



Independent Stock Idea

October 24, 2008

rating: hold
s&p 500: 908

Petro-Canada (PCZ) Pacing Fort Hills

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	5,800
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	21.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	86
<i>Pricing Date</i>	10/23/08	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	484	<i>EV/Ebitda</i>	2.6
<i>Market Capitalization (US\$mm)</i>	10,600	<i>PV/Ebitda</i>	8.3
<i>Debt (US\$mm)</i>	4,300	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	14,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	39.20
<i>Present Value (PV) (US\$mm)</i>	47,800	<i>Present Value Proven Reserves(US\$/mcfe)</i>	40.00
<i>Net Present Value (US\$/share)</i>	90	<i>Present Value Proven Reserves(US\$/mcfe)</i>	6.70
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.84
<i>McDep Ratio - EV/PV</i>	0.31	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	2.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.64
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical research on PCZ since 2004 see www.mcdep.com/2pcz.htm			

Summary and Recommendation

Disclosing last month a 50% increase in estimated capital costs for the proposed Fort Hills oil sands mining and upgrading project, management of Hold-rated **Petro-Canada (PCZ)** is looking for ways to modify the project to make it more manageable and affordable. Apparently the company and its partners have a strong incentive to complete some capacity to mine bitumen by 2011 or possibly lose the lease. The timing for the remaining portions of the project seem likely to be stretched out in the hope of achieving lower costs in a less heated capital project environment. As a result, there is now little risk that the company will find itself overcommitted to an expensive project at a vulnerable time. Meanwhile, third quarter results reported on October 24 exceeded our expectations from three months ago for volume, earnings and unlevered cash flow (Ebitda). A steep decline in stock price recently more than compensates for reduced expectations for the next year (see table Next Twelve Months Operating and Financial Estimates). As a result, the market unlevered cash flow multiple (EV/Ebitda) is a remarkably low 2.6 times. Of all the stocks we cover domiciled in developed countries, PCZ has the lowest McDep Ratio, which implies the most unlevered appreciation potential. Noting the company also has low debt, only a wariness of the global financial situation keeps us from recommending buy rather than hold.

Kurt H. Wulff, CFA



Independent Stock Idea

October 24, 2008

Petro-Canada									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	Twelve
									Months
									9/30/09
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	476	456	466	466	464	466	466	466	466
Overseas	91	123	114	104	117	126	123	114	117
Total	567	579	580	570	582	592	589	580	583
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	283	240	252	252	255	252	252	252	252
Total gas & oil (mbd)	378	336	349	347	352	351	350	349	349
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.16	10.93	10.25	7.09	9.07	7.24	7.55	7.19	7.27
Currency (US\$/C\$)	0.96	0.99	0.96	0.80	0.94	0.80	0.80	0.80	0.80
Henry Hub (C\$/mmbtu)	6.44	11.04	10.66	8.85	9.68	9.04	9.42	8.97	9.07
U.S. (or North America)	5.17	9.64	8.41	6.98	8.12	7.13	7.43	7.07	7.15
Overseas	5.93	9.55	9.75	6.98	8.50	7.13	7.43	7.07	7.16
Total	5.29	9.62	8.67	6.98	8.20	7.13	7.43	7.07	7.15
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	75.48	123.97	117.99	76.61	104.13	75.43	86.27	75.25	78.39
WTI Cushing (C\$/bbl)	78.95	125.23	122.77	95.57	110.49	94.10	107.62	93.88	97.79
Worldwide	74.32	117.22	114.11	88.83	102.97	87.46	100.02	87.25	90.88
Total gas & oil (\$/bbl)	62.23	96.64	93.71	73.88	85.36	72.33	81.87	72.51	75.15
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.70	10.01	5.43	10.14	8.04	7.33
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	226	400	361	299	1,378	299	315	303	1,216
Overseas	50	107	102	67	363	81	83	74	305
Total	276	507	463	366	1,741	380	398	377	1,521
Oil	1,935	2,556	2,646	2,059	9,606	1,984	2,294	2,023	8,360
Downstream	3,348	4,461	4,883	4,883	17,989	4,883	4,883	4,883	19,532
Other	(62)	242	295	295	905	295	295	295	1,179
Total	5,497	7,766	8,286	7,603	30,241	7,541	7,870	7,578	30,592
Expense (\$mm)									
Upstream	872	971	525	897	3,392	874	996	888	3,656
Downstream	3,114	4,076	4,844	4,686	17,010	4,525	4,498	4,844	18,553
Other	(62)	242	295	295	905	295	295	295	1,179
Total	3,924	5,290	5,663	5,878	21,306	5,694	5,789	6,026	23,388
Ebitda (\$mm)									
Upstream	1,339	2,091	2,584	1,528	7,956	1,489	1,696	1,512	6,225
Downstream	234	385	39	197	979	358	385	39	979
Total	1,573	2,476	2,623	1,725	8,934	1,847	2,081	1,552	7,204
Exploration	65	185	143	143	614	90	90	90	413
Deprec., Deplet., & Amort.									
Upstream	426	395	432	432	1,707	432	432	432	1,728
Downstream	72	77	81	81	314	81	81	81	324
Other									
Total	498	472	513	513	2,021	513	513	513	2,052
Ebit	1,010	1,819	1,967	1,069	6,299	1,244	1,478	949	4,739
Interest	39	47	61	61	217	61	61	61	244
Ebt	971	1,772	1,906	1,008	6,082	1,183	1,417	888	4,495
Income Tax	340	620	667	353	2,129	414	496	311	1,573
Net Income (\$mm)									
Upstream	658	957	1,254						
Downstream	105	200	(27)						
Other	(132)	(5)	12						
Total	631	1,152	1,239	655	3,954	769	921	577	2,922
Shares (millions)									
Per share (\$)	493	484	484	484	485	484	484	484	484
	1.28	2.38	2.56	1.35	8.15	1.59	1.90	1.19	6.04
Ebitda Margin (E&P)	61%	68%	83%	63%	70%	63%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

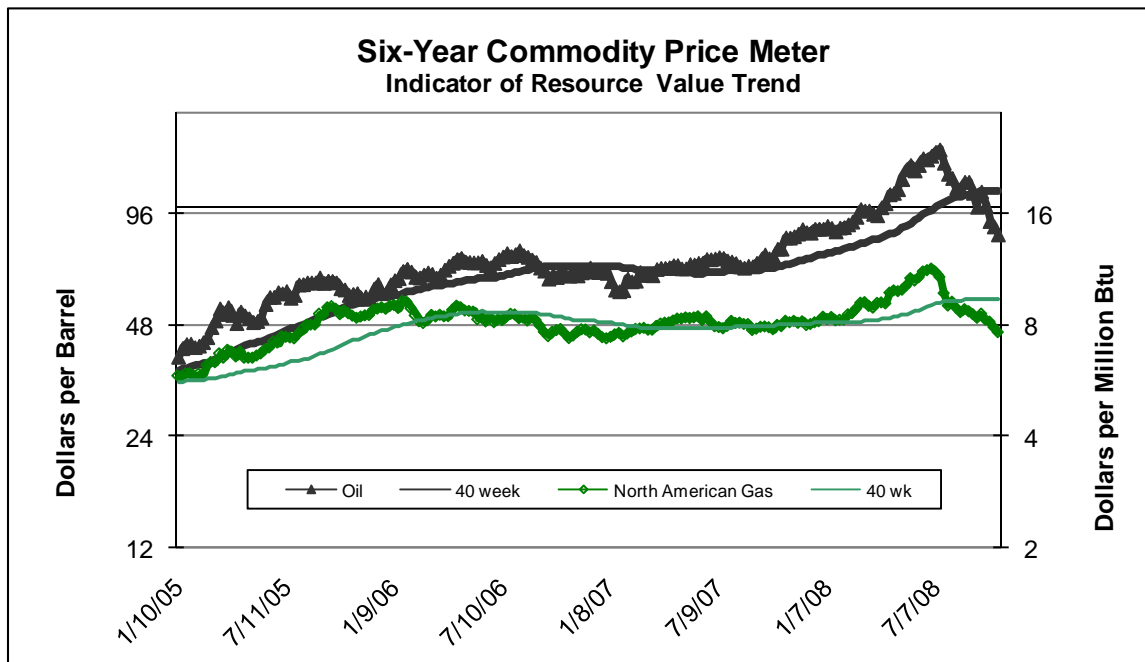
Page 2



Independent Stock Idea

October 24, 2008

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	614	6.5	9.0	5,500	11%
Rest of World Natural Gas	154	4.6	9.7	1,500	3%
Oil	4,222	7.2	8.1	34,400	72%
Downstream	785		8.3	6,500	14%
	5,775	6.9	8.3	47,900	100%
Debt (US\$mm)					4,300
Net Present Value (US\$mm)					43,600
Shares (mm)					484
Net Present Value - Standard Estimate (US\$/sh)					90
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					95





Independent Stock Idea

October 24, 2008

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.