

Rating: None  
 S&P 500: 1187

## Canadian Natural Resources Namesake Resource Appeal

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	5,700
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (US\$/sh)</i>	39.11	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/14/05	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	537	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	21,000	<i>PV/Ebitda</i>	7.2
<i>Debt (US\$mm)</i>	5,600	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (US\$mm)</i>	26,600	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	4.87
<i>Present Value (PV) (US\$mm)</i>	41,000	<i>Present Value Proven Reserves(US\$/boe)</i>	18.23
<i>Net Present Value (US\$/share)</i>	66	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.04
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.65
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.40

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

### Summary

Present value of US\$66 a share estimated for \$50 oil in the sensitivity analysis discussed earlier implies that CNQ stock offers attractive resource potential. The main distinction compared to peers is CNQ's concentration on the Horizon oil sands project.

### Fundamental Valuation Appealing

CNQ has a low McDep Ratio by itself and relative to peers (see table at right). The numerator depends on current stock price. The denominator depends on an oil price assumption that is less than futures quotes.

		<i>Futures Price</i>		<i>McDep Ratio</i>
	<i>Units</i>	<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
<b>Crude Oil</b>	\$/barrel	60	62	50
<b>Natural Gas</b>	\$/million btu	9	12	10
	<i>Stocks</i>			<i>Median</i>
	<b>Independent - Large</b>			0.79
	<b>Canadian Natural Resources</b>			0.65

### Horizon Oil Sands Project a Third of Estimated Present Value

CNQ's value includes US\$13.4 billion for Horizon as calculated in an earlier sensitivity analysis (see table Functional Cash Flow and Present Value). We add a line to the table that indicates that our estimate of CNQ's present value may be high compared to current correlations with estimated Next Twelve Months Cash Flow (NTM Ebitda) and reserve life (Adjusted R/P). That difference is related only to conventional resources and not oil sands and changes with regular recalculation.

**Canadian Natural Resources**  
**Functional Cash Flow and Present Value**

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	3,230	5.8	3.6	11,500	28%
Oil	2,470	9.9	6.5	16,100	39%
Horizon				13,400	33%
	5,700	8.0	7.2	41,000	100%
Debt					5,600
Net Present Value (US\$mm)					35,400
Shares					537
Net Present Value (US\$/sh)					66
Over (-)/ Under (+) Correlation (US\$/sh)					(4)

**Cash Flow Strong and Rising**

The cash flow model has been changed to project production on a basis before royalties to make it more convenient to compare to the primary basis that management uses in its communication. Indications are that cash flow for the quarter just ended was higher than the previous quarter and there may be further gains ahead (see line with a box around the number in the far right column on table [Next Twelve Months Operating and Financial Estimates](#)). Despite the long-term direction toward oil, Next Twelve Months cash flow depends a surprising 57% on natural gas. The model needs refinement to account for the financial impact of commodity price hedging that complicates projections.

**Valuation Competitive with Peers**

Oil and gas stocks seem to have survived a critical test in the stock market last week and now may be ready for a winter rally. Regardless of the short-term outlook we like the long-term prospects of independent producers. Investors in CNQ who are confident in the prospects for Horizon may consider the stock with a McDep Ratio of 0.65 to be among the most undervalued of peers (see table [Rank by McDep Ratio](#)).

**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/</i>	<i>Price</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>	
	<i>Rating</i>	<i>(\$/sh)</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>	
		<i>14-Oct</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>		
		<i>2005</i>			<i>(\$/sh)</i>			
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	49.16	892	43,900	51.00	0.16	0.97
XTO Energy Inc.	XTO	B	41.08	367	15,080	48.00	0.17	0.88
Burlington Resources	BR	B	70.06	385	27,000	86.00	0.09	0.83
Devon Energy Corporation	DVN	B	62.03	471	29,200	86.00	0.15	0.76
CNOOC Limited (29%)	CEO	B	63.35	119	7,560	84.00	0.01	0.76
Anadarko Petroleum Corp.	APC	B	89.73	238	21,400	140.00	0.11	0.68
Occidental Petroleum Corp.	OXY	B	72.73	406	29,500	120.00	0.11	0.65
			<i>Total or Median</i>		<i>491,000</i>		<i>0.11</i>	<i>0.79</i>

**Canadian Natural Resources**  
**Next Twelve Months Operating and Financial Estimates**  
 (Canadian Dollars)

	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>9/30/06</i>
<b>Volume</b> (before royalty)									
Natural Gas (bcf)	131	132	134	134	<b>531</b>	131	132	134	<b>531</b>
Natural Gas (mmcf)	1,455	1,454	1,454	1,454	<b>1,454</b>	1,454	1,454	1,454	<b>1,454</b>
Days	90	91	92	92	<b>365</b>	90	91	92	<b>365</b>
Oil (mmb)	25.9	26.3	26.6	26.6	<b>105</b>	26.0	26.3	26.6	<b>105</b>
Oil (mbd)	288	289	289	289	<b>289</b>	289	289	289	<b>289</b>
Total (bcf)	286	290	293	293	<b>1,163</b>	287	290	293	<b>1,164</b>
Total (mmcf)	3,182	3,188	3,188	3,188	<b>3,186</b>	3,188	3,188	3,188	<b>3,188</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	6.27	6.76	8.56	13.69	<b>8.82</b>	14.18	10.50	10.39	<b>12.19</b>
Currency (US\$/C\$)	0.82	0.80	0.85	0.84	<b>0.83</b>	0.84	0.84	0.84	<b>0.84</b>
Henry Hub (C\$/mmbtu)	7.69	8.41	10.09	16.25	<b>10.61</b>	16.82	12.46	12.33	<b>14.47</b>
Differential	(0.41)	(0.57)	(0.23)	(0.48)	<b>(0.44)</b>	(0.49)	(0.37)	(0.36)	<b>(0.42)</b>
Company (C\$/mcf)	6.68	7.33	8.80	14.17	<b>9.26</b>	14.67	10.86	10.75	<b>12.61</b>
WTI Cushing (US\$/bbl)	49.65	53.05	62.52	62.43	<b>56.91</b>	63.16	63.67	63.68	<b>63.24</b>
WTI Cushing (C\$/bbl)	60.92	66.00	73.66	74.10	<b>68.46</b>	74.96	75.56	75.57	<b>75.05</b>
Differential	9.84	10.54	15.08	14.71	<b>12.51</b>	14.88	15.00	15.00	<b>14.90</b>
Company (C\$/bbl)	39.81	42.51	47.44	47.72	<b>44.41</b>	48.28	48.67	48.67	<b>48.33</b>
Total (\$/bbl)	39.93	43.18	49.88	64.73	<b>49.50</b>	66.41	56.20	55.90	<b>60.79</b>
<b>Revenue</b> (\$mm)									
Natural Gas	875	970	1,177	1,895	<b>4,917</b>	1,920	1,438	1,438	<b>6,691</b>
Oil	1,031	1,118	1,261	1,269	<b>4,679</b>	1,256	1,280	1,294	<b>5,099</b>
Royalties	-	-	-	-	-	-	-	-	-
Hedging									
Total	1,906	2,088	2,438	3,164	<b>9,596</b>	3,176	2,717	2,732	<b>11,790</b>
<b>Expense</b>	785	836	1,011	1,374	<b>4,008</b>	1,380	1,151	1,159	<b>5,065</b>
<b>Ebitda</b> (\$mm)	1,120	1,251	1,427	1,790	<b>5,588</b>	1,795	1,566	1,574	<b>6,725</b>
Exploration									
Deprec., Deplet., & Amort.	492	501	501	501	<b>1,995</b>	501	501	501	<b>2,004</b>
Hedging									
Interest	43	40	40	40	<b>163</b>	40	40	40	<b>160</b>
<b>Ebt</b>	585	710	886	1,249	<b>3,430</b>	1,254	1,025	1,033	<b>4,561</b>
Income tax	205	249	310	437	<b>1,201</b>	439	359	361	<b>1,596</b>
<b>Net Income</b> (\$mm)	381	462	576	812	<b>2,230</b>	815	666	671	<b>2,965</b>
Per share (\$)	0.71	0.86	1.07	1.51	<b>4.15</b>	1.52	1.24	1.25	<b>5.52</b>
<b>Shares</b> (millions)	536	537	537	537	<b>537</b>	537	537	537	<b>537</b>
Ebitda margin	59%	60%	59%	57%	<b>58%</b>	57%	58%	58%	<b>57%</b>
Tax rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

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