

Rating: Buy
 S&P 500: 1235

Petro-Canada

Raise Net Present Value to \$84 a Share

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	5,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	18
<i>Price (US\$/sh)</i>	73.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	85
<i>Pricing Date</i>	8/1/05	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	263	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	19,300	<i>PV/Ebitda</i>	5.4
<i>Debt (US\$mm)</i>	5,000	<i>Undeveloped Reserves (%)</i>	19
<i>Enterprise Value (EV) (US\$mm)</i>	24,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.40
<i>Present Value (PV) (US\$mm)</i>	27,100	<i>Present Value Proven Reserves(US\$/boe)</i>	20.00
<i>Net Present Value (US\$/share)</i>	84	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.30
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.67
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.66

Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.
 Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

We raise our estimated net present value of buy-recommended **Petro-Canada (PCZ)** to \$84 a share from \$70 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. Our long-term real price expectation for the 3-2-1 refining crack (margin) in New York Harbor is now \$10 a barrel up from \$8. The stock has 15% appreciation potential to net present value. Risk is moderate with globally diversified, integrated operations and moderate debt.

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Petro-Canada Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
			<i>(US\$mm)</i>	<i>(US\$mm)</i>	
North American Natural Gas	909	8.6	6.8	6,200	23%
Rest of World Natural Gas	176	6.7	5.7	1,000	4%
Oil	3,152	6.7	4.6	14,400	53%
Downstream	758		7.3	5,500	20%
	4,994	7.2	5.4	27,100	100%
Debt (US\$mm)				5,000	
Net Present Value (US\$mm)				22,100	
Shares (mm)				263	
Net Present Value (US\$/sh)				84	

Please see disclosures on the final page.

Petro-Canada
Next Twelve Months Operating and Financial Estimates
 (Canadian Dollars)

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>Twelve</i>
										<i>Months</i>
										<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	556	529	534	503	498	493	507	488	483	491
Overseas	119	139	158	114	113	112	124	124	123	118
Total	675	669	692	617	611	605	631	612	606	608
Oil (mbd)	227	239	226	220	218	216	220	213	223	218
Total gas & oil (mbd)	340	351	341	323	320	316	325	315	324	319
Price										
Natural gas (\$/mcf)										
Henry Hub (US\$/mmbtu)	7.10	6.15	6.27	6.76	7.60	8.69	7.33	9.44	8.04	8.44
Currency (US\$/CS)	0.82	0.77	0.82	0.80	0.83	0.83	0.82	0.83	0.83	0.83
Henry Hub (CS/mmbtu)	8.65	7.98	7.68	8.40	9.20	10.53	8.96	11.43	9.74	10.23
U.S. (or North America)	6.89	6.72	6.67	7.29	7.98	9.13	7.75	9.92	8.45	8.86
Overseas	5.83	5.30	6.25	6.01	6.86	7.17	6.54	7.31	7.23	7.15
Total	6.70	6.43	6.57	7.05	7.77	8.77	7.51	9.39	8.20	8.53
Oil (\$/bbl)										
WTI Cushing (US\$/bbl)	48.31	41.44	49.65	53.05	60.62	63.32	56.66	64.52	63.88	63.09
WTI Cushing (CS\$/bbl)	58.91	53.70	60.85	65.99	73.45	76.71	69.25	78.17	77.40	76.43
Worldwide	48.41	46.92	52.76	59.85	66.61	69.57	62.14	70.89	70.19	69.30
Total gas & oil (\$/bbl)	43.65	42.17	45.37	52.14	57.83	61.63	54.13	63.31	60.92	60.90
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	12.11	7.97	9.21	8.32	11.22	9.91
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	352	1,301	321	334	366	414	1,434	436	371	1,587
Overseas	64	269	89	62	71	74	296	82	81	307
Total	416	1,570	409	396	437	488	1,730	517	452	1,894
Oil	1,011	4,107	1,073	1,198	1,335	1,380	4,986	1,362	1,426	5,503
Downstream	2,506	9,434	2,488	2,683	2,683	2,683	10,537	2,683	2,683	10,732
Other	(216)	(734)	(589)	(217)	(217)	(217)	(1,240)	(217)	(217)	(869)
Total	3,717	14,377	3,382	4,060	4,237	4,334	16,013	4,345	4,345	17,260
Expense										
Upstream	442	1,661	536	506	548	571	2,161	573	573	2,265
Downstream	2,294	8,680	2,261	2,508	2,433	2,476	9,678	2,471	2,434	9,814
Other	(216)	(734)	(589)	(217)	(217)	(217)	(1,240)	(217)	(217)	(869)
Total	2,520	9,607	2,209	2,797	2,764	2,829	10,599	2,827	2,790	11,210
Ebitda (\$mm)										
Upstream	985	4,016	946	1,088	1,223	1,297	4,555	1,306	1,306	5,132
Downstream	212	754	227	175	250	207	859	212	249	918
Total	1,197	4,770	1,173	1,263	1,473	1,505	5,414	1,518	1,554	6,050
Exploration	76	235	82	58	58	58	256	58	58	232
Deprec., Deplet., & Amort.										
Upstream	280	1,125	295	297	297	297	1,186	297	297	1,188
Downstream	72	277	53	52	52	52	209	52	70	226
Other	40									
Total	392	1,442	348	349	349	349	1,395	349	367	1,414
Ebit	729	3,093	743	856	1,066	1,098	3,763	1,111	1,129	4,404
Interest	34	142	34	39	39	39	151	39	39	156
Ebt	695	2,951	709	817	1,027	1,059	3,612	1,072	1,090	4,248
Income Tax	243	1,033	248	286	360	371	1,264	375	382	1,487
Net Income (\$mm)										
Upstream	378		53	475						
Downstream	91		113	80						
Other	(17)		295	(24)						
Total	452	1,918	461	531	668	688	2,348	697	709	2,761
Shares (millions)	264	266	263	263	263	263	263	263	263	263
Per share (\$)	1.71	7.20	1.75	2.02	2.54	2.62	8.93	2.65	2.70	10.50
Ebitda Margin (E&P)	72%	74%	68%	71%	72%	72%	71%	73%	73%	72%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>		
	<i>Rating</i>		<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Debt/</i>	<i>McDep</i>
			<i>1-Aug</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>			<i>(\$/sh)</i>	<i>Value</i>	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	88.61	123	10,910	20.00	0.76	1.83
Imperial Oil Limited (30%)	IMO	B	86.93	104	9,000	84.00	0.09	1.03
Marathon Oil Corporation	MRO	B	59.67	367	21,900	65.00	0.27	0.94
Petro-Canada	PCZ	B	73.30	263	19,280	84.00	0.18	0.90
PetroChina Company Ltd (10%)	PTR	B	92.67	176	16,290	120.00	0.04	0.78
Suncor Energy	SU	B	50.43	461	23,250	68.00	0.10	0.77
Norsk Hydro ASA	NHY	B	95.98	251	24,090	130.00	0.12	0.77
ConocoPhillips	COP	B	63.00	1,419	89,400	100.00	0.15	0.69
Lukoil Oil Company	LUKOY	B	41.75	830	35,000	65.00	0.02	0.65
		<i>Total or Median</i>			<i>249,000</i>		<i>0.12</i>	<i>0.78</i>

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