PETRO-CANADA

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

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

	Three months ended March 31,	
	2008	2007
Revenue		
Operating	$ 6,617	$ 4,867
Investment and other income (expense) *(Note 4)*	(31)	(26)
	6,586	4,841
Expenses		
Crude oil and product purchases	2,963	2,308
Operating, marketing and general	843	827
Exploration	143	142
Depreciation, depletion and amortization	523	441
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	55	(17)
Interest	48	42
	4,575	3,743
Earnings before income taxes	2,011	1,098
Provision for income taxes		
Current	844	491
Future	91	17
	935	508
Net earnings	$ 1,076	$ 590
Earnings per share *(Note 5)*		
Basic	$ 2.22	$ 1.19
Diluted	$ 2.20	$ 1.18

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

	Three months ended March 31,	
	2008	2007
Net earnings	$ 1,076	$ 590
Other comprehensive income, net of tax		
Change in foreign currency translation adjustment	207	7
Comprehensive income	$ 1,283	$ 597

See accompanying Notes to Consolidated Financial Statements

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

	Three months ended March 31,	
	2008	2007
Operating activities		
Net earnings	$ 1,076	$ 590
Items not affecting cash flow from operating activities:		
Depreciation, depletion and amortization	523	441
Future income taxes	91	17
Accretion of asset retirement obligations	19	17
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	55	(17)
Gain on sale of assets *(Note 4)*	(4)	(62)
Unrealized losses related to Buzzard derivative contracts *(Note 4)*	-	88
Other	11	-
Exploration expenses	81	92
Increase in non-cash working capital related to operating activities	(417)	-
Cash flow from operating activities	1,435	1,166
Investing activities		
Expenditures on property, plant and equipment and exploration	(1,016)	(716)
Proceeds from sale of assets	12	82
Increase in other assets	-	(17)
(Increase) decrease in non-cash working capital related to investing activities	34	(59)
Cash flow used in investing activities	(970)	(710)
Financing activities		
Increase in short-term notes payable *(Note 6)*	322	-
Repayment of long-term debt *(Note 6)*	(696)	(2)
Proceeds from issue of common shares *(Note 7)*	3	6
Purchase of common shares *(Note 7)*	-	(87)
Dividends on common shares	(63)	(65)
Cash flow used in financing activities	(434)	(148)
Increase in cash and cash equivalents	31	308
Cash and cash equivalents at beginning of period	231	499
Cash and cash equivalents at end of period	$ 262	$ 807

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET *(unaudited)*
As at March 31, 2008
(millions of Canadian dollars)

	March 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 262	$ 231
Accounts receivable	2,608	1,973
Income taxes receivable	-	280
Inventories *(Note 3)*	1,856	668
Future income taxes	24	26
	4,750	3,178
Property, plant and equipment, net	20,145	19,497
Goodwill	809	731
Other assets	425	446
	$ 26,129	$ 23,852
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,802	$ 3,512
Income taxes payable	78	-
Short-term notes payable *(Note 6)*	431	109
Current portion of long-term debt	2	2
	4,313	3,623
Long-term debt *(Note 6)*	2,743	3,339
Other liabilities	683	717
Asset retirement obligations	1,267	1,234
Future income taxes *(Note 3)*	3,474	3,069
Shareholders' equity		
Common shares *(Note 7)*	1,368	1,365
Contributed surplus *(Note 7)*	24	24
Retained earnings	12,261	10,692
Accumulated other comprehensive income		
Foreign currency translation adjustment	(4)	(211)
	13,649	11,870
	$ 26,129	$ 23,852

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

	Three months ended March 31,	
	2008	2007
Retained earnings at beginning of period	$ 10,692	$ 8,565
Cumulative effect of adopting new accounting standards *(Note 3)*	556	–
Net earnings	1,076	590
Dividends on common shares	(63)	(65)
Retained earnings at end of period	$ 12,261	$ 9,090

See accompanying Notes to Consolidated Financial Statements

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

1. SEGMENTED INFORMATION FROM OPERATIONS
Three months ended March 31,

	Upstream															
					International & Offshore											
	North American Natural Gas		Oil Sands		East Coast Canada		International		Downstream		Shared Services		Eliminations[4]		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue																
Sales to customers	$ 430	$ 349	$ 345	$ 166	$ 682	$ 601	$ 1,394	$ 664	$ 3,766	$ 3,087	$ -	$ -	$ -	$ -	$ 6,617	$ 4,867
Investment and other income (expense)[1]	3	61	2	(2)	1	-	(31)	(90)	(8)	(3)	2	8	-	-	(31)	(26)
Inter-segment sales	99	85	297	222	204	129	-	-	4	4	-	-	(604)	(440)	-	-
Segmented revenue	532	495	644	386	887	730	1,363	574	3,762	3,088	2	8	(604)	(440)	6,586	4,841
Expenses																
Crude oil and product purchases[2]	93	41	248	130	188	176	-	-	2,439	1,958	-	-	(5)	3	2,963	2,308
Inter-segment transactions	2	2	8	4	2	2	-	-	592	432	-	-	(604)	(440)	-	-
Operating, marketing and general	128	124	204	131	57	59	130	162	404	352	(80)	(1)	-	-	843	827
Exploration	50	56	5	19	-	4	88	63	-	-	-	-	-	-	143	142
Depreciation, depletion and amortization	154	108	27	39	97	103	170	118	75	69	-	4	-	-	523	441
Unrealized (gain) loss on translation of foreign currency denominated long-term debt	-	-	-	-	-	-	-	-	-	-	55	(17)	-	-	55	(17)
Interest	-	-	-	-	-	-	-	-	-	-	48	42	-	-	48	42
	427	331	492	323	344	344	388	343	3,510	2,811	23	28	(609)	(437)	4,575	3,743
Earnings (loss) before income taxes	105	164	152	63	543	386	975	231	252	277	(21)	(20)	5	(3)	2,011	1,098
Provision for income taxes																
Current	27	61	15	6	177	138	647	258	23	56	(47)	(27)	2	(1)	844	491
Future	4	(9)	25	14	(9)	(8)	(8)	(36)	45	37	34	19	-	-	91	17
	31	52	40	20	168	130	639	222	68	93	(13)	(8)	2	(1)	935	508
Net earnings (loss)	$ 74	$ 112	$ 112	$ 43	$ 375	$ 256	$ 336	$ 9	$ 184	$ 184	$ (8)	$ (12)	$ 3	$ (2)	$ 1,076	$ 590
Expenditures on property, plant and equipment and exploration[3]	$ 167	$ 205	$ 178	$ 90	$ 38	$ 38	$ 251	$ 157	$ 378	$ 221	$ 4	$ 5	$ -	$ -	$ 1,016	$ 716
Cash flow from (used in) operating activities	$ 199	$ 159	$ 166	$ 69	$ 485	$ 481	$ 506	$ 277	$ (16)	$ 214	$ 95	$ (34)	$ -	$ -	$ 1,435	$ 1,166
Total assets	$ 4,179	$ 4,121	$ 3,936	$ 2,967	$ 2,352	$ 2,327	$ 6,058	$ 6,220	$ 9,677	$ 6,894	$ 37	$ 523	$ (110)	$ (2)	$26,129	$23,050

1 Investment and other income (expense) for the International segment includes unrealized losses related to the Buzzard derivative contracts of $nil for the three months ended March 31, 2008 ($88 million for the three months ended March 31, 2007) (Note 4).
2 Downstream crude oil and product purchases accounts for substantially all of the Downstream inventories recognized as an expense during the period.
3 Consolidated expenditures include capitalized interest in the amount of $13 million for the three months ended March 31, 2008 ($6 million for the three months ended March 31, 2007).
4 Eliminations relate to sales between segments recorded at transfer prices based on current market prices, and to unrealized inter-segment profits in inventories. Prior period figures have been reclassified to conform to the current period's presentation.

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, 2007 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 1535, *Capital Disclosures*; Section 3031, *Inventories*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863, *Financial Instruments – Presentation* on January 1, 2008.

As a result of adopting CICA Section 1535, *Capital Disclosures*, the Company now discloses details about its capital management (Note 10).

As a result of adopting CICA Section 3031, *Inventories*, the Company now assigns costs to its crude oil and refined petroleum products inventories on a “first-in, first-out” (FIFO) basis. Previously, costs were assigned to these inventories on a “last-in, first-out” (LIFO) basis. In accordance with the transitional provisions of this new accounting standard, the Company has elected to adjust 2008 opening retained earnings by the difference in the measurement of 2008 opening inventory and not restate prior period amounts. As such, the following balance sheet categories were impacted on January 1, 2008:

	Increase
Inventories	$ 812
Future income taxes liability	256
Retained earnings	556

As a result of adopting CICA Section 3862, *Financial Instruments – Disclosures*, the Company has expanded its financial risks and financial instruments disclosures (Note 11).

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

4. INVESTMENT AND OTHER INCOME (EXPENSE)

Investment and other income (expense) for the three months ended March 31, 2008 included foreign exchange losses of $22 million and losses on Downstream derivative contracts of $13 million, which were partially offset by net gains on sales of assets of $4 million. For the three months ended March 31, 2007, investment and other income (expense) included unrealized losses related to the Buzzard derivative contracts of $88 million, partially offset by net gains on sales of assets of $62 million.

5. EARNINGS PER SHARE

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

	Three months ended March 31,	
(millions)	2008	2007
Weighted-average number of common shares outstanding – basic	484.0	497.0
Effect of dilutive stock options	4.0	5.0
Weighted-average number of common shares outstanding – diluted	488.0	502.0

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

6. LONG-TERM DEBT

	Maturity	March 31, 2008	December 31, 2007
Debentures and notes			
5.95% unsecured senior notes ($600 million US)	2035	$ 601	$ 577
5.35% unsecured senior notes ($300 million US)	2033	260	248
7.00% unsecured debentures ($250 million US)	2028	247	237
7.875% unsecured debentures ($275 million US)	2026	278	267
9.25% unsecured debentures ($300 million US)	2021	306	294
5.00% unsecured senior notes ($400 million US)	2014	407	391
4.00% unsecured senior notes ($300 million US)	2013	288	275
Syndicated credit facilities	2012	300	995
Capital leases	2008-2022	58	57
		2,745	3,341
Current portion		(2)	(2)
		$ 2,743	$ 3,339

At March 31, 2008, the Company had in place revolving, committed syndicated credit facilities totaling $3,570 million (December 31, 2007 – $2,200 million) which mature in 2012 and revolving bilateral demand credit facilities of $1,519 million (December 31, 2007 – $1,500 million). At March 31, 2008, a total of $970 million of the credit facilities was used for Bankers' Acceptances, London Inter-Bank Offered Rate (LIBOR) loans, letters of credit and overdraft coverage.

At March 31, 2008, the Company had drawn on its syndicated credit facilities for $300 million (December 31, 2007 - $995 million) in the form of Canadian dollar Bankers' Acceptances and on its demand credit facilities for $363 million (December 31, 2007 – $109 million) and $68 million (December 31, 2007 – $nil) in the form of Canadian dollar Bankers' Acceptances and LIBOR loans, respectively. The weighted-average interest rate for Bankers' Acceptances outstanding was 4.11% for the syndicated credit facilities and 4.15% for the demand credit facilities. The weighted-average interest rate for the LIBOR loans was 5.14%. These interest rates are fixed over the terms of Bankers' Acceptances and LIBOR loans, all of which are 30 days or less.

On March 31, 2008, the Company filed a final shelf prospectus for the offering of up to $4 billion US of debt securities with the securities commission or equivalent regulatory authority in each of the provinces and territories of Canada. On April 1, 2008, the same was filed with the United States Securities and Exchange Commission. No debt has been issued to date.

7. SHAREHOLDERS' EQUITY

Changes in common shares and contributed surplus were as follows:

	Shares	Amount	Contributed Surplus
Balance at December 31, 2007	483,459,119	1,365	24
Issued under employee stock option and share purchase plans	180,633	3	-
Repurchased under normal course issuer bid	-	-	-
Balance at March 31, 2008	483,639,752	1,368	24

The Company has in place a normal course issuer bid (NCIB) program for the repurchase of its outstanding common shares. This program was renewed in June 2007 to repurchase up to 25 million outstanding common shares during the period from June 22, 2007 to June 21, 2008, subject to certain conditions. During the three months ended March 31, 2008, the Company did not repurchase any common shares. For the three months ended March 31, 2007, the Company repurchased 2,000,000 common shares at a cost of $87 million. The excess of the purchase price over the carrying amount of the shares repurchased was recorded as an $81 million reduction of contributed surplus.

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

8. STOCK-BASED COMPENSATION

The total stock-based compensation recovery recorded was $97 million for the three months ended March 31, 2008 ($14 million for the three months ended March 31, 2007).

(a) Stock Options and Performance Share Units (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, 2007	21,035,064	34	1,166,044
Granted	3,452,700	47	237,288
Exercised for common shares	(180,633)	17	n/a
Surrendered for cash payment	(90,625)	31	n/a
Cancelled/Expired	(35,360)	46	(584,139)
Balance at March 31, 2008	24,181,146	36	819,193

(b) Stock Appreciation Rights (SARs)

Changes in the number of outstanding SARs were as follows:

	SARs	
	Number	Weighted-Average Exercise Price
Balance at December 31, 2007	3,659,450	44
Granted	3,912,480	47
Exercised	(11,255)	44
Cancelled	(63,754)	46
Balance at March 31, 2008	7,496,921	46

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

9. EMPLOYEE FUTURE BENEFITS

The Company maintains pension plans with defined benefit and defined contribution provisions and provides certain health care and life insurance benefits to its qualifying retirees. The expenses associated with these plans are as follows:

	Three months ended March 31,	
	2008	2007
Pension Plans:		
Defined benefit plans		
Employer current service cost	$ 11	$ 10
Interest cost	23	22
Expected return on plan assets	(28)	(28)
Amortization of transitional asset	(1)	(1)
Amortization of net actuarial losses	12	11
	17	14
Defined contribution plans	5	4
	$ 22	$ 18
Other post-retirement plans:		
Employer current service cost	$ 1	$ 1
Interest cost	3	3
Amortization of transitional obligation	1	1
Amortization of net actuarial losses	1	1
	$ 6	$ 6

The Company expects to contribute $58 million to its pension plans in 2008.

10. CAPITAL MANAGEMENT

The Company's capital management strategy is designed to maintain financial strength and flexibility to support profitable growth in all business environments. The Company's capital consists of debt, which is comprised of long-term debt and short-term notes payable, and shareholders' equity. The Company measures financial strength and flexibility using two key measures: debt-to-cash flow from operating activities, the key short-term measure, and debt-to-debt plus equity, the key long-term measure. These are calculated as follows:

	March 31, 2008	December 31, 2007
Long-term debt (non-current portion)	$ 2,743	$ 3,339
Add: Current portion of long-term debt	2	2
Total long-term debt	2,745	3,341
Add: Short-term notes payable	431	109
Debt (A)	$ 3,176	$ 3,450
Shareholders' equity	13,649	11,870
Debt plus equity (B)	$ 16,825	$ 15,320
Cash flow from operating activities (C)[1]	$ 3,608	$ 3,339
Debt-to-cash flow from operating activities (A/C) *(times)*	0.9	1.0
Debt-to-debt plus equity (A/B) *(%)*	18.9	22.5

1 Cash flow from operating activities is on a 12-month rolling basis.

At March 31, 2008, the debt-to-cash flow from operating activities ratio was within the Company's target range of no more than 2.0 times. Debt-to-debt plus equity was below the target range of 25% to 35%, providing the financial flexibility to fund the Company's capital program and profitable growth opportunities. The Company may exceed target ranges for short periods of time, but always with the goal to return back within the target ranges.

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

10. CAPITAL MANAGEMENT, *continued*

Financial covenants associated with the Company's various bank and debt arrangements are reviewed regularly and controls are in place to maintain compliance with these covenants. The Company complied with all covenants for the three months ended March 31, 2008.

The Company’s priority uses of cash are to fund the capital program and profitable growth opportunities, and then to return cash to shareholders through dividends and a share buyback program.

The Company regularly reviews its dividend strategy to ensure the alignment of the dividend policy with shareholder expectations, and financial and growth objectives. The Company renewed its NCIB program for the repurchase of its common shares from June 22, 2007 to June 21, 2008, entitling the Company to purchase up to 5% of its outstanding common shares, subject to certain conditions (Note 7). Due to an increasing capital program, share buybacks are expected to be lower in this and future years, compared with 2006 and 2007.

The Company’s capital management strategy has not changed from the prior period.

11. FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

Financial Risks

The Company is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in commodity prices, interest rates and foreign currency exchange rates, as well as credit risks and liquidity risks. The nature of the financial risks and the Company’s strategy for managing these risks has not changed significantly from the prior period.

(a) Market Risks

The Company monitors its exposure to market fluctuations and may use derivative contracts to manage these risks, as it considers appropriate. The Company does not use derivative contracts for speculative purposes.

Commodity Price Risk

The Company is exposed to commodity price risk as fluctuations in crude oil or natural gas prices could have a materially adverse effect on its financial condition, as well as on the value and amount of the Company’s reserves. Prices for crude oil and natural gas fluctuate in response to changes in supply and demand, market uncertainty and a variety of other factors beyond the Company’s control.

The margins realized for the Company’s refined products are also affected by factors such as crude oil price fluctuations due to the impact on refinery feedstock costs, third-party refined product purchases and the demand for refined petroleum products. The Company’s ability to maintain product margins in an environment of higher feedstock costs depends on its ability to pass higher costs on to customers. The Company enters into derivative contracts to reduce exposure in its Downstream operations to these margin fluctuations, including margins on fixed-price product sales, and short-term price fluctuations on the purchase of foreign and domestic crude oil and refined petroleum products. The Company’s exposure to these margin fluctuations is limited. As such, the fair value of the outstanding derivative contracts is not material.

Interest Rate Risk

The Company is exposed to interest rate risk as changes in market interest rates affect the fair values of fixed-interest rate liabilities and the cash flows of both floating-interest rate liabilities and future borrowings. Notes, debentures and capital leases all bear interest at fixed rates. Drawings on the syndicated and demand credit facilities and obligations under the securitization program all bear interest at floating rates. The Company regularly reviews the mix of floating and fixed rate debt for consistency with its financing objectives.

Foreign Currency Exchange Risk

Due to the fact that energy commodity prices are primarily in U.S. dollars, the Company’s revenues, crude oil and product purchases, and associated accounts receivable, accounts payable and accrued liabilities, and off-balance sheet commitments are affected by the Cdn/U.S. dollar exchange rate. These U.S. dollar denominated accounts receivable and accounts payable and accrued liabilities account for a significant portion of the Company’s total accounts receivable and accounts payable and accrued liabilities.

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

11. FINANCIAL RISKS AND FINANCIAL INSTRUMENTS, *continued*

The majority of the Company's foreign currency exchange risk arises from long-term debt, the majority of which is in the form of U.S. dollar denominated debentures and notes. This exposure mitigates the foreign currency exchange risk arising from U.S. dollar denominated revenues.

Substantially all of the Company's cash and cash equivalents are denominated in Canadian dollars.

The Company's International business segment and the U.S. Rockies operations included in the North American Natural Gas business segment expose the Company to fluctuations in foreign currency exchange rates, predominantly U.S. dollars.

(b) Credit Risk

The Company is exposed to credit risk from its counterparties' abilities to fulfill their obligations to the Company. The Company manages this risk through the establishment of credit policies and limits, which are applied in the selection of counterparties. The Company ensures that it has no significant concentrations of credit risk and ensures that no customers represent more than 10% of the Company's consolidated revenues for any period.

The Company's maximum exposure to credit risk at March 31, 2008 is equal to the carrying amount of its financial assets recorded on the Consolidated Balance Sheet and $480 million of outstanding accounts receivable sold under the Company's securitization program, which has been derecognized from the Consolidated Balance Sheet. The Company carries adequate provisions for expected losses arising from credit risk associated with all financial assets, including the derecognized securitized receivables. These provisions are not material.

(c) Liquidity Risk

The Company is exposed to liquidity risk from the potential inability to generate or obtain sufficient cash and cash equivalents in a timely and cost-effective manner to discharge its financial liabilities as they come due. The Company manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed and demand credit facilities, and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions. Any debt issued by the Company is managed in accordance with specified liquidity and maturity profiles.

Financial Instruments

Excluding debentures, senior notes and capital leases which are recorded as long-term debt, the fair values of financial instruments equals or approximates their carrying amount. The fair value of debentures, senior notes and capital leases was $2,571 million at March 31, 2008 (December 31, 2007 – $2,500 million) compared with a carrying amount of $2,445 million (December 31, 2007 – $2,346 million). The fair values of debentures, senior notes and capital leases are based on publicly quoted market values for instruments with similar terms and risks.