



PETRO-CANADA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007

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

	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Revenue				
Operating	\$ 5,765	\$ 4,595	\$ 21,710	\$ 18,911
Investment and other income (expense) <i>(Note 5)</i>	(331)	(45)	(460)	(242)
	5,434	4,550	21,250	18,669
Expenses				
Crude oil and product purchases	2,899	2,226	10,291	9,649
Operating, marketing and general	820	835	3,552	3,180
Exploration	183	107	490	339
Depreciation, depletion and amortization <i>(Note 6)</i>	636	407	2,091	1,365
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(12)	69	(246)	(1)
Interest	43	37	165	165
	4,569	3,681	16,343	14,697
Earnings from continuing operations before income taxes	865	869	4,907	3,972
Provision for income taxes <i>(Note 7)</i>				
Current	93	455	1,797	2,073
Future	250	30	377	311
	343	485	2,174	2,384
Net earnings from continuing operations	522	384	2,733	1,588
Net earnings from discontinued operations <i>(Note 4)</i>	-	-	-	152
Net earnings	\$ 522	\$ 384	\$ 2,733	\$ 1,740
Earnings per share from continuing operations <i>(Note 8)</i>				
Basic	\$ 1.08	\$ 0.77	\$ 5.59	\$ 3.15
Diluted	\$ 1.07	\$ 0.76	\$ 5.53	\$ 3.11
Earnings per share <i>(Note 8)</i>				
Basic	\$ 1.08	\$ 0.77	\$ 5.59	\$ 3.45
Diluted	\$ 1.07	\$ 0.76	\$ 5.53	\$ 3.41

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

	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Net earnings	\$ 522	\$ 384	\$ 2,733	\$ 1,740
Other comprehensive income, net of tax				
Change in foreign currency translation adjustment	(4)	240	(260)	363
Comprehensive income	\$ 518	\$ 624	\$ 2,473	\$ 2,103

See accompanying Notes to Consolidated Financial Statements

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

	Three months ended		Year ended	
	December 31,		December 31,	
	2007	2006	2007	2006
Operating activities				
Net earnings	\$ 522	\$ 384	\$ 2,733	\$ 1,740
Less: Net earnings from discontinued operations	-	-	-	152
Net earnings from continuing operations	522	384	2,733	1,588
Items not affecting cash flow from continuing operating activities:				
Depreciation, depletion and amortization <i>(Note 6)</i>	636	407	2,091	1,365
Future income taxes	250	30	377	311
Accretion of asset retirement obligations	20	13	70	54
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	(12)	69	(246)	(1)
Gain on sale of assets <i>(Note 5)</i>	(3)	(6)	(81)	(30)
Unrealized loss associated with the Buzzard derivative contracts <i>(Note 14)</i>	-	49	-	259
Settlement of Buzzard derivative contracts <i>(Note 14)</i>	(1,502)	-	(1,481)	-
Other	(1)	(5)	9	18
Exploration expenses	107	50	290	123
Increase in non-cash working capital related to continuing operating activities	(619)	(27)	(423)	(79)
Cash flow from (used in) continuing operating activities	(602)	964	3,339	3,608
Cash flow from discontinued operating activities <i>(Note 4)</i>	-	-	-	15
Cash flow from (used in) operating activities	(602)	964	3,339	3,623
Investing activities				
Expenditures on property, plant and equipment and exploration <i>(Note 9)</i>	(1,585)	(1,156)	(3,988)	(3,435)
Proceeds from sale of assets <i>(Note 4)</i>	6	13	183	688
Increase in other assets	(16)	(9)	(121)	(50)
Decrease in non-cash working capital related to investing activities	398	102	279	59
Cash flow used in investing activities	(1,197)	(1,050)	(3,647)	(2,738)
Financing activities				
Increase in short-term notes payable <i>(Note 10)</i>	109	-	109	-
Proceeds from issue of long-term debt <i>(Note 10)</i>	995	-	995	-
Repayment of long-term debt <i>(Note 10)</i>	(1)	(2)	(7)	(7)
Proceeds from issue of common shares <i>(Note 11)</i>	4	7	37	44
Purchase of common shares <i>(Note 11)</i>	(104)	(50)	(839)	(1,011)
Dividends on common shares	(63)	(50)	(255)	(201)
Cash flow from (used in) financing activities	940	(95)	40	(1,175)
Decrease in cash and cash equivalents	(859)	(181)	(268)	(290)
Cash and cash equivalents at beginning of period	1,090	680	499	789
Cash and cash equivalents at end of period	\$ 231	\$ 499	\$ 231	\$ 499

See accompanying Notes to Consolidated Financial Statements

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

	December 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 231	\$ 499
Accounts receivable	1,973	1,600
Income taxes receivable	280	-
Inventories	668	632
Future income taxes	26	95
	3,178	2,826
Property, plant and equipment, net <i>(Notes 6 and 9)</i>	19,497	18,577
Goodwill	731	801
Other assets <i>(Note 3)</i>	446	442
	\$ 23,852	\$ 22,646
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities <i>(Note 14)</i>	\$ 3,512	\$ 3,319
Income taxes payable	-	22
Short-term notes payable <i>(Note 10)</i>	109	-
Current portion of long-term debt <i>(Note 10)</i>	2	7
	3,623	3,348
Long-term debt <i>(Notes 3 and 10)</i>	3,339	2,887
Other liabilities <i>(Notes 9 and 14)</i>	717	1,826
Asset retirement obligations	1,234	1,170
Future income taxes	3,069	2,974
Shareholders' equity		
Common shares <i>(Note 11)</i>	1,365	1,366
Contributed surplus <i>(Note 11)</i>	24	469
Retained earnings	10,692	8,557
Accumulated other comprehensive income <i>(Note 3)</i>		
Foreign currency translation adjustment	(211)	49
	11,870	10,441
	\$ 23,852	\$ 22,646

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

	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Retained earnings at beginning of period	\$ 10,330	\$ 8,223	\$ 8,557	\$ 7,018
Cumulative effect of adopting new accounting standards <i>(Note 3)</i>	-	-	8	-
Net earnings	522	384	2,733	1,740
Dividends on common shares	(63)	(50)	(255)	(201)
Excess cost for normal course issuer bid <i>(Note 11)</i>	(97)	-	(351)	-
Retained earnings at end of period	\$ 10,692	\$ 8,557	\$ 10,692	\$ 8,557

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 December 31,

	Upstream														Downstream		Shared Services		Consolidated						
	North American Natural Gas				Oil Sands				East Coast Canada				International & Offshore				2007	2006	2007	2006					
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006											
Revenue																									
Sales to customers	\$ 331	\$ 352	\$ 153	\$ 143	\$ 656	\$ 534	\$ 1,043	\$ 644	\$ 3,582	\$ 2,922	\$ -	\$ -	\$ 5,765	\$ 4,595											
Investment and other income (expense) ⁽¹⁾	-	1	1	-	(7)	1	(386)	(63)	(5)	6	66	10	(331)	(45)											
Inter-segment sales	86	72	306	213	125	97	-	-	6	6	-	-	-	-											
Segmented revenue									3,583	2,934	66	10	5,434	4,550											
Expenses																									
Crude oil and product purchases	417	75	425	53	460	158	356	102	774	191	632	114	657	-	581	-	2,479	1,959	(4)	(2)	2,899	2,226			
Inter-segment transactions								(5)									515	388	-	-					
Operating, marketing and general									42	43									(34)	40					
Exploration		70		38		3	4	2	(1)	3	11		105	111	108	54	425	-	-	-	-	820	183	835	107
Depreciation, depletion and amortization (Note 6)	423	259	222	104	259	142	142	4	2	(1)	3	11	105	111	108	54	425	-	-	-	-	820	183	835	107
Unrealized (gain) loss on translation of foreign currency denominated long-term debt																					1	4	636	407	
Interest																					(12)	69	(12)	69	
																					43	37	43	37	
																					(6)			4,569	3,681
Earnings (loss) from continuing operations before income taxes	531	319	359	273	325	243	378	278	-	-	-	-	-	-	-	-	-	-	-	-	-	148			
	(114)			83																	72	(138)			
Provision for income taxes (Note 7)		106	101	(8)	(46)	449	165	389	279	(157)	303	300					126			(8)	(10)	865	93	869	455
Current																									
Future	(83)	(86)	(20)	74	(62)	40			466	4			(78)	21	27	(23)	250	30							
	26	(57)	15	(28)	28	88							75	(3)	22	43	19	(33)	343						
Net earnings (loss) from continuing operations	\$ (57)	\$ 91	\$ 129	\$ 55	\$ 103	\$ 346	\$ 128	\$ 261	\$ 309	\$ (30)	\$ 304	\$ (1)	\$ 81	\$ 83	\$ 53	\$ (105)	\$ 522	\$ 485	\$ 384						
Expenditures on property, plant and equipment and exploration from continuing operations (Note 9) ⁽²⁾	\$ 369	\$ 303	\$ 482	\$ 89	\$ 33	\$ 68	\$ 224	\$ 293	\$ 468	\$ 394	\$ 9	\$ 9	\$ 1,585	\$ 1,156											
Cash flow from (used in) continuing operating activities	\$ 164	\$ 108	\$ 107	\$ 199	\$ 261	\$ 292	\$ (868)	\$ 171	\$ 245	\$ 314	\$ (511)	\$ (120)	\$ (602)	\$ 964											
Total assets from continuing operations	\$ 4,119	\$ 4,151	\$ 3,659	\$ 2,885	\$ 2,345	\$ 2,465	\$ 5,180	\$ 6,031	\$ 7,989	\$ 6,649	\$ 560	\$ 465	\$ 23,852	\$ 22,646											

(1) Investment and other income (expense) for the International segment includes losses relating to the Buzzard derivative contracts of \$383 million for the three months ended December 31, 2007 (\$49 million for the three months ended December 31, 2006) (Notes 5 and 14).

(2) Consolidated expenditures include capitalized interest in the amount of \$9 million for the three months ended December 31, 2007 (\$27 million for the three months ended December 31, 2006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(millions of Canadian dollars)

1. SEGMENTED INFORMATION FROM CONTINUING OPERATIONS (Note 4)

Year ended December 31,

	Upstream														Downstream		Shared Services		Consolidated	
	North American Natural Gas		Oil Sands		East Coast Canada		International		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006		
	2007	2006	2007	2006	2007	2006	2007	2006												
Revenue																				
Sales to customers	\$ 1,347	\$ 1,504	\$ 611	\$ 592	\$ 2,708	\$ 2,004	\$ 3,697	\$ 2,464	\$13,347	\$12,347	\$ -	\$ -	\$21,710	\$18,911						
Investment and other income (expense) ⁽¹⁾		6	(2)	-	(18)	-	(549)	(283)	(12)				(460)	(242)						
Inter-segment sales	324	349	1,065	822	477	298	-	-	18	15	-	-	-	-						
Segmented revenue	66								13,353	12,381	55	55	16	16	21,250	18,669				
Expenses	1,737	1,859	1,674	1,414	3,167	2,302	3,148	2,181												
Crude oil and product purchases									8,787	8,517	4	(1)	10,291	9,649						
Inter-segment transactions	10	5	13	31	8	9	-	-	1,853	1,439	-	-	-	-						
Operating, marketing and general	240	256	524	425	736	452			1,525	1,495			3,552	3,180						
Exploration	192	150	28	21	13	12	257	156	-	-	-	-	490	339						
Depreciation, depletion and amortization (Note 6)	491	462	595	508	228	245	526	350			187	120								
Unrealized gain on translation of foreign currency denominated long-term debt	584										9	13	2,091	1,365						
Interest		402	149	128	410	237	640	323	299	262			(246)	(1)	(246)	(1)				
							955		829	12,464	11,713	119	296	16,343	14,697					
Earnings (loss) from continuing operations before income taxes	1,517	1,275	1,309	1,113	1,395	-	1,423	-	-	-	-	-	-	-						
					1,772	1,347	1,725	1,352					(64)	(280)	4,907	3,972				
Provision for income taxes (Note 7)	220	584	365	301	653				1,248	889	668	(106)	(48)	1,797	2,073					
Current			(13)	(53)																
Future	(154)	(172)		109	(110)	(21)	503	310	232	141	195	(58)	(17)	377	311					
	183	29	351	179	49	56	543	434	413	848	1,351	1,558	232	260	141	195	(58)	(17)	2,174	2,384
Net earnings (loss) from continuing operations	\$ 191	\$ 405	\$ 316	\$ 245	\$ 1,229	\$ 934	\$ 374	\$ (206)	\$ 629	\$ 473	\$ (6)	\$ (263)	\$ 2,733	\$ 1,588						
Expenditures on property, plant and equipment and exploration from continuing operations (Note 9) ⁽²⁾	\$ 866	\$ 788	\$ 779	\$ 377	\$ 159	\$ 256	\$ 762	\$ 760	\$ 1,396	\$ 1,229	\$ 26	\$ 24	\$ 3,988	\$ 3,434						
Cash flow from (used in) continuing operating activities	\$ 725	\$ 651	\$ 512	\$ 499	\$ 1,491	\$ 1,129	\$ 220	\$ 840	\$ 994	\$ 835	\$ (603)	\$ (346)	\$ 3,339	\$ 3,608						
Total assets from continuing operations	\$ 4,119	\$ 4,151	\$ 3,659	\$ 2,885	\$ 2,345	\$ 2,465	\$ 5,180	\$ 6,031	\$ 7,989	\$ 6,649	\$ 560	\$ 465	\$23,852	\$22,646						

(1) Investment and other income (expense) for the International segment includes losses relating to the Buzzard derivative contracts of \$535 million for the year ended December 31, 2007 (\$259 million for the year ended December 31, 2006) (Notes 5 and 14).

(2) Consolidated expenditures include capitalized interest in the amount of \$30 million for the year ended December 31, 2007 (\$51 million for the year ended December 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 1506, *Accounting Changes*; Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Presentation and Disclosure*; Section 3865, *Hedges*; and Emerging Issues Committee (EIC) Abstract 160, *Stripping Costs Incurred in the Production Phase of a Mining Operation*, 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 from 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		Year ended	
	December 31,		December 31,	
	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 losses on the Buzzard derivative contracts (Note 14) of \$383 million and \$535 million for the three months and year ended December 31, 2007, respectively (\$49 million and \$259 million for the three months and year ended December 31, 2006); and net gains on sales of assets of \$3 million and \$81 million for the three months and year ended December 31, 2007, respectively (\$6 million and \$30 million for the three months and year ended December 31, 2006).

6. ASSET WRITE-DOWNS

During the three months ended December 31, 2007, the Company recognized a \$150 million (\$97 million after-tax) impairment expense due to a write-down of its coal bed methane assets in the U.S. Rockies' Powder River Basin. The assets have been written down to management's best estimate of fair value based on a discounted future cash flow valuation. These assets form part of the Company's North American Natural Gas business segment. The impairment expense is included in Depreciation, Depletion and Amortization in the Consolidated Statement of Earnings.

7. INCOME TAXES

The provisions for current and future income taxes include tax recoveries (expenses) which are largely due to reductions in the Canadian federal and provincial income tax rates. These amounts have been allocated to the business segments as follows:

	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
North American Natural Gas	\$ 7	\$ -	\$ 8	\$ 6
Oil Sands	55	-	62	44
East Coast Canada	47	-	52	37
International ⁽¹⁾	-	-	30	(242)
Downstream	28	-	34	41
Shared Services ⁽²⁾	6	-	5	(71)
	\$ 143	\$ -	\$ 191	\$ (185)

(1) Included in the International's \$nil and \$30 million income tax recoveries for the three months and year ended December 31, 2007, respectively is a \$6 million and \$36 million reduction in the future income tax provision due to increases in the U.K. supplemental corporate income tax rate and the resulting impact of qualifying capital expenditures being deducted at the increased rate. International's \$242 million tax expense for year ended December 31, 2006 relates to an increase in the provision for future income taxes due to the increase in the U.K. supplemental corporate income tax rate.

(2) Included in the Shared Services' \$71 million tax expense for the year ended December 31, 2006, is a \$70 million increase in the provision for current income taxes due to the Quebec government enacting retroactive tax legislation.

8. EARNINGS PER SHARE

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

(millions)	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Weighted-average number of common shares outstanding - basic	484.6	497.9	489.0	503.9
Effect of dilutive stock options	4.6	5.5	5.0	6.0
Weighted-average number of common shares outstanding - diluted	489.2	503.4	494.0	509.9

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

9. FORT HILLS OIL SANDS MINING PROJECT

On November 23, 2007, the Company finalized 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, the Company will fund an additional \$375 million of expenditures in excess of its working interest. The acquisition cost has been discounted to \$347 million using an estimated payout pattern for the funding and the Company's estimated cost of debt at the time of acquisition.

10. LONG-TERM DEBT

	Maturity	December 31, 2007	December 31, 2006
		(Note 3)	
Debentures and notes			
5.95% unsecured senior notes (\$600 million US)	2035	\$ 577	\$ 699
5.35% unsecured senior notes (\$300 million US)	2033	248	349
7.00% unsecured debentures (\$250 million US)	2028	237	291
7.875% unsecured debentures (\$275 million US)	2026	267	321
9.25% unsecured debentures (\$300 million US)	2021	294	349
5.00% unsecured senior notes (\$400 million US)	2014	391	466
4.00% unsecured senior notes (\$300 million US)	2013	275	349
Syndicated credit facilities	2012	995	-
Capital leases	2008-2022	57	70
		3,341	2,894
Current portion		(2)	(7)
		\$ 3,339	\$ 2,887

At December 31, 2007, the Company had in place syndicated operating credit facilities totalling \$2,200 million (December 31, 2006 - \$2,200 million) maturing in 2012. The syndicated facilities are unsecured, committed revolving facilities that bear interest at either the lenders' rates for Canadian prime loans, U.S. base rate loans, Bankers' Acceptances rates or at London Inter-Bank Offered Rate (LIBOR) plus applicable margins. The Company also had revolving bilateral demand credit facilities of \$1,500 million at December 31, 2007 (December 31, 2006 - \$829 million).

A total of \$1,372 million of the credit facilities was used for Bankers' Acceptances, letters of credit and overdraft coverage at December 31, 2007. The syndicated facilities also may be used to provide liquidity support to Petro-Canada's commercial paper program. No commercial paper was outstanding at December 31, 2007.

At December 31, 2007, the Company had drawn on its syndicated credit facilities and its demand credit facilities for \$995 million and \$109 million, respectively in the form of Canadian dollar Bankers' Acceptances. The weighted-average interest rate for Bankers' Acceptances outstanding was 5.13% for the syndicated credit facilities and 4.99% for the demand credit facilities.

11. 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	1,918,734	43	(1)
Repurchased under normal course issuer bid	(15,998,000)	(44)	(444)
Balance at December 31, 2007	483,459,119	\$ 1,365	\$ 24

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

11. SHAREHOLDERS' EQUITY, *continued*

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 months and year ended December 31, 2007, the Company purchased 2,000,000 common shares at a cost of \$104 million and 15,998,000 common shares at a cost of \$839 million, respectively (1,000,000 common shares at a cost of \$50 million and 19,778,400 common shares at a cost of \$1,011 million during the three months and year ended December 31, 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.

12. STOCK-BASED COMPENSATION

The total stock-based compensation expense (recovery) recorded was \$(68) million and \$95 million for the three months and year ended December 31, 2007, respectively (\$28 million and \$39 million for the three months and year ended December 31, 2006).

(a) Stock Option and Performance Share Unit Plans (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, 2006	20,714,733	\$ 31	1,482,986
Granted	3,347,800	44	247,476
Exercised for common shares	(1,918,734)	19	n/a
Surrendered for cash payment	(800,685)	34	n/a
Cancelled/Expired	(308,050)	44	(564,418)
Balance at December 31, 2007	21,035,064	\$ 34	1,166,044

(b) Stock Appreciation Rights (SARs)

Commencing 2007, the Company approved the issuance of SARs to certain employees. These 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	3,786,500	44
Cancelled	(127,050)	44
Balance at December 31, 2007	3,659,450	\$ 44

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

13. 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 December 31,		Year ended December 31,	
	2007	2006	2007	2006
Pension Plans:				
Defined benefit plans				
Employer current service cost	\$ 13	\$ 10	\$ 43	\$ 40
Interest cost	24	23	90	86
Expected return on plan assets	(29)	(25)	(112)	(99)
Amortization of transitional asset	(2)	-	(6)	(5)
Amortization of net actuarial losses	11	12	44	51
	17	20	59	73
Defined contribution plans				
	8	6	22	18
	\$ 25	\$ 26	\$ 81	\$ 91
Other post-retirement plans:				
Employer current service cost	\$ 1	\$ 1	\$ 5	\$ 4
Interest cost	3	2	12	11
Amortization of transitional obligation	-	1	4	4
	\$ 4	\$ 4	\$ 21	\$ 19

The Company contributed \$121 million to its pension plans in 2007.

14. FINANCIAL INSTRUMENTS AND DERIVATIVES

During 2004, the Company entered into a series of derivative contracts for the future sale of Dated Brent crude oil in connection with its acquisition of an interest in the Buzzard field in the U.K. sector of the North Sea. Some derivative contracts matured from July 1, 2007 to December 31, 2007. All remaining outstanding derivative contracts were settled. This resulted in the following:

	Three months ended December 31, 2007		Year ended December 31, 2007	
Unrealized losses at beginning of period	\$	(1,502)	\$	(1,481)
Net losses during current period (Note 5)		(383)		(535)
Maturities ⁽¹⁾		160		291
Settlement ⁽²⁾		1,725		1,725
	\$	-	\$	-

(1) Derivative contracts that matured from July 1, 2007 to December 31, 2007 resulted in realized losses of \$160 million (\$106 million after-tax) and \$291 million (\$193 million after-tax) for the three months and year ended December 31, 2007, respectively.

(2) All remaining outstanding derivative contracts were settled, which resulted in realized losses of \$1,725 million (\$1,145 million after-tax).

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

15. 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. The Company is adopting this standard prospectively. Converting the cost of crude oil and refined products from a LIFO to FIFO costing basis will increase January 1, 2008 inventories by \$812 million, future income tax liabilities by \$256 million, and retained earnings by \$556 million.