

Rating: None
S&P 500: 1364

Canadian Natural Resources Prudent Response to Escalating Costs

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	6,200
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	40
<i>Price (US\$/sh)</i>	50.14	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/3/06	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Shares (mm)</i>	537	<i>EV/Ebitda</i>	6.1
<i>Market Capitalization (US\$mm)</i>	26,900	<i>PV/Ebitda</i>	8.5
<i>Debt (US\$mm)</i>	11,000	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	37,900	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.30
<i>Present Value (PV) (US\$mm)</i>	52,300	<i>Present Value Proven Reserves(US\$/boe)</i>	21.82
<i>Net Present Value (US\$/share)</i>	77	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.64
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.31
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.26

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.

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

Summary

Canadian Natural Resources (CNQ) at a McDep Ratio of 0.72 offers unlevered appreciation potential of 38% to estimated present value. Taking account of quarterly results reported on November 1, the approximation from correlation of the rate of production relative to reserves with present value as a multiple of cash flow for some thirty natural gas and oil producers exceeds our standard estimate of net present value by \$7 a share (see table Functional Cash Flow and Present Value). That allows for a possible surprise decline in projected natural gas volume with the announced cutback in capital spending or a surprise widening of the discount for the company's current production of heavy oil. Wariness on capital spending apparently extends to the Horizon oil sands project as management hedges its commitment beyond the phase under construction as a result of escalating costs. If allocated entirely to the initial capacity of 110,000 barrels daily, our estimate of present value for Horizon appears only slightly higher than that for an incremental 100,000 barrels daily at Suncor on a parallel path for completion in late 2008 (see table Present Value of Oil Sands Mine/Upgrader). Below the 200-day average price signifying an out-of-favor stock, CNQ offers representation in real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

Canadian Natural Resources
Functional Cash Flow and Present Value

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	2,450	7.0	6.9	17,000	33%
Oil	3,750	8.6	5.9	22,100	42%
Horizon				13,200	25%
	6,200	7.8	8.4	52,300	100%
Debt					11,000
Net Present Value (US\$mm)					41,300
Shares					537
Net Present Value - Standard Estimate (US\$/sh)					77
Net Present Value - Approximation by Correlation (US\$/sh)					84

Present Value of Oil Sands Mine/Upgrader
Long-Term Oil Price \$60 a barrel

	<i>Syncrude</i>	<i>Suncor</i>	<i>Horizon</i>
Capacity (barrels daily)	350,000	250,000	
Operable	2006	2006	
Present Value (PV, US\$mm)	50,400	36,000	
PV/daily barrel (US\$)	144,000	144,000	
Capacity (barrels daily)		100,000	110,000
Operable		2008	2008
Present Value (PV, US\$mm)		10,500	13,200
PV/daily barrel (US\$)		105,000	120,000

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

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</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>	<i>9/30/07</i>	<i>9/30/07</i>
Volume (before royalty)									
Natural Gas (mmcf)	1,423	1,475	1,437	1,670	1,505	1,787	1,787	1,787	1,758
Oil (mbd)	335	338	322	328	328	331	331	331	330
Total (bcf)	316	319	310	335	1,268	340	343	347	1,365
Total (mmcf)	3,433	3,503	3,369	3,638	3,473	3,773	3,773	3,773	3,739
Price									
Henry Hub (US\$/mmbtu)	8.56	6.81	6.58	6.30	7.17	8.30	7.74	7.94	7.57
Currency (US\$/C\$)	0.85	0.89	0.89	0.88	0.88	0.88	0.88	0.88	0.88
Henry Hub (C\$/mmbtu)	10.09	7.63	7.38	7.14	8.12	9.41	8.76	9.00	8.58
Differential (C\$/mmbtu)	1.48	1.47	1.55	1.50	1.68	1.98	1.84	1.89	1.79
Company (C\$/mcf)	8.61	6.16	5.83	5.64	6.44	7.43	6.92	7.11	6.79
WTI Cushing (US\$/bbl)	62.52	70.47	70.42	58.20	65.60	60.80	63.32	64.77	61.77
WTI Cushing (C\$/bbl)	73.66	79.00	78.95	65.93	74.30	68.88	71.73	73.38	69.98
Differential (C\$/bbl)	16.31	18.95	16.40	13.69	19.56	14.31	14.90	15.24	14.53
Company (C\$/bbl)	57.35	60.05	62.55	52.24	54.74	54.57	56.83	58.14	55.45
Total (\$/bbl)	54.99	50.33	50.79	43.79	47.76	49.84	49.59	50.81	48.54
Revenue (\$mm)									
Natural Gas	1,127	827	771	867	3,537	1,195	1,126	1,169	4,356
Oil	1,768	1,847	1,853	1,576	6,553	1,626	1,712	1,770	6,684
Total	2,895	2,674	2,624	2,443	10,090	2,821	2,838	2,939	11,041
Expense	1,072	899	941	822	3,639	1,048	1,060	1,127	4,056
Ebitda (\$mm)	1,823	1,775	1,683	1,621	6,451	1,772	1,778	1,813	6,985
Exploration									
Deprec., Deplet., & Amort.	505	573	589	650	2,350	675	675	675	2,675
Hedging	368	381	350	34	1,161				34
Interest	38	28	25	81	159	81	81	81	324
Ebt	912	793	719	857	2,782	1,016	1,022	1,057	3,952
Income tax	319	278	252	300	974	356	358	370	1,383
Net Income (\$mm)	593	516	467	557	1,808	661	664	687	2,569
Per share (\$)	1.10	0.96	0.87	1.04	3.37	1.23	1.24	1.28	4.78
Shares (millions)	539	537	537	537	537	537	537	537	537
Ebitda margin	63%	66%	64%	66%	64%	63%	63%	62%	63%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%