

Rating: Buy
 S&P 500: 1389

Petro-Canada Volume Growth around the Corner

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	4,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	16
<i>Price (US\$/sh)</i>	43.54	<i>Natural Gas and Oil Production/Ebitda (%)</i>	78
<i>Pricing Date</i>	10/26/06	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	506	<i>EV/Ebitda</i>	6.6
<i>Market Capitalization (US\$mm)</i>	22,000	<i>PV/Ebitda</i>	7.3
<i>Debt (US\$mm)</i>	5,400	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$mm)</i>	27,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.60
<i>Present Value (PV) (US\$mm)</i>	30,200	<i>Present Value Proven Reserves(US\$/boe)</i>	20.00
<i>Net Present Value (US\$/share)</i>	49	<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>	3.44
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	13
<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.

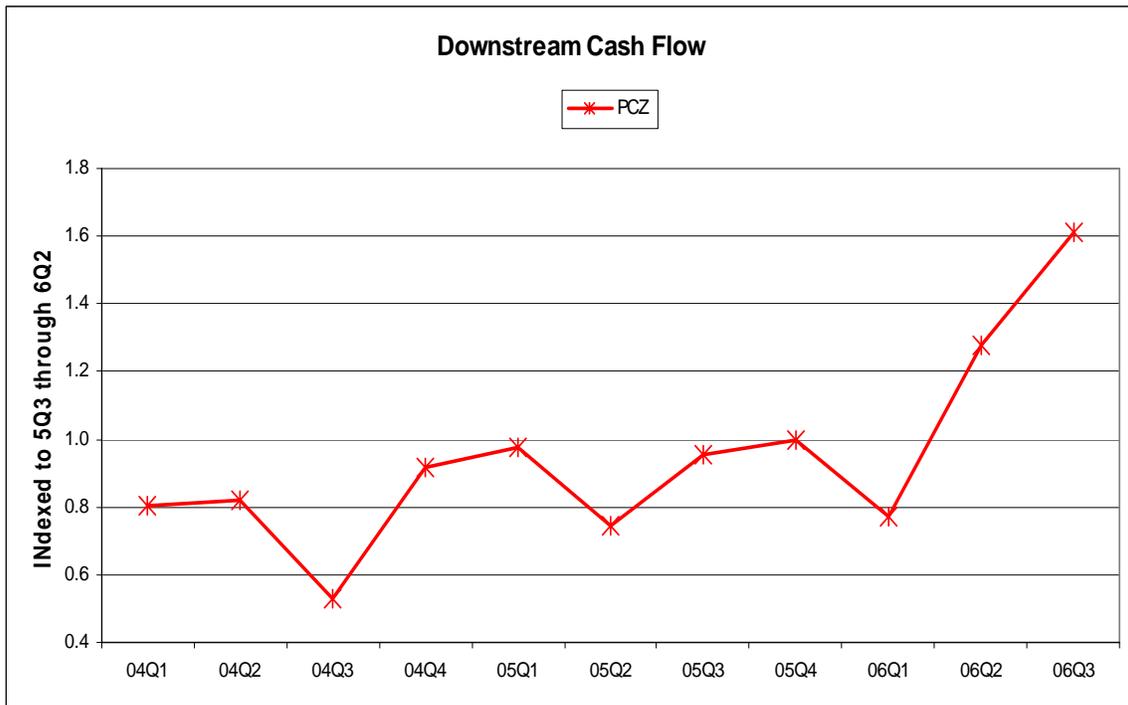
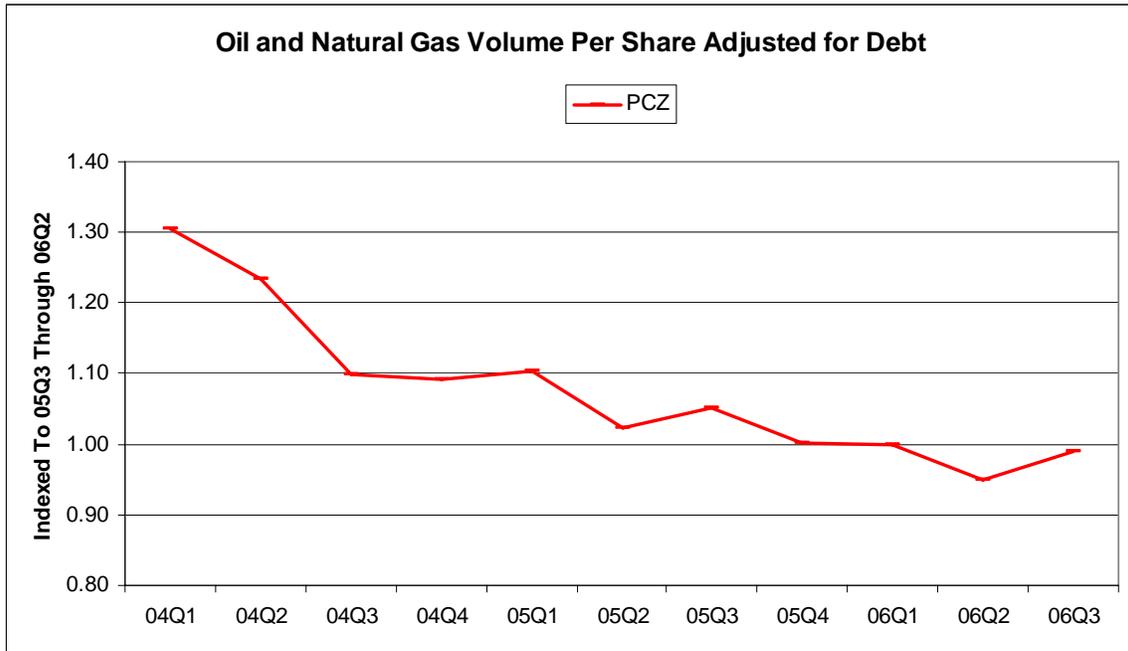
Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

Summary and Recommendation

At a McDep Ratio of 0.91, buy-recommended **Petro-Canada (PCZ)** offers unlevered appreciation potential of 10% to estimated present value. Futures prices for oil averaging \$66 a barrel for delivery over the next six years and buy-recommended **Royal Dutch Shell (RDS)**'s offer to buy the minority interest in Shell Canada (SHC.TO) seem to validate estimated present value. New volume from the North Sea and Eastern Canada expected by year-end may turn the recently declining trend in oil and gas volume per share (see chart). Results for the third quarter reported on October 26 have the refining/marketing downstream performing well (see chart). Intense activity in global energy project construction adds costs and delays to the company's plans for a new oil sands mining/upgrading project. Without counting any volume increase for the next four quarters, the cash flow implications contribute to a positive comparison of our estimate of present value with that from a correlation with some thirty natural gas and oil producers (see table on page 4). Currently out of favor with investors with stock price below its 200-day average, PCZ has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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

	Q3		Q2		Q3		Q4E		Year		Q1E		Q2E		Q3E		Next Twelve Months	
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07	9/30/07	9/30/07	9/30/07	9/30/07	9/30/07	9/30/07	9/30/07	9/30/07	9/30/07
Volume																		
Natural Gas (mmcf)																		
U.S. (or North America)	527	491	509	509	499	509	509	509	509	509	509	509	509	509	509	509	509	509
Overseas	113	97	84	118	111	144	97	84	111	144	97	84	111	144	97	84	111	111
Total	640	588	593	627	610	653	606	593	620	653	606	593	620	653	606	593	620	620
Oil (mbd)	223	189	197	197	197	197	197	197	197	197	197	197	197	197	197	197	197	197
Total gas & oil (mbd)	330	287	296	301	299	306	298	296	300	306	298	296	300	306	298	296	300	300
Price																		
Natural gas (\$/mcf)																		
Henry Hub (US\$/mmbtu)	8.56	6.81	6.58	6.30	7.17	8.19	7.61	7.81	7.48	8.19	7.61	7.81	7.48	8.19	7.61	7.81	7.48	7.48
Currency (US\$/C\$)	0.83	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89
Henry Hub (C\$/mmbtu)	10.29	7.63	7.38	7.10	8.10	9.24	8.57	8.80	8.43	9.24	8.57	8.80	8.43	9.24	8.57	8.80	8.43	8.43
U.S. (or North America)	8.22	6.17	5.97	5.75	6.62	7.47	6.93	7.12	6.81	7.47	6.93	7.12	6.81	7.47	6.93	7.12	6.81	6.81
Overseas	6.58	7.13	6.61	5.75	7.09	7.47	6.93	7.12	6.82	7.47	6.93	7.12	6.82	7.47	6.93	7.12	6.82	6.82
Total	7.93	6.33	6.06	5.75	6.70	7.47	6.93	7.12	6.82	7.47	6.93	7.12	6.82	7.47	6.93	7.12	6.82	6.82
Oil (\$/bbl)																		
WTI Cushing (US\$/bbl)	62.52	70.47	70.42	58.64	65.71	61.56	63.85	65.29	62.34	61.56	63.85	65.29	62.34	61.56	63.85	65.29	62.34	62.34
WTI Cushing (C\$/bbl)	75.14	79.00	78.95	66.10	74.21	69.39	71.98	73.60	70.27	69.39	71.98	73.60	70.27	69.39	71.98	73.60	70.27	70.27
Worldwide	69.01	73.18	70.76	59.25	66.75	62.20	64.52	65.97	62.98	62.20	64.52	65.97	62.98	62.20	64.52	65.97	62.98	62.98
Total gas & oil (\$/bbl)	59.82	58.75	57.39	48.41	55.09	52.49	54.49	56.18	52.87	52.49	54.49	56.18	52.87	52.49	54.49	56.18	52.87	52.87
NY Harbor 3-2-1 (\$/bbl)	16.70	15.39	11.67	6.84	10.32	7.57	11.57	11.80	9.44	7.57	11.57	11.80	9.44	7.57	11.57	11.80	9.44	9.44
Revenue (\$mm)																		
Natural Gas																		
U.S. (or North America)	399	276	280	269	1,205	342	321	333	1,266	342	321	333	1,266	342	321	333	1,266	1,266
Overseas	68	63	51	62	286	97	61	55	275	97	61	55	275	97	61	55	275	275
Total	467	339	331	331	1,491	439	382	388	1,541	439	382	388	1,541	439	382	388	1,541	1,541
Oil	1,416	1,259	1,282	1,073	4,798	1,102	1,156	1,195	4,526	1,102	1,156	1,195	4,526	1,102	1,156	1,195	4,526	4,526
Downstream	3,144	3,213	3,477	3,477	12,924	3,477	3,477	3,477	13,908	3,477	3,477	3,477	13,908	3,477	3,477	3,477	13,908	13,908
Other	(182)	(80)	112	-	(212)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	4,845	4,730	5,201	4,882	19,001	5,018	5,015	5,060	19,976	5,018	5,015	5,060	19,976	5,018	5,015	5,060	19,976	19,976
Expense (\$mm)																		
Upstream	611	704	673	608	2,591	653	572	584	2,417	653	572	584	2,417	653	572	584	2,417	2,417
Downstream	2,927	2,942	3,135	3,255	11,921	3,309	3,206	3,135	12,905	3,309	3,206	3,135	12,905	3,309	3,206	3,135	12,905	12,905
Other	(182)	(80)	112	-	(212)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	3,356	3,565	3,920	3,864	14,300	3,961	3,778	3,719	15,322	3,961	3,778	3,719	15,322	3,961	3,778	3,719	15,322	15,322
Ebitda (\$mm)																		
Upstream	1,272	894	939	796	3,698	889	967	999	3,651	889	967	999	3,651	889	967	999	3,651	3,651
Downstream	217	271	342	222	1,003	168	271	342	1,003	168	271	342	1,003	168	271	342	1,003	1,003
Total	1,489	1,165	1,281	1,018	4,701	1,057	1,238	1,341	4,654	1,057	1,238	1,341	4,654	1,057	1,238	1,341	4,654	4,654
Exploration	54	78	57	57	289	57	57	57	228	57	57	57	228	57	57	57	228	228
Deprec., Deplet., & Amort.																		
Upstream	309	255	240	240	1,017	240	240	240	960	240	240	240	960	240	240	240	960	960
Downstream	60	57	71	71	252	71	71	71	284	71	71	71	284	71	71	71	284	284
Other																		
Total	369	312	311	311	1,269	311	311	311	1,244	311	311	311	1,244	311	311	311	1,244	1,244
Ebit	1,066	775	913	650	3,143	689	870	973	3,182	689	870	973	3,182	689	870	973	3,182	3,182
Interest	39	42	41	41	169	41	41	41	164	41	41	41	164	41	41	41	164	164
Ebt	1,027	733	872	609	2,974	648	829	932	3,018	648	829	932	3,018	648	829	932	3,018	3,018
Income Tax	359	256	305	213	1,041	227	290	326	1,056	227	290	326	1,056	227	290	326	1,056	1,056
Net Income (\$mm)																		
Upstream	499	426	433															
Downstream	102	139	176															
Other	66	(89)	(42)															
Total	667	476	567	396	1,933	421	539	606	1,962	421	539	606	1,962	421	539	606	1,962	1,962
Shares (millions)																		
525	512	506	506	511	506	506	506	506	511	506	506	506	506	506	506	506	506	506
Per share (\$)	1.27	0.93	1.12	0.78	3.78	0.83	1.06	1.20	3.88	0.83	1.06	1.20	3.88	0.83	1.06	1.20	3.88	3.88
Ebitda Margin (E&P)	70%	58%	60%	59%	62%	62%	65%	65%	63%	62%	65%	65%	63%	62%	65%	65%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	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	676	7.3	7.4	5,000	17%
Rest of World Natural Gas	147	6.0	6.8	1,000	3%
Oil	2,416	7.2	8.2	19,700	65%
Downstream	890		5.1	4,500	15%
	4,128	7.2	7.3	30,200	100%
Debt (US\$mm)					5,400
Net Present Value (US\$mm)					24,800
Shares (mm)					506
Net Present Value - Standard Estimate (US\$/sh)					49
Net Present Value - Approximation by Correlation (US\$/sh)					52

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