

Rating: Buy  
S&P 500: 1462  
Intraday

## Canadian Natural Resources New Oil Sands Production in 2008

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$mm)</i>	7,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	35
<i>Price (US\$/sh)</i>	66.41	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/28/07	<i>Adjusted Reserves/Production NTM</i>	8.2
<i>Shares (mm)</i>	539	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$mm)</i>	35,800	<i>PV/Ebitda</i>	7.7
<i>Debt (US\$mm)</i>	13,200	<i>Undeveloped Reserves (%)</i>	39
<i>Enterprise Value (EV) (US\$mm)</i>	49,000	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	6.79
<i>Present Value (PV) (US\$mm)</i>	60,100	<i>Present Value Proven Reserves(US\$/boe)</i>	23.40
<i>Net Present Value (US\$/share)</i>	87	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.90
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.64
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.34

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Estimated present value presumes a long-term price for oil of US\$66 a barrel and natural gas, \$11 a million btu.

### Summary and Recommendation

We recommend current purchase of the stock of **Canadian Natural Resources (CNQ)**, owner of the Horizon oil sands mine and upgrader set to start producing in the third quarter of 2008. We hope the timing is good as the stock is down 24% from its high in early November to its 200-day average. Estimated net present value (NPV) of \$87 a share depends 24% on Horizon, 46% on oil, mostly Canadian heavy, and 30% on natural gas (see table Functional Cash Flow and Present Value). Though we project stable volume currently, we expect to revise natural gas downward and oil upward as we study the company's latest presentations to investors (see table Next Twelve Months Operating and Financial Estimates). Management has reacted to an untimely tax increase by the Province of Alberta by slashing its natural gas drilling plans. While the tax increase is an indisputably negative development, we expect the increase to be passed along in oil and gas price. We see oil price remaining above its 40-week average defining a continuing uptrend and we believe that natural gas is undervalued relative to oil (see chart Six-Year Commodity Price Meter). After reducing recently the recommended weighting of Canadian stocks in the illustrative McDep Energy Portfolio, there is room to add CNQ at a half unlevered weighting (see table Composite of Buy Recommendations).

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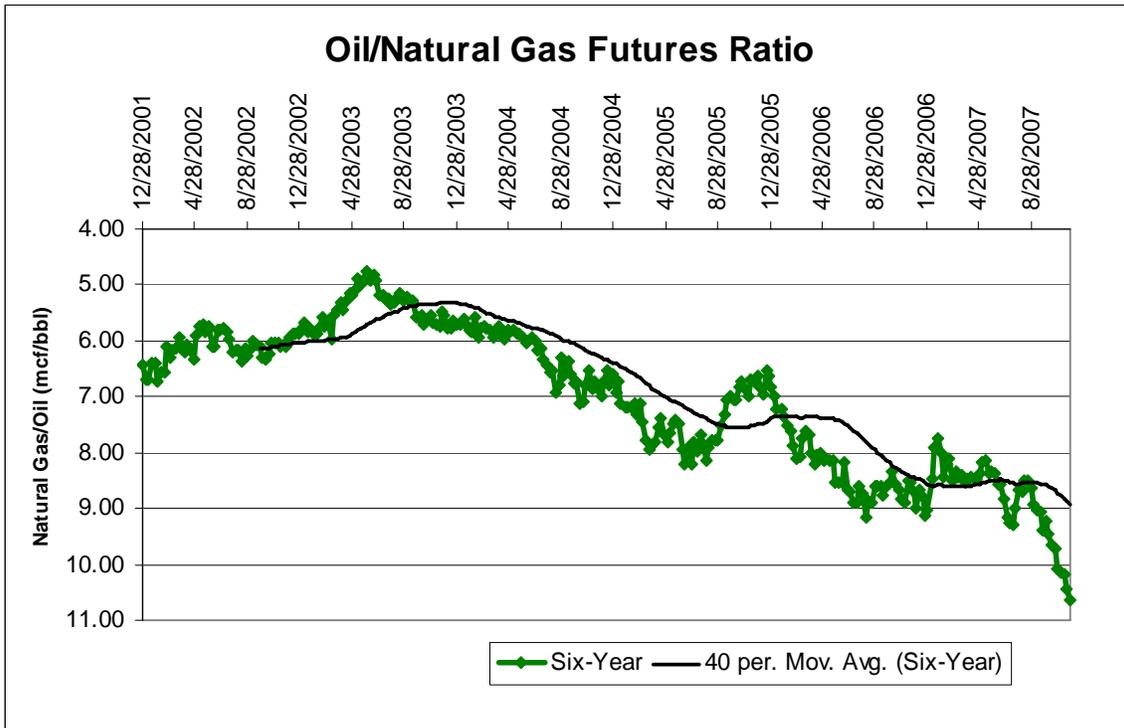
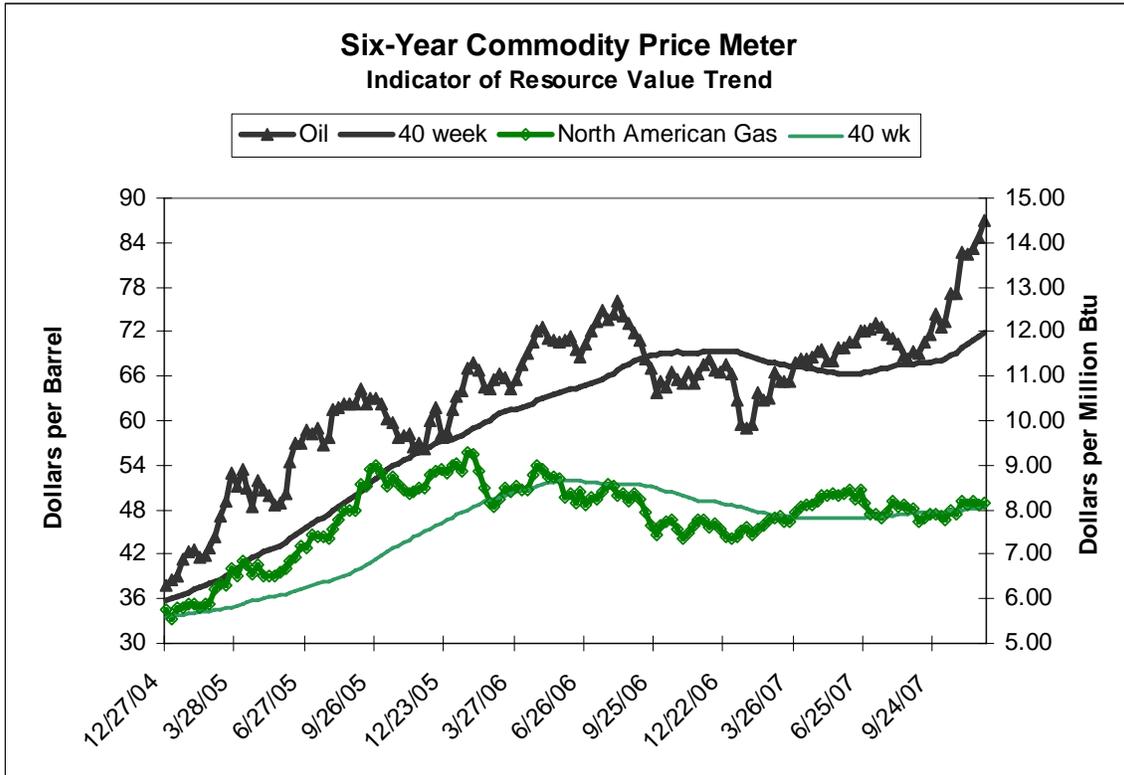
**Canadian Natural Resources**  
**Functional Cash Flow and Present Value**

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	2,700	6.8	6.7	18,000	30%
Oil	5,100	9.3	5.4	27,600	46%
Horizon				14,500	24%
	7,800	8.2	7.7	60,100	100%
Debt					13,200
Net Present Value (US\$mm)					46,900
Shares					539
Net Present Value - Standard Estimate (US\$/sh)					87
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					92

**Canadian Natural Resources**  
**Next Twelve Months Operating and Financial Estimates**  
(Canadian Dollars)

	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next</i>
	<i>12/31/06</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>Twelve</i>
									<i>Months</i>
									<i>12/31/08</i>
<b>Volume (before royalty)</b>									
Natural Gas (mmcf)	1,620	1,647	1,647	<b>1,683</b>	1,647	1,647	1,647	1,647	<b>1,647</b>
Oil (mbd)	344	333	333	<b>330</b>	333	333	333	333	<b>333</b>
Total (bcf)	339	335	335	<b>1,337</b>	332	332	335	335	<b>1,334</b>
Total (mmcf)	3,684	3,645	3,645	<b>3,663</b>	3,645	3,645	3,645	3,645	<b>3,645</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	6.57	6.16	7.14	<b>6.92</b>	8.00	7.76	7.97	8.48	<b>8.05</b>
Currency (US\$/C\$)	0.88	0.96	1.01	<b>0.93</b>	1.01	1.01	1.01	1.01	<b>1.01</b>
Henry Hub (C\$/mmbtu)	7.48	6.44	7.07	<b>7.44</b>	7.92	7.68	7.89	8.39	<b>7.97</b>
Differential (C\$/mmbtu)	0.82	0.57	0.63	<b>0.56</b>	0.70	0.68	0.70	0.74	<b>0.70</b>
Company (C\$/mcf)	6.66	5.87	6.44	<b>6.88</b>	7.22	7.00	7.19	7.65	<b>7.27</b>
WTI Cushing (US\$/bbl)	59.99	75.48	93.20	<b>72.92</b>	96.73	93.93	91.79	90.03	<b>93.12</b>
WTI Cushing (C\$/bbl)	68.32	78.95	92.24	<b>78.48</b>	95.74	92.97	90.84	89.11	<b>92.16</b>
Differential (C\$/bbl)	21.05	20.85	24.36	<b>20.53</b>	25.28	24.55	23.99	23.53	<b>24.35</b>
Company (C\$/bbl)	47.27	58.10	67.88	<b>57.95</b>	70.45	68.41	66.85	65.57	<b>67.81</b>
Total (\$/bbl)	44.06	47.76	54.68	<b>50.30</b>	58.18	56.48	56.14	56.68	<b>56.87</b>
<b>Revenue (\$mm)</b>									
Natural Gas	993	889	977	<b>4,228</b>	1,081	1,049	1,090	1,159	<b>4,380</b>
Oil	1,496	1,780	2,080	<b>6,980</b>	2,135	2,073	2,048	2,009	<b>8,265</b>
Royalties	(317)	(341)	(390)	<b>(1,438)</b>	(411)	(399)	(401)	(405)	<b>(1,615)</b>
Total	2,172	2,328	2,666	<b>9,770</b>	2,806	2,724	2,737	2,763	<b>11,029</b>
<b>Expense</b>	604	627	779	<b>2,710</b>	842	805	811	823	<b>3,280</b>
<b>Ebitda (\$mm)</b>	1,567	1,701	1,887	<b>7,060</b>	1,964	1,919	1,926	1,941	<b>7,749</b>
Deprec., Deplet., & Amort.	742	715	715	<b>2,876</b>	715	715	715	715	<b>2,860</b>
Hedging	126			-					-
Interest	62	65	65	<b>290</b>	65	65	65	65	<b>260</b>
<b>Ebt</b>	637	921	1,107	<b>3,894</b>	1,184	1,139	1,146	1,161	<b>4,629</b>
Income tax	223	280	387	<b>1,320</b>	414	399	401	406	<b>1,620</b>
<b>Net Income (\$mm)</b>	414	641	720	<b>2,574</b>	769	740	745	754	<b>3,009</b>
Per share (\$)	0.77	1.19	1.33	<b>4.77</b>	1.43	1.37	1.38	1.40	<b>5.58</b>
<b>Shares (millions)</b>	538	539	539	<b>539</b>	539	539	539	539	<b>539</b>
Ebitda margin (after royalty)	72%	73%	71%	<b>72%</b>	70%	70%	70%	70%	<b>70%</b>
Tax rate	35%	30%	35%	<b>34%</b>	35%	35%	35%	35%	<b>35%</b>

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**McDep Energy Portfolio**  
**Composite of Buy Recommendations**

Symbol	Price (US\$/sh) 28-Nov	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
<b>Mega Cap</b>										
BP plc	BP	71.52	3.1	3.2	3.2	0.3	0.3	2.0	0.6	0.96
Exxon Mobil Corporation	XOM	87.07	3.6	3.2		0.2	0.4	1.8	0.7	0.95
Total S.A.	TOT	79.70	3.2	3.2	3.2		1.0	1.6	0.6	0.91
Royal Dutch Shell plc	RDS-A	80.59	3.3	3.2	3.2	0.1	0.4	1.6	1.1	0.87
Gazprom	OGZPY	50.75	10.3	9.6	9.6		7.2	2.4		0.83
Chevron Corporation	CVX	84.84	3.4	3.2		0.2	0.2	2.1	0.8	0.82
ConocoPhillips	COP	77.09	5.6	6.4		1.0	0.4	3.4	1.5	0.75
<i>Total or Median</i>			32	32						0.87
<b>Producer/Refiners - Large Cap</b>										
Imperial Oil Limited	IMO	49.02	1.4	1.3	1.3	0.1		0.9	0.2	1.15
StatoilHydro ASA	STO	32.27	1.6	1.6	1.6		0.6	1.0	-	0.93
Suncor Energy	SU	96.72	1.4	1.3	1.3	0.0		1.1	0.1	0.93
Petro-Canada	PCZ	49.53	1.2	1.3	1.3	0.2	0.0	0.9	0.2	0.80
Lukoil Oil Company	LUKOY	86.10	7.3	6.4	6.4			4.6	1.8	0.72
<i>Total or Median</i>			13	12						0.93
<b>Independent Natural Gas and Oil - Large Cap</b>										
Encana Corporation	ECA	64.85	3.6	3.8	3.8	2.6		0.9	0.3	0.92
Occidental Petroleum Corp.	OXY	67.71	3.5	3.2		0.4	0.0	2.5	0.3	0.89
XTO Energy Inc.	XTO	59.64	4.4	4.8		3.7		1.0		0.83
EOG Resources	EOG	82.53	7.0	6.4		5.0	0.2	1.2		0.82
Anadarko Petroleum Corp.	APC	54.04	2.2	3.2		1.9		1.3	0.1	0.82
Canadian Natural Resources	CNQ	66.41	1.4	1.6		0.5		1.1		0.82
Devon Energy Corporation	DVN	81.21	5.9	6.4		3.6		2.8		0.68
<i>Total or Median</i>			28	29						0.82
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	41.51	1.4	1.6		0.4		1.2		0.96
Encore Acquisition Company	EAC	32.70	2.2	3.2		0.7		2.5		0.73
Energy Partners Ltd.	EPL	12.67	0.7	1.6		0.8		0.8		0.56
Cimarex Energy Company	XEC	38.15	3.2	3.2		2.2		1.0		0.55
<i>Total or Median</i>			7	10						0.64
<b>Income</b>										
Canadian Oil Sands Trust	COSWF	34.74	5.6	5.1	5.1	(0.5)		5.6		0.90
San Juan Basin Royalty Trust	SJT	34.38	7.6	6.4		6.4				0.86
Penn West Energy Trust	PWE	26.85	2.2	2.6	2.6	0.8		1.8		0.84
Hugoton Royalty Trust	HGT	22.90	3.8	3.2		3.2				0.68
<i>Total or Median</i>			19	17						0.85
<b>Portfolio Composite</b>			100	100	42	34	11	47	8	0.80
Canada					15					
Russia					16					
Europe					11					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.6% to four-tenths at 1.3%.

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