

Rating: Buy
S&P 500: 1302

Petro-Canada **Understated Oil Sands**

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	5,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	17
<i>Price (US\$/sh)</i>	50.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	86
<i>Pricing Date</i>	4/25/06	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	520	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (US\$mm)</i>	26,100	<i>PV/Ebitda</i>	4.8
<i>Debt (US\$mm)</i>	5,300	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$mm)</i>	31,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.90
<i>Present Value (PV) (US\$mm)</i>	27,200	<i>Present Value Proven Reserves(US\$/boe)</i>	20.00
<i>Net Present Value (US\$/share)</i>	42	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.30
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.92
<i>McDep Ratio - EV/PV</i>	1.16	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.35

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

Buy-recommended **Petro-Canada (PCZ)** appears priced higher than our estimate of net present value of \$42 a share. The estimate presumes a long-term oil price of \$50 a barrel while the futures price for oil delivered over the next six years continues in a multi-year uptrend with the current quote at \$72. The oil price trend suggests we may be increasing our present value estimates before long. After taking account of first quarter 2006 results, our correlation of present value with adjusted reserve life and twelve months cash flow indicates a possible lower net present value. The reconciliation is in a table with the detail of production and reserves. The company reports no reserves on the oil sands line for either its Fort Hill mining venture or its *in situ* oil sands projects. Some of that potential is included in our standard estimate of present value for Petro-Canada.

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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>	
North American Natural Gas	954	7.8	6.3	6,000	22%
Rest of World Natural Gas	317	4.7	3.5	1,100	4%
Oil	3,539	6.7	4.1	14,500	54%
Downstream	813		6.8	5,500	20%
	5,624	6.9	4.8	27,100	100%
Debt (US\$mm)					5,300
Net Present Value (US\$mm)					21,800
Shares (mm)					520
Net Present Value (US\$/sh)					42
Over (-)/ Under (+) Correlation (US\$/sh)					(5)

Petro-Canada
Production and Reserves, 2005

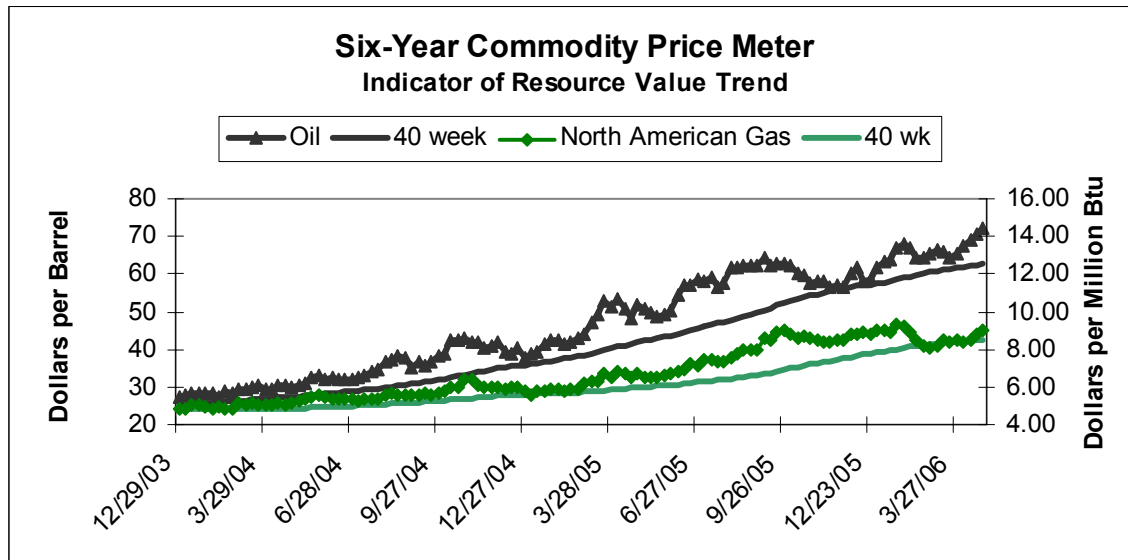
	<i>12/31/2005 Proven Reserves</i>					<i>2006</i>
	<i>2005 Production</i>	<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Weighted</i>	<i>Adjusted</i>
	<i>(daily)</i>	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>Life Index</i>	<i>R/P</i>
					<i>(years)</i>	<i>(years)</i>
North American Natural Gas						
Western Canada	479	175	1,240	99	1,290	7.4
U.S. Rockies	33	12	54	25	67	5.5
Total	512	187	1,294	124	1,356	7.3
Rest of World Natural Gas						
Northwest Europe	66	24	101	14	108	4.5
Northern Latin America	58	21	52	151	128	6.1
Other	5	2	5		5	2.5
Total	129	47	158	165	241	5.1
Oil						
Western Canada	11	4	33	1	34	8.4
East Coast	68	25	80	33	97	3.9
Oil Sands	22	8				
U.S. Rockies	16	6	2	3	4	0.6
Northwest Europe	33	12	47	95	95	7.9
North Africa/Near East	24	9	85	15	93	10.6
Syncrude	25	9	114	173	201	22.3
Total	199	73	361	320	521	7.2
						6.7

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

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	534	488	513	487	482	477	473	480	475
Overseas	158	118	126	144	143	141	140	142	141
Total	692	606	639	631	625	618	612	622	616
Oil (mbd)	226	211	220	205	215	213	211	211	212
Total gas & oil (mbd)	341	312	326	310	319	316	313	314	314
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.27	13.00	8.65	8.97	7.53	8.24	9.99	8.68	9.44
Currency (US\$/C\$)	0.82	0.85	0.83	0.87	0.88	0.88	0.88	0.88	0.88
Henry Hub (C\$/mmbtu)	7.68	15.30	10.48	10.31	8.52	9.33	11.31	9.87	10.68
U.S. (or North America)	6.67	11.83	8.46	8.69	7.18	7.86	9.53	8.31	8.97
Overseas	6.25	9.19	6.97	8.48	9.66	10.06	10.17	9.59	10.01
Total	6.57	11.32	8.17	8.64	7.75	8.36	9.67	8.60	9.21
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	49.65	60.02	56.31	63.33	72.20	75.16	75.97	71.66	74.82
WTI Cushing (C\$/bbl)	60.85	70.61	68.15	72.79	81.71	85.06	85.97	81.38	84.68
Worldwide	52.76	60.50	60.55	64.18	72.04	75.00	75.80	71.86	74.65
Total gas & oil (\$/bbl)	45.37	59.42	54.10	56.06	59.39	62.40	65.46	60.86	63.82
NY Harbor 3-2-1 (\$/bbl)	6.17	9.06	10.63	7.40	17.93	13.16	9.08	11.89	12.62
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	321	531	1,584	381	315	345	414	1,455	1,556
Overseas	89	100	319	110	125	131	131	496	516
Total	409	631	1,903	491	440	476	545	1,952	2,072
Oil	1,073	1,174	4,862	1,184	1,409	1,468	1,469	5,531	5,769
Downstream	2,488	3,038	11,353	2,757	2,757	2,757	2,757	11,028	11,028
Other	(589)	(5)	(993)	(244)	(244)	(244)	(244)	(975)	(975)
Total	3,382	4,838	17,125	4,188	4,363	4,457	4,527	17,535	17,894
Expense									
Upstream	536	519	2,172	606	574	596	612	2,387	2,397
Downstream	2,261	2,816	10,512	2,589	2,527	2,527	2,527	10,170	10,108
Other	(589)	(5)	(993)	(244)	(244)	(244)	(244)	(975)	(975)
Total	2,209	3,330	11,692	2,951	2,857	2,879	2,895	11,581	11,530
Ebitda (\$mm)									
Upstream	946	1,287	4,593	1,069	1,276	1,348	1,402	5,095	5,444
Downstream	227	222	841	168	230	230	230	858	920
Total	1,173	1,508	5,433	1,237	1,506	1,578	1,632	5,954	6,364
Exploration	82	77	271	97	97	97	97	388	388
Deprec., Deplet., & Amort.									
Upstream	295	234	1,135	282	282	282	282	1,128	1,128
Downstream	53	51	216	53	53	53	53	212	212
Other									
Total	348	285	1,351	335	335	335	335	1,340	1,340
Ebit	743	1,146	3,811	805	1,074	1,146	1,200	4,226	4,636
Interest	34	52	164	45	45	45	45	180	180
Ebt	709	1,094	3,647	760	1,029	1,101	1,155	4,046	4,456
Income Tax	248	383	1,277	266	360	385	404	1,416	1,560
Net Income (\$mm)									
Upstream	53	651	1,678	68					
Downstream	113	111	406	75					
Other	295	(51)	287	351					
Total	461	711	2,371	494	669	716	751	2,630	2,897
Shares (millions)	527	523	525	520	520	520	520	520	520
Per share (\$)	0.88	1.36	4.52	0.95	1.29	1.38	1.44	5.06	5.57
Ebitda Margin (E&P)	68%	75%	71%	68%	74%	74%	74%	73%	74%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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