



PETRO-CANADA

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenue				
Operating	\$ 5,549	\$ 5,065	\$ 15,945	\$ 14,316
Investment and other income (expense) <i>(Note 5)</i>	(52)	136	(129)	(197)
	5,497	5,201	15,816	14,119
Expenses				
Crude oil and product purchases	2,562	2,745	7,392	7,423
Operating, marketing and general	919	742	2,732	2,345
Exploration	65	57	307	232
Depreciation, depletion and amortization	498	311	1,455	958
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(93)	1	(234)	(70)
Interest	39	41	122	128
	3,990	3,897	11,774	11,016
Earnings from continuing operations before income taxes	1,507	1,304	4,042	3,103
Provision for income taxes <i>(Note 6)</i>				
Current	607	460	1,704	1,618
Future	124	166	127	281
	731	626	1,831	1,899
Net earnings from continuing operations	776	678	2,211	1,204
Net earnings from discontinued operations <i>(Note 4)</i>	-	-	-	152
Net earnings	\$ 776	\$ 678	\$ 2,211	\$ 1,356
Earnings per share from continuing operations <i>(Note 7)</i>				
Basic	\$ 1.59	\$ 1.36	\$ 4.50	\$ 2.38
Diluted	\$ 1.58	\$ 1.34	\$ 4.45	\$ 2.35
Earnings per share <i>(Note 7)</i>				
Basic	\$ 1.59	\$ 1.36	\$ 4.50	\$ 2.68
Diluted	\$ 1.58	\$ 1.34	\$ 4.45	\$ 2.65

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(unaudited)* *(Note 3)*
For the periods ended September 30
(millions of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net earnings	\$ 776	\$ 678	\$ 2,211	\$ 1,356
Other comprehensive income, net of tax				
Change in foreign currency translation adjustment	(60)	30	(256)	123
Comprehensive income	\$ 716	\$ 708	\$ 1,955	\$ 1,479

See accompanying Notes to Consolidated Financial Statements

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Operating activities				
Net earnings	\$ 776	\$ 678	\$ 2,211	\$ 1,356
Less: Net earnings from discontinued operations	-	-	-	152
Net earnings from continuing operations	776	678	2,211	1,204
Items not affecting cash flow from continuing operating activities:				
Depreciation, depletion and amortization	498	311	1,455	958
Future income taxes	124	166	127	281
Accretion of asset retirement obligations	16	14	50	41
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(93)	1	(234)	(70)
Gain on sale of assets	(8)	(4)	(78)	(24)
Unrealized (gain) loss associated with the Buzzard derivative contracts <i>(Note 12)</i>	(107)	(117)	21	210
Other	3	10	10	23
Exploration expenses	20	26	183	73
Decrease (increase) in non-cash working capital related to continuing operating activities	111	(126)	196	(52)
Cash flow from continuing operating activities	1,340	959	3,941	2,644
Cash flow from discontinued operating activities <i>(Note 4)</i>	-	-	-	15
Cash flow from operating activities	1,340	959	3,941	2,659
Investing activities				
Expenditures on property, plant and equipment and exploration	(919)	(768)	(2,403)	(2,279)
Proceeds from sale of assets <i>(Note 4)</i>	83	12	177	675
Increase in other assets	(73)	(9)	(105)	(41)
Decrease (increase) in non-cash working capital related to investing activities	32	27	(119)	(43)
Cash used in investing activities	(877)	(738)	(2,450)	(1,688)
Financing activities				
Repayment of long-term debt	(3)	(1)	(6)	(5)
Proceeds from issue of common shares <i>(Note 9)</i>	9	4	33	37
Purchase of common shares <i>(Note 9)</i>	(220)	(135)	(735)	(961)
Dividends on common shares	(63)	(50)	(192)	(151)
Cash used in financing activities	(277)	(182)	(900)	(1,080)
Increase (decrease) in cash and cash equivalents	186	39	591	(109)
Cash and cash equivalents at beginning of period	904	641	499	789
Cash and cash equivalents at end of period	\$ 1,090	\$ 680	\$ 1,090	\$ 680

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET (unaudited)
As at September 30, 2007
(millions of Canadian dollars)

	September 30, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 1,090	\$ 499
Accounts receivable	1,731	1,600
Inventories	758	632
Future income taxes	203	95
	3,782	2,826
Property, plant and equipment, net	18,697	18,577
Goodwill	719	801
Other assets (Note 3)	434	442
	\$ 23,632	\$ 22,646
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	\$ 3,825	\$ 3,319
Income taxes payable	144	22
Current portion of long-term debt (Note 8)	3	7
	3,972	3,348
Long-term debt (Notes 3 and 8)	2,364	2,887
Other liabilities (Note 12)	1,561	1,826
Asset retirement obligations	1,181	1,170
Future income taxes	3,042	2,974
Commitments and contingent liabilities (Note 13)		
Shareholders' equity		
Common shares (Note 9)	1,365	1,366
Contributed surplus (Note 9)	24	469
Retained earnings	10,330	8,557
Accumulated other comprehensive income (Note 3)		
Foreign currency translation adjustment	(207)	49
	11,512	10,441
	\$ 23,632	\$ 22,646

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Retained earnings at beginning of period	\$ 9,826	\$ 7,595	\$ 8,557	\$ 7,018
Cumulative effect of adopting new accounting standards (Note 3)	-	-	8	-
Net earnings	776	678	2,211	1,356
Dividends on common shares	(63)	(50)	(192)	(151)
Charges for normal course issuer bid (Note 9)	(209)	-	(254)	-
Retained earnings at end of period	\$ 10,330	\$ 8,223	\$ 10,330	\$ 8,223

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(millions of Canadian dollars)

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS

Three months ended September 30,

	Upstream														Downstream	Shared Services	Consolidated						
	North American Natural Gas				Oil Sands				International & Offshore														
	2007		2006		2007		2006		East Coast Canada		International		2007						2006				
Revenue	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006					
Sales to customers	\$ 308	\$ 344	\$ 145	\$ 201	\$ 671	\$ 551	\$ 1,079	\$ 505	\$ 3,346	\$ 3,464	\$ -	\$ -	\$ 5,549	\$ 5,065									
Investment and other income (expense) ⁽¹⁾	1	4	(3)	-	(5)	-	(34)	114	(3)	11	(8)	7	(52)	136									
Inter-segment sales	70	99	316	246	114	44	-	-	5	2	-	-	-	-									
Segmented revenue									1,045	3,348	3,477	(8)	7	5,497	5,201								
Expenses	379	62	447	67	458	112	447	122	780	158	595	166	-	619	-	2,229	2,387	1	3	2,562	2,745		
Crude oil and product purchases																							
Inter-segment transactions	2	1	1	19					2	1						500	370	-	-				
Operating, marketing and general									68	94								44	(27)	919			
Exploration	124	25	117	40	149	1	103	5	5	-			144	34	12	390	-	-	-	65	742	57	
Depreciation, depletion and amortization	108	100	33	37	105	46	180	51	72	71								-	6	498	311		
Unrealized (gain) loss on translation of foreign currency denominated long-term debt																		(93)	1	(93)	1		
Interest	-																	39	41	39	41		
																3,191	3,201	(9)	24	3,990	3,897		
Earnings (loss) from continuing operations before income taxes	321	325	296	286	338	307	358	445	-	-								1	(17)	1,507	1,304		
Provision for income taxes	58																						
Current	55	122	84	162	5	161	3	442	163	288	113	687	379	474	280	157	40	276	27	(35)	(47)	607	460
Future	(52)	(40)	47					(14)	(15)	108												124	166
	3	44	52	53	149	98	487	335	52	100	(12)	(4)	731	626									
Net earnings (loss) from continuing operations	\$ 55	\$ 78	\$ 110	\$ 108	\$ 293	\$ 190	\$ 200	\$ 139	\$ 105	\$ 176	\$ 13	\$ (13)	\$ 776	\$ 678									
Expenditures on property, plant and equipment and exploration from continuing operations ⁽²⁾	\$ 176	\$ 151	\$ 101	\$ 93	\$ 40	\$ 54	\$ 209	\$ 171	\$ 388	\$ 290	\$ 5	\$ 9	\$ 919	\$ 768									
Cash flow from continuing operating activities	\$ 155	\$ 135	\$ 176	\$ 193	\$ 403	\$ 232	\$ 455	\$ 180	\$ 215	\$ 229	\$ (64)	\$ (10)	\$ 1,340	\$ 959									
Total assets from continuing operations	\$ 3,986	\$ 3,770	\$ 3,121	\$ 2,828	\$ 2,333	\$ 2,358	\$ 5,661	\$ 5,324	\$ 7,668	\$ 6,359	\$ 863	\$ 568	\$ 23,632	\$ 21,207									

(1) Investment and other income (expense) for the International segment includes unrealized gains relating to the Buzzard derivative contracts of \$107 million for the three months ended September 30, 2007 (\$117 million for the three months ended September 30, 2006) (Notes 5 and 12).

(2) Consolidated expenditures include capitalized interest in the amount of \$8 million for the three months ended September 30, 2007 (\$10 million for the three months ended September 30, 2006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(millions of Canadian dollars)

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS (Note 4)

Nine months ended September 30,

	Upstream														Downstream	Shared Services	Consolidated	
	North American Natural Gas		Oil Sands		International & Offshore				2007	2006	2007	2006	2007	2006				
	2007	2006	2007	2006	East Coast Canada		International											
Revenue	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006		
Sales to customers	\$ 1,016	\$ 1,152	\$ 458	\$ 449	\$ 2,052	\$ 1,470	\$ 2,654	\$ 1,820	\$ 9,765	\$ 9,425	\$ -	\$ -	\$ 15,945	\$ 14,316				
Investment and other income (expense) ⁽¹⁾	66	5	(3)	-	(11)	(1)	(163)	(220)	(7)	13	(11)	6	(129)	(197)				
Inter-segment sales																		
Segmented revenue											(11)	6	15,816	14,119				
Expenses	1,320	1,434	1,214	1,058	2,393	1,670	2,491	1,600	9,770	9,447								
Crude oil and product purchases									6,308	6,558	8	1	7,392	7,423				
Inter-segment transactions	6	3	11	36	6	6			-	1,338	-	-						
Operating, marketing and general	165	203	366	323	545	338			1,100	1,115		80	2,732	2,345				
Exploration	122	112	25	17	14	1	421	146					307	232				
Depreciation, depletion and amortization	368	340	436	366	186	202	242	102			221							
Unrealized gain on translation of foreign currency denominated long-term debt	325	298	112		319	165	478	207	213	181						958		
Interest													122	128	122	128		
					1,070		1,045		8,959	8,905					11,774	11,016		
Earnings (loss) from continuing operations before income taxes	986	956	950	840	-	712	-	551	-	-	125	148	4,042	3,103				
Provision for income taxes (Note 6)					1,323		1,446	1,049			(136)	(142)						
Current	334	478	264	(5)	218	(7)	958	1,005	811	542	(98)	(38)	1,704	1,618				
Future	157	(71)	250	(86)	82		(48)	(61)	37	306	106		127	281				
	157	86	250	164	77	28	488	440	346	285	1,042	948	1,254	157	263	119		
Net earnings (loss) from continuing operations	\$ 248	\$ 314	\$ 187	\$ 190	\$ 883	\$ 673	\$ 404	\$ (205)	\$ 548	\$ 390	\$ (59)	\$ (158)	\$ 2,211	\$ 1,204				
Expenditures on property, plant and equipment and exploration from continuing operations ⁽²⁾	\$ 497	\$ 485	\$ 297	\$ 288	\$ 126	\$ 188	\$ 538	\$ 467	\$ 928	\$ 835	\$ 17	\$ 15	\$ 2,403	\$ 2,278				
Cash flow from continuing operating activities	\$ 561	\$ 543	\$ 405	\$ 300	\$ 1,230	\$ 837	\$ 1,088	\$ 669	\$ 749	\$ 521	\$ (92)	\$ (226)	\$ 3,941	\$ 2,644				
Total assets from continuing operations	\$ 3,986	\$ 3,770	\$ 3,121	\$ 2,828	\$ 2,333	\$ 2,358	\$ 5,661	\$ 5,324	\$ 7,668	\$ 6,359	\$ 863	\$ 568	\$ 23,632	\$ 21,207				

(1) Investment and other income (expense) for the International segment includes unrealized losses relating to the Buzzard derivative contracts of \$21 million for the nine months ended September 30, 2007 (\$210 million for the nine months ended September 30, 2006) (Notes 5 and 12).

(2) Consolidated expenditures include capitalized interest in the amount of \$21 million for the nine months ended September 30, 2007 (\$24 million for the nine months ended September 30, 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 mature producing assets in Syria for net proceeds of \$640 million, resulting in a gain on sale of \$134 million.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenue ⁽¹⁾	\$ -	\$ -	\$ -	\$ 168
Expenses				
Operating, marketing and general	-	-	-	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 sale 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 gains (losses) on derivative contracts (Note 12) of \$(30) million and \$(171) million for the three and nine months ended September 30, 2007, respectively (\$127 million and \$(207) million for the three and nine months ended September 30, 2006) and net gains on sales of assets of \$8 million and \$78 million for the three and nine months ended September 30, 2007, respectively (\$4 million and \$24 million for the three and nine months ended September 30, 2006).

6. INCOME TAXES

The provisions for future income taxes for the nine months ended September 30, 2007 and September 30, 2006 were reduced by \$18 million and \$63 million respectively due to reductions in the Canadian federal and provincial income tax rates. The adjustments were allocated to the segments as a decrease (increase) to the tax provisions as follows: North American Natural Gas - \$1 million (\$6 million - September 30, 2006), Oil Sands - \$7 million (\$44 million - September 30, 2006), East Coast Canada - \$5 million (\$37 million - September 30, 2006), International - \$nil (\$64) million - September 30, 2006), Downstream - \$6 million (\$41 million - September 30, 2006) and Shared Services \$(1) million (\$(1) million - September 30, 2006).

The provision for future income taxes for the nine months ended September 30, 2007 was reduced by \$30 million as a result of the increase in the U.K. supplemental corporate income tax rate and the resulting impact of 2005 qualifying capital expenditures being deducted at the increased rate. The provision for future income taxes for the nine months ended September 30, 2006 includes a \$242 million charge due to the enacted increase in the U.K. supplemental corporate income tax rate. The adjustments were allocated to the Company's International business segment.

The provision for current 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.

7. 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,	
	2007	2006	2007	2006
Weighted-average number of common shares outstanding - basic	487.6	500.1	491.6	505.9
Effect of dilutive stock options	5.0	5.7	5.1	6.1
Weighted-average number of common shares outstanding - diluted	492.6	505.8	496.7	512.0

8. LONG-TERM DEBT

	Maturity	September 30, 2007	December 31, 2006
		(Note 3)	
Debentures and notes			
5.95% unsecured senior notes (\$600 million US)	2035	\$ 581	\$ 699
5.35% unsecured senior notes (\$300 million US)	2033	251	349
7.00% unsecured debentures (\$250 million US)	2028	239	291
7.875% unsecured debentures (\$275 million US)	2026	269	321
9.25% unsecured debentures (\$300 million US)	2021	296	349
5.00% unsecured senior notes (\$400 million US)	2014	393	466
4.00% unsecured senior notes (\$300 million US)	2013	278	349
Capital leases	2007-2022	60	70
		2,367	2,894
Current portion		(3)	(7)
		\$ 2,364	\$ 2,887

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

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	1,701,778	38	(3)
Repurchased under normal course issuer bid	(13,998,000)	(39)	(442)
Balance at September 30, 2007	485,242,163	\$ 1,365	\$ 24

In June 2007, 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, 2007 to June 21, 2008, subject to certain conditions. During the three and nine months ended September 30, 2007, the Company purchased 3,998,000 common shares at a cost of \$220 million and 13,998,000 common shares at a cost of \$735 million, respectively (2,891,600 common shares at a cost of \$135 million and 18,778,400 common shares at a cost of \$961 million during the three and nine months ended September 30, 2006). The excess of the purchase price over the carrying amount of the shares purchased was recorded as a reduction of contributed surplus and retained earnings.

10. STOCK-BASED COMPENSATION

The total stock-based compensation expense (recovery) recorded was \$24 million and \$163 million for the three and nine months ended September 30, 2007, respectively (\$51 million and \$11 million for the three and nine months ended September 30, 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	3,342,800	44	244,819
Exercised for common shares	(1,701,778)	20	n/a
Surrendered for cash payment	(770,620)	33	n/a
Cancelled/Expired	(273,250)	44	(560,865)
Balance at September 30, 2007	21,311,885	\$ 34	1,166,940

(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 approximated the market price. The following SARs have been granted:

	SARs	
	Number	Weighted-Average Exercise Price
Balance at December 31, 2006	-	\$ -
Granted	3,751,500	44
Cancelled	(97,850)	44
Balance at September 30, 2007	3,653,650	\$ 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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Pension Plans:				
Defined benefit plans				
Employer current service cost	\$ 10	\$ 10	\$ 30	\$ 30
Interest cost	22	21	66	63
Expected return on plan assets	(27)	(24)	(83)	(74)
Amortization of transitional asset	(1)	(1)	(4)	(5)
Amortization of net actuarial losses	11	13	33	39
	15	19	42	53
Defined contribution plans				
	5	4	14	12
	\$ 20	\$ 23	\$ 56	\$ 65
Other post-retirement plans:				
Employer current service cost	\$ 1	\$ 1	\$ 4	\$ 3
Interest cost	3	3	9	9
Amortization of transitional obligation	2	1	4	3
	\$ 6	\$ 5	\$ 17	\$ 15

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

12. FINANCIAL INSTRUMENTS AND DERIVATIVES

Investment and other income (expense) (Note 5) includes unrealized and realized gains and losses on various outstanding derivative contracts, including the 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 and realized gains (losses) as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Unrealized gains (losses)				
Buzzard derivative contracts	\$ 107	\$ 117	\$ (21)	\$ (210)
Other derivative contracts	2	(7)	5	(7)
	109	110	(16)	(217)
Realized gains (losses)				
Buzzard derivative contracts ⁽¹⁾	(131)	-	(131)	-
Other derivative contracts	(8)	17	(24)	10
	(139)	17	(155)	10
Net gains (losses)	\$ (30)	\$ 127	\$ (171)	\$ (207)

(1) Forward sales contracts for the sale of 2.6 million barrels of Brent crude oil matured during the three months ended September 30, 2007. Outstanding forward sales contracts maturing from 2007 to 2010 provide for the future sale of 33.2 million barrels of Brent crude oil at US\$25.98 per barrel.

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

The fair value positions of outstanding derivative contracts at September 30, 2007 are as follows:

	Net asset (liability)
Buzzard derivative contracts	(1,502)
Other derivative contracts	1
	(1,501)

The fair value positions of outstanding derivative contracts at September 30, 2007 are included in the Consolidated Balance Sheet as follows:

Accounts receivable	2
Accounts payable	(555)
Other liabilities	(948)
	(1,501)

13. COMMITMENTS AND CONTINGENT LIABILITIES

On September 20, 2007, the Company announced that it had entered into an agreement to acquire an additional 5% working interest in the Fort Hills oil sands project, bringing the Company's total working interest to 60%. To pay for this incremental investment, Petro-Canada will fund an additional \$375 million of Partnership expenditures. The transaction is expected to close in the fourth quarter of 2007.

14. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2007, Canada's Accounting Standards Board (AcSB) issued CICA Handbook Section 3031, *Inventories*. This new standard provides considerable guidance when determining the cost of inventory. Where costs of inventory items cannot be specifically identified, costs must be assigned consistently on either a "first-in, first-out" (FIFO) or weighted average cost basis. A "last-in first-out" (LIFO) cost basis is no longer acceptable. The standard is effective for fiscal periods beginning on or after January 1, 2008. Converting the cost of crude oil and refined products from a LIFO to FIFO costing basis will significantly increase inventories, future income taxes (liability), and retained earnings. The impact of adoption will be based upon December 31, 2007 amounts.