

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\$m)</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\$m)</i> | 26,100 | <i>PV/Ebitda</i> | 4.8 |
| <i>Debt (US\$m)</i> | 5,300 | <i>Undeveloped Reserves (%)</i> | 38 |
| <i>Enterprise Value (EV) (US\$m)</i> | 31,400 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 41.90 |
| <i>Present Value (PV) (US\$m)</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

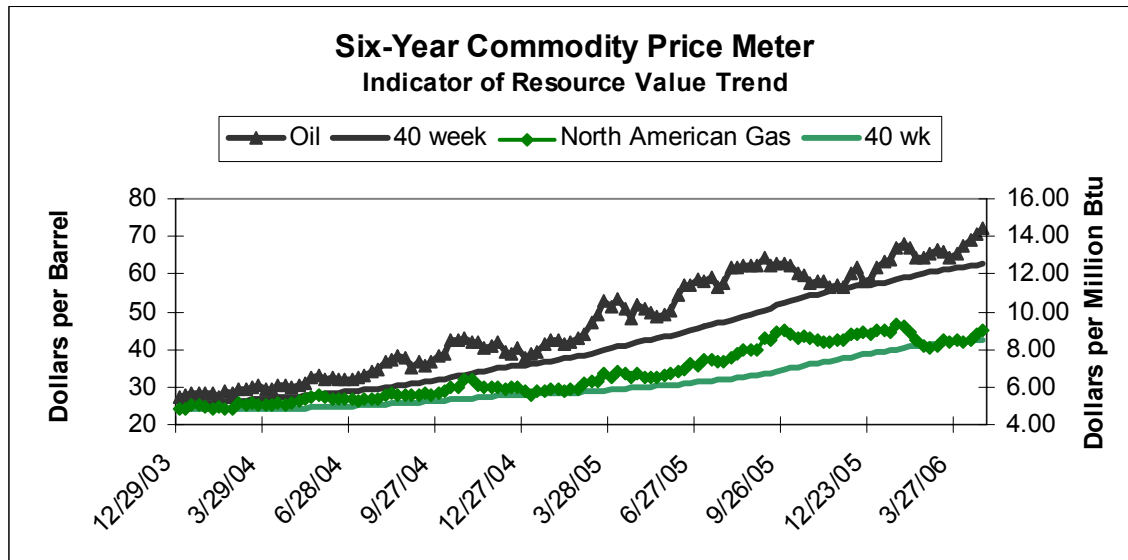
| | <i>2005 Production</i> | <i>12/31/2005 Proven Reserves</i> | | | <i>Weighted</i> | <i>2006</i> | | |
|----------------------------|------------------------|-----------------------------------|---------------------|---------------------|---------------------|----------------|------------|--------------------|
| | | <i>(daily)</i> | <i>(annual)</i> | <i>Developed</i> | | | | <i>Undeveloped</i> |
| | <i>(daily)</i> | <i>(annual)</i> | <i>(bcf or mmb)</i> | <i>(bcf or mmb)</i> | <i>(bcf or mmb)</i> | <i>(years)</i> | <i>R/P</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 | 7.8 | |
| 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 | 4.7 | |
| 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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