

Rating: Buy
S&P 500: 1263

Petro-Canada **Temporary Difficulties**

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	4,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (US\$/sh)</i>	45.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	85
<i>Pricing Date</i>	7/27/06	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	512	<i>EV/Ebitda</i>	5.8
<i>Market Capitalization (US\$mm)</i>	23,100	<i>PV/Ebitda</i>	6.2
<i>Debt (US\$mm)</i>	5,300	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$mm)</i>	28,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.30
<i>Present Value (PV) (US\$mm)</i>	30,400	<i>Present Value Proven Reserves(US\$/boe)</i>	30.00
<i>Net Present Value (US\$/share)</i>	49	<i>Present Value Proven Reserves(US\$/mcfe)</i>	5.00
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.25
<i>McDep Ratio - EV/PV</i>	0.94	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.35

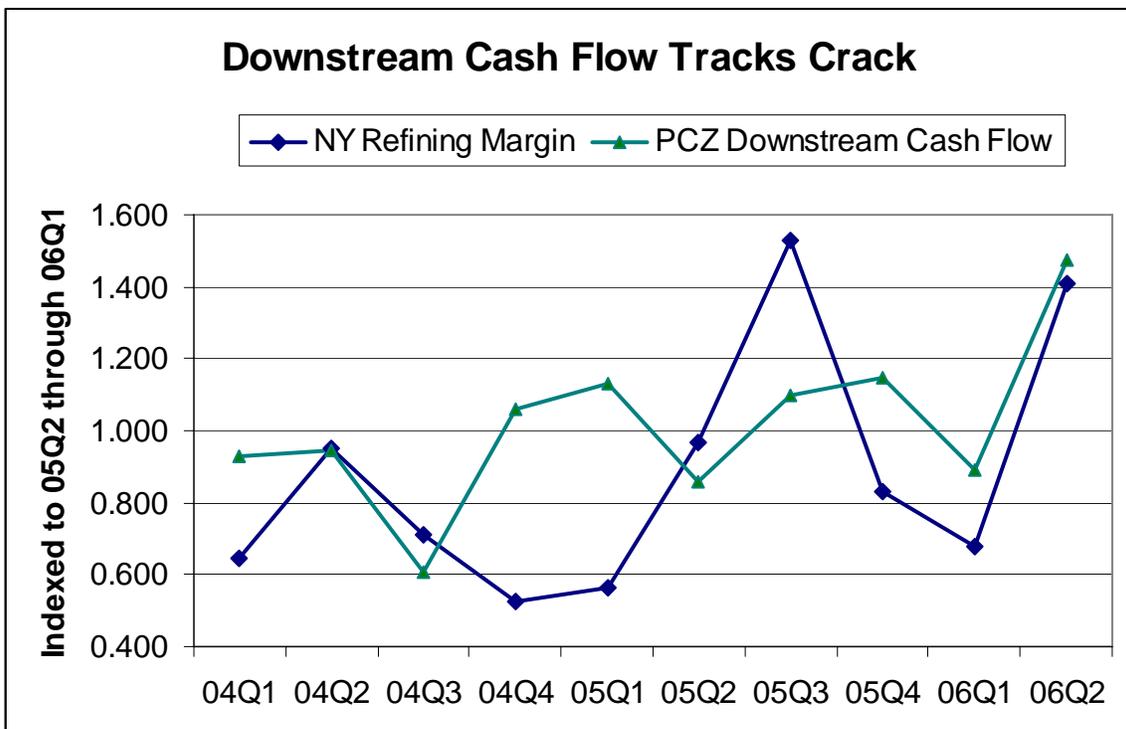
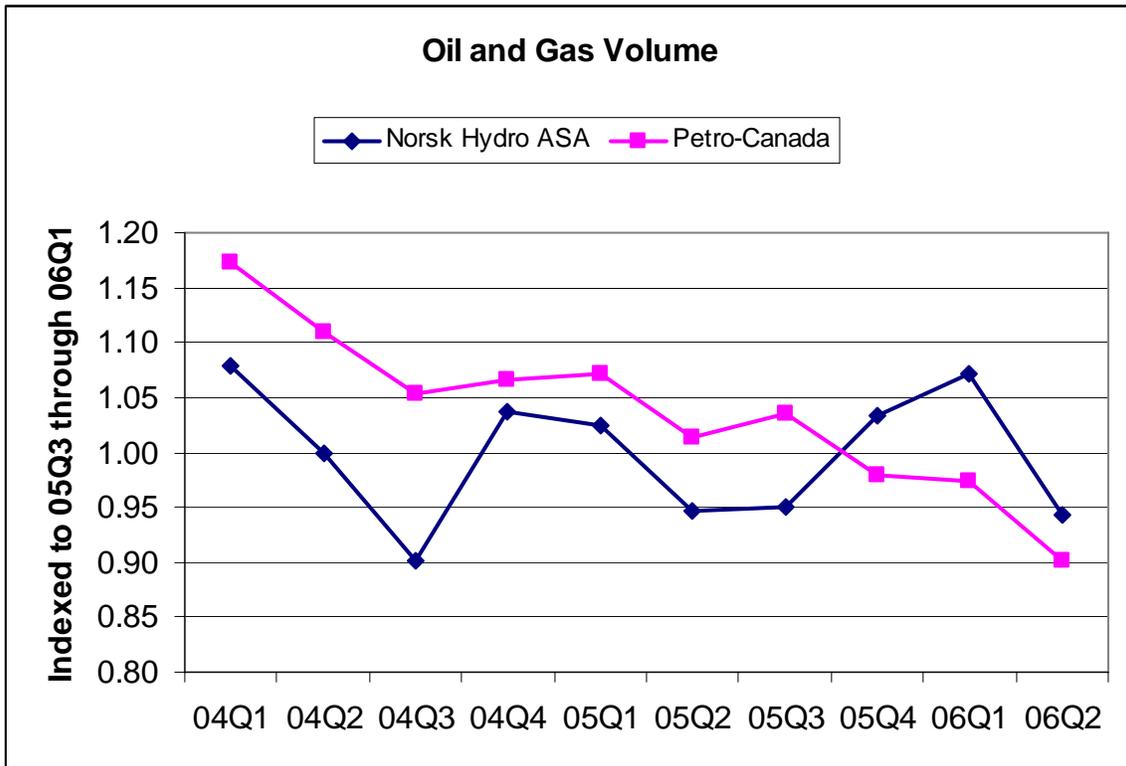
Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

In its transition from short-life production to long-life production, buy-recommended **Petro-Canada (PCZ)** is caught with accelerated volume decline before new projects make their contribution. Reporting on July 27 weak results from production for the second quarter, management lowered its forecast for the year, now half over, by about 7%. Nonetheless new volume from the North Sea and Eastern Canada is expected to start turning the trend by year-end. To patient investors, PCZ stock offers 14% appreciation potential to our estimate of net present value (NPV) of \$49 a share that presumes a long-term oil price of \$60 a barrel. The estimate was revised from \$42 a share on June 6 when we revised our oil price from \$50 a barrel. The current quote for six-year oil futures is \$73. The company has valuable oil sands projects, both mineable and *in situ*. The refining/marketing downstream is performing well and will be expanded to provide the necessary upgrading to realize full value for future oil sands production.

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

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>6/30/05</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>	<i>6/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	503	513	487	491	491	491	490	491	491
Overseas	114	126	144	97	113	118	118	144	118
Total	617	639	631	588	604	609	608	635	609
Oil (mbd)	220	220	205	189	189	220	201	218	211
Total gas & oil (mbd)	323	326	310	287	290	322	302	324	312
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.76	8.65	8.97	6.81	6.41	8.47	7.67	10.62	8.50
Currency (US\$/C\$)	0.80	0.83	0.87	0.89	0.88	0.88	0.88	0.88	0.88
Henry Hub (C\$/mmbtu)	8.40	10.48	10.31	7.63	7.31	9.67	8.72	12.12	9.70
U.S. (or North America)	7.29	8.46	8.69	6.17	5.91	7.81	7.14	9.80	7.83
Overseas	6.01	6.97	8.48	7.13	7.58	7.75	7.80	7.85	7.76
Total	7.05	8.17	8.64	6.33	6.22	7.80	7.26	9.36	7.81
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	53.05	56.31	63.33	70.47	74.90	76.58	71.32	77.63	76.73
WTI Cushing (C\$/bbl)	65.99	68.15	72.79	79.00	85.48	87.40	81.17	88.60	87.57
Worldwide	59.85	60.55	64.18	73.18	79.19	80.97	74.49	82.07	81.17
Total gas & oil (\$/bbl)	52.14	54.10	56.06	58.75	61.68	67.34	61.08	70.10	67.09
NY Harbor 3-2-1 (\$/bbl)	10.59	10.63	7.40	15.39	16.36	11.35	12.62	12.25	14.60
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	334	1,584	381	276	267	353	1,276	433	1,402
Overseas	62	319	110	63	79	84	336	102	334
Total	396	1,903	491	339	346	437	1,612	535	1,736
Oil	1,198	4,862	1,184	1,259	1,377	1,639	5,458	1,609	6,238
Downstream	2,683	11,353	2,757	3,213	3,213	3,213	12,396	3,213	12,852
Other	(217)	(993)	(244)	(80)	(80)	(80)	(485)	(80)	(321)
Total	4,060	17,125	4,188	4,730	4,855	5,209	18,982	5,276	20,506
Expense									
Upstream	506	2,172	606	704	745	859	2,914	881	3,251
Downstream	2,508	10,512	2,589	2,942	3,007	3,007	11,545	3,007	12,028
Other	(217)	(993)	(244)	(80)	(80)	(80)	(485)	(80)	(321)
Total	2,797	11,692	2,951	3,565	3,672	3,786	13,974	3,807	14,958
Ebitda (\$mm)									
Upstream	1,088	4,593	1,069	894	978	1,216	4,156	1,263	4,723
Downstream	175	841	168	271	206	206	851	206	824
Total	1,263	5,433	1,237	1,165	1,184	1,422	5,008	1,469	5,547
Exploration	58	271	97	78	78	78	331	78	312
Deprec., Deplet., & Amort.									
Upstream	297	1,135	282	255	255	255	1,047	255	1,020
Downstream	52	216	53	57	57	57	224	57	228
Other									
Total	349	1,351	335	312	312	312	1,271	312	1,248
Ebit	856	3,811	805	775	794	1,032	3,406	1,079	3,987
Interest	39	164	45	42	42	42	171	42	168
Ebt	817	3,647	760	733	752	990	3,235	1,037	3,819
Income Tax	286	1,277	266	256	263	347	1,132	363	1,337
Net Income (\$mm)									
Upstream	475	1,678	68	426					
Downstream	80	406	75	139					
Other	(24)	287	351	(89)					
Total	531	2,371	494	476	489	644	2,102	674	2,483
Shares (millions)									
526	525	520	512	512	512	512	514	512	512
Per share (\$)	1.01	4.52	0.95	0.93	0.95	1.26	4.09	1.32	4.85
Ebitda Margin (E&P)	71%	71%	68%	58%	59%	61%	62%	62%	62%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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	728	7.6	6.9	5,000	16%
Rest of World Natural Gas	173	5.6	5.8	1,000	3%
Oil	3,238	6.8	6.1	19,900	65%
Downstream	722		6.2	4,500	15%
	4,861	6.9	6.3	30,400	100%
Debt (US\$mm)					5,300
Net Present Value (US\$mm)					25,100
Shares (mm)					512
Net Present Value - Standard Estimate (US\$/sh)					49
Net Present Value - Approximation by Correlation (US\$/sh)					45

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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