 and 12)</i>	1,294	1,617
Inventories	677	596
Future income taxes	38	-
Assets of discontinued operations <i>(Note 3)</i>	-	237
	2,689	3,171
Property, plant and equipment, net	17,332	15,921
Goodwill	749	737
Deferred charges and other assets	437	415
Assets of discontinued operations <i>(Note 3)</i>	-	411
	\$ 21,207	\$ 20,655
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities <i>(Note 12)</i>	\$ 2,778	\$ 2,854
Income taxes payable	27	82
Liabilities of discontinued operations <i>(Note 3)</i>	-	102
Current portion of long-term debt <i>(Note 8)</i>	7	7
	2,812	3,045
Long-term debt <i>(Note 8)</i>	2,765	2,906
Other liabilities <i>(Note 12)</i>	1,943	1,888
Asset retirement obligations	1,009	923
Future income taxes	2,779	2,405
Shareholders' equity		
Common shares <i>(Note 9)</i>	1,353	1,362
Contributed surplus <i>(Note 9)</i>	514	1,422
Retained earnings	8,223	7,018
Foreign currency translation adjustment	(191)	(314)
	9,899	9,488
	\$ 21,207	\$ 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 September 30,

	Upstream													
	North American		East Coast Oil		Oil Sands		International		Downstream		Shared Services		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Note 3)													
<b>Revenue</b>														
Sales to customers	\$ 344	\$ 532	\$ 551	\$ 321	\$ 201	\$ 261	\$ 505	\$ 603	\$ 3,464	\$ 3,122	\$ -	\$ -	\$ 5,065	\$ 4,839
Investment and other income <sup>(1)</sup>	4	-	-	(3)	-	4	114	(132)	11	19	7	(6)	136	(118)
Inter-segment sales	99	83	44	103	246	202	-	-	2	3	-	-	-	-
Segmented revenue	447	615	595	421	447	467	619	471	3,477	3,144	7	(6)	5,201	4,721
<b>Expenses</b>														
Crude oil and product purchases	67	121	166	-	122	163	-	-	2,387	2,188	3	(3)	2,745	2,469
Inter-segment transactions	1	1	1	1	19	21	-	-	370	368	-	-	-	-
Operating, marketing and general	117	109	94	36	103	119	82	79	373	354	(27)	53	742	750
Exploration	40	34	-	-	5	-	12	20	-	-	-	-	57	54
Depreciation, depletion and amortization	100	91	46	62	37	40	51	77	71	60	6	(1)	311	329
Unrealized loss (gain) on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	1	(90)	1	(90)
Interest	-	-	-	-	-	-	-	-	-	-	41	39	41	39
	325	356	307	99	286	343	145	176	3,201	2,970	24	(2)	3,897	3,551
<b>Earnings (loss) from continuing operations before income taxes</b>	122	259	288	322	161	124	474	295	276	174	(17)	(4)	1,304	1,170
<b>Provision for income taxes</b>														
Current (Note 5)	84	75	113	106	3	(5)	280	328	27	96	(47)	(21)	460	579
Future (Note 5)	(40)	28	(15)	(2)	50	44	55	(52)	73	(24)	43	4	166	(2)
	44	103	98	104	53	39	335	276	100	72	(4)	(17)	626	577
<b>Net earnings (loss) from continuing operations</b>	\$ 78	\$ 156	\$ 190	\$ 218	\$ 108	\$ 85	\$ 139	\$ 19	\$ 176	\$ 102	\$ (13)	\$ 13	\$ 678	\$ 593
<b>Expenditures on property, plant and equipment and exploration from continuing operations</b> <sup>(2)</sup>	\$ 151	\$ 151	\$ 54	\$ 98	\$ 93	\$ 117	\$ 171	\$ 137	\$ 290	\$ 255	\$ 9	\$ 2	\$ 768	\$ 760
<b>Cash flow from continuing operating activities</b>	\$ 135	\$ 247	\$ 232	\$ 395	\$ 193	\$ 110	\$ 180	\$ 150	\$ 229	\$ 66	\$ (10)	\$ 42	\$ 959	\$ 1,010
<b>Total assets from continuing operations</b>	\$ 3,770	\$ 3,584	\$ 2,358	\$ 2,272	\$ 2,828	\$ 2,655	\$ 5,324	\$ 4,800	\$ 6,359	\$ 5,288	\$ 568	\$ 397	\$ 21,207	\$ 18,996

<sup>(1)</sup> Investment and other income for the International segment includes unrealized gains (losses) relating to the Buzzard derivative contracts of \$117 million for the three months ended September 30, 2006 (\$135 million for the three months ended September 30, 2005) (Note 12).

<sup>(2)</sup> Consolidated expenditures include capitalized interest in the amount of \$10 million for the three months ended September 30, 2006 (\$10 million for the three months ended September 30, 2005).

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

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS (Note 3)  
Nine months ended September 30,

	Upstream													
	North American Natural Gas		East Coast Oil		Oil Sands		International		Downstream		Shared Services		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
						(Note 3)	(Note 3)						(Note 3)	(Note 3)
<b>Revenue</b>														
Sales to customers	\$ 1,152	\$ 1,415	\$ 1,470	\$ 917	\$ 449	\$ 558	\$ 1,820	\$ 1,632	\$ 9,425	\$ 8,258	\$ -	\$ -	\$ 14,316	\$ 12,780
Investment and other income <sup>(1)</sup>	5	1	(1)	(3)	-	4	(220)	(867)	13	47	6	(21)	(197)	(839)
Inter-segment sales	277	232	201	279	609	483	-	-	9	10	-	-	-	-
Segmented revenue	1,434	1,648	1,670	1,193	1,058	1,045	1,600	765	9,447	8,315	6	(21)	14,119	11,941
<b>Expenses</b>														
Crude oil and product purchases	203	322	338	-	323	405	-	-	6,558	5,693	1	(3)	7,423	6,417
Inter-segment transactions	3	5	6	4	36	53	-	-	1,051	942	-	-	-	-
Operating, marketing and general	340	310	202	116	366	318	242	267	1,115	1,026	80	119	2,345	2,156
Exploration	112	98	1	-	17	31	102	65	-	-	-	-	232	194
Depreciation, depletion and amortization	298	275	165	198	98	90	207	209	181	165	9	-	958	937
Unrealized gain on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	(70)	(95)	(70)	(95)
Interest	-	-	-	-	-	-	-	-	-	-	128	112	128	112
	956	1,010	712	318	840	897	551	541	8,905	7,826	148	133	11,016	9,721
<b>Earnings (loss) from continuing operations before income taxes</b>	478	638	958	875	218	148	1,049	224	542	489	(142)	(154)	3,103	2,220
<b>Provision for income taxes</b>														
Current (Note 5)	250	223	346	278	(7)	(27)	948	750	119	267	(38)	(74)	1,618	1,417
Future (Note 5)	(86)	39	(61)	2	35	75	306	(259)	33	(82)	54	3	281	(222)
	164	262	285	280	28	48	1,254	491	152	185	16	(71)	1,899	1,195
<b>Net earnings (loss) from continuing operations</b>	\$ 314	\$ 376	\$ 673	\$ 595	\$ 190	\$ 100	\$ (205)	\$ (267)	\$ 390	\$ 304	\$ (158)	\$ (83)	\$ 1,204	\$ 1,025
<b>Expenditures on property, plant and equipment and exploration from continuing operations</b> <sup>(2)</sup>	\$ 485	\$ 531	\$ 188	\$ 225	\$ 288	\$ 663	\$ 467	\$ 533	\$ 835	\$ 733	\$ 15	\$ 6	\$ 2,278	\$ 2,691
<b>Cash flow from continuing operating activities</b>	\$ 543	\$ 737	\$ 837	\$ 837	\$ 300	\$ 220	\$ 669	\$ 487	\$ 521	\$ 339	\$ (226)	\$ (122)	\$ 2,644	\$ 2,498
<b>Total assets from continuing operations</b>	\$ 3,770	\$ 3,584	\$ 2,358	\$ 2,272	\$ 2,828	\$ 2,655	\$ 5,324	\$ 4,800	\$ 6,359	\$ 5,288	\$ 568	\$ 397	\$ 21,207	\$ 18,996

<sup>(1)</sup> Investment and other income for the International segment includes unrealized losses relating to the Buzzard derivative contracts of \$210 million for the nine months ended September 30, 2006 (\$899 million for the nine months ended September 30, 2005) (Note 12).

<sup>(2)</sup> Consolidated expenditures include capitalized interest in the amount of \$24 million for the nine months ended September 30, 2006 (\$27 million for the nine months ended September 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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Revenue	\$ -	\$ 124	\$ 168 <sup>(1)</sup>	\$ 346
Expenses				
Operating, marketing and general	-	30	6	78
Depreciation, depletion and amortization	-	40	-	129
	-	70	6	207
Earnings from discontinued operations before income taxes	-	54	162	139
Provision for income taxes	-	33	10	87
Net earnings from discontinued operations	\$ -	\$ 21	\$ 152	\$ 52

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

	December 31, 2005
Assets	
Current assets <sup>(2)</sup>	\$ 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**4. INVESTMENT AND OTHER INCOME**

Investment and other income includes net gains (losses) on derivative contracts (Note 12) of \$127 million and \$(207) million for the three and nine months ended September 30, 2006 (\$125 million and \$(884) million for the three and nine months ended September 30, 2005).

**5. INCOME TAXES**

The provision for future income taxes for the nine months ended September 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 nine months ended September 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 income taxes for the nine months ended September 30, 2006 was increased by \$70 million due to the Quebec government enacting retroactive tax legislation. The adjustment was allocated to Shared Services.

**6. EARNINGS PER SHARE**

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

(millions)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Weighted-average number of common shares outstanding - basic	500.1	518.1	505.9	519.2
Effect of dilutive stock options	5.7	7.3	6.1	7.0
Weighted-average number of common shares outstanding - diluted	505.8	525.4	512.0	526.2

**7. 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 nine months ended September 30, 2005, the Company sold an additional \$80 million of outstanding receivables for net proceeds of \$80 million. As at September 30, 2006, \$480 million of outstanding accounts receivable had been sold under the program.

**8. LONG-TERM DEBT**

	Maturity	September 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	69	77
Retail licensee trust loans	2012-2014	-	7
		2,772	2,913
Current portion		(7)	(7)
		\$ 2,765	\$ 2,906



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**9. 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	1,840,006	37	-
Repurchased under normal course issuer bid	(18,778,400)	(50)	(911)
Stock-based compensation	-	4	3
Balance at September 30, 2006	498,200,510	\$ 1,353	\$ 514

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 nine months ended September 30, 2006, the Company purchased 2,891,600 common shares at a cost of \$135 million and 18,778,400 common shares at a cost of \$961 million, respectively (2,400,000 common shares at a cost of \$115 million and 6,333,400 common shares at a cost of \$257 million during the three and nine months ended September 30, 2005). The excess of the purchase price over the carrying amount of the shares purchased is recorded as a reduction of contributed surplus.

**10. 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	4,819,100	52	382,335
Exercised	(1,840,006)	20	-
Cancelled	(316,603)	37	(57,594)
Balance at September 30, 2006	21,024,108	\$ 31	1,483,708

The total stock-based compensation (recovery) expense recorded was \$(51) million and \$11 million during the three and nine months ended September 30, 2006, respectively (\$49 million and \$86 million for the three and nine months ended September 30, 2005).

**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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
<b>Pension Plans:</b>				
<b>Defined benefit plans</b>				
Employer current service cost	\$ 10	\$ 8	\$ 30	\$ 24
Interest cost	21	21	63	63
Expected return on plan assets	(24)	(22)	(74)	(65)
Amortization of transitional asset	(1)	(1)	(5)	(3)
Amortization of net actuarial losses	13	9	39	26
	19	15	53	45
<b>Defined contribution plans</b>				
	4	4	12	11
	\$ 23	\$ 19	\$ 65	\$ 56

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*11. EMPLOYEE FUTURE BENEFITS *(continued)*

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Other post-retirement plans:				
Employer current service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	3	3	9	9
Amortization of transitional obligation	1	-	3	1
	\$ 5	\$ 4	\$ 15	\$ 13

The Company expects to contribute approximately \$100 million to its pension plans in 2006. As at September 30, 2006, \$74 million in contributions have been made.

## 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 gains (losses) of \$117 million and \$(210) million for the three and nine months ended September 30, 2006, respectively (\$135 million and \$(899) million for the three and nine months ended September 30, 2005).

Investment and other income includes unrealized gains (losses) on all derivative contracts of \$110 million and \$(217) million for the three and nine months ended September 30, 2006, respectively (\$133 million and \$(890) million for the three and nine months ended September 30, 2005). As at September 30, 2006, accounts receivable, accounts payable and other liabilities include \$1 million, \$115 million and \$1,321 million, respectively, relating to unrealized mark-to-market amounts on derivative contracts.