

Rating: None
 S&P 500: 1320

Canadian Natural Resources Timely Acquisition

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	6,700
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	38
<i>Price (US\$/sh)</i>	43.93	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/15/06	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Shares (mm)</i>	537	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (US\$mm)</i>	23,600	<i>PV/Ebitda</i>	7.8
<i>Debt (US\$mm)</i>	11,200	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	34,800	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.51
<i>Present Value (PV) (US\$mm)</i>	52,500	<i>Present Value Proven Reserves(US\$/boe)</i>	22.33
<i>Net Present Value (US\$/share)</i>	77	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.72
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.74
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.27

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

The US\$4 billion acquisition of Anadarko Canada by **Canadian Natural Resources (CNQ)** is a timely transaction in our opinion because natural gas commodity price is cyclically weak relative to oil and we like the long-term outlook for the clean fuel. CNQ stock offers unlevered appreciation potential of 50% to a McDep Ratio of 1.0 where the stock price would equal estimated net present value (NPV) of US\$77 a share, up from US\$75. NPV increases because the acquisition price was below estimated present value, but McDep Ratio does not change when considering the increase in debt. After declining in stock price along with peer companies in the past month, CNQ has appreciation potential near the highest as measured by a low McDep Ratio. Debt is higher than peers, but not a great concern considering resource value. Our estimate of Present Value as a multiple of cash flow, PV/Ebitda, at 7.8 years is about the same as the median 7.7 for peers while the unlevered market multiple, EV/Ebitda, at 5.2 years is lower than the median 5.5 for peers. Estimated present value is tied to a long-term oil price of \$60 a barrel for light, sweet crude oil, estimated cash flow for the next twelve months is tied to latest futures quotes and billion dollar hedging losses incurred in 2006 are not likely to recur in 2007.

Kurt H. Wulff, CFA

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>15-Sep</i> <i>2006</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap									
CNOOC Limited (29%)	CEO	B	81.76		119	9,750	98.00	-	0.83
XTO Energy Inc.	XTO	B	40.64		369	15,000	52.00	0.18	0.82
Encana Corporation	ECA	B	45.53		845	38,500	60.00	0.13	0.79
Anadarko Petroleum Corp.	APC	B	43.71		463	20,200	77.00	0.46	0.77
EOG Resources	EOG	B	59.84		246	14,700	92.00	0.07	0.68
Occidental Petroleum Corp.	OXY	B	44.05		868	38,200	69.00	0.08	0.67
Devon Energy Corporation	DVN	B	65.58		446	29,200	115.00	0.13	0.63
<i>Total or Median</i>						<i>166,000</i>		<i>0.13</i>	<i>0.77</i>

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>15-Sep</i> <i>2006</i>	<i>Adjstd</i> <i>Resrvs/</i> <i>Prod</i> <i>NTM</i>	<i>PV/</i> <i>Ebitda</i> <i>NTM</i>	<i>EV/</i> <i>Ebitda</i> <i>NTM</i>	<i>P/E</i> <i>NTM</i>	<i>Divd or</i> <i>Distrib</i> <i>NTM</i> <i>(%)</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap									
XTO Energy Inc.	XTO	B	40.64		11.6	8.6	7.0	13	0.5
EOG Resources	EOG	B	59.84		9.7	9.1	6.2	14	0.4
Anadarko Petroleum Corp.	APC	B	43.71		11.2	7.9	6.1	9	1.6
Encana Corporation	ECA	B	45.53		8.7	7.0	5.5	13	0.9
Devon Energy Corporation	DVN	B	65.58		8.7	7.7	4.8	9	0.7
Occidental Petroleum Corp.	OXY	B	44.05		10.6	7.1	4.8	9	2.0
CNOOC Limited (29%)	CEO	B	81.76		10.6	5.3	4.5	8	3.5
<i>Median</i>					<i>10.6</i>	<i>7.7</i>	<i>5.5</i>	<i>9</i>	<i>0.9</i>

Canadian Natural Resources
Functional Cash Flow and Present Value

	<i>NTM</i> <i>Ebitda</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i>	
North American Natural Gas	2,570	6.7	6.6	17,000	32%
Oil	4,130	8.2	5.6	23,000	44%
Horizon (risked at 75%)				12,500	24%
	6,700	7.5	7.8	52,500	100%
Debt					11,200
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)					80

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

	<i>Q3</i>	<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>9/30/05</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>	<i>9/30/07</i>	<i>9/30/07</i>
Volume (before royalty)										
Natural Gas (mmcfed)	1,423	1,436	1,475	1,475	1,833	1,556	1,833	1,833	1,833	1,833
Oil (mbd)	335	324	338	338	347	337	347	347	347	347
Total (bcf)	316	304	319	322	360	1,305	352	356	360	1,429
Total (mmcfed)	3,433	3,380	3,503	3,503	3,915	3,577	3,915	3,915	3,915	3,915
Price										
Henry Hub (US\$/mmbtu)	8.56	8.97	6.81	6.58	6.47	7.21	8.77	7.16	7.44	7.46
Currency (US\$/C\$)	0.85	0.87	0.89	0.89	0.89	0.88	0.89	0.89	0.89	0.89
Henry Hub (C\$/mmbtu)	10.09	10.31	7.63	7.38	7.26	8.15	9.84	8.03	8.34	8.37
Differential (C\$/mmbtu)	1.48	2.01	1.47	1.43	1.40	1.64	1.90	1.55	1.61	1.62
Company (C\$/mcf)	8.61	8.30	6.16	5.96	5.85	6.51	7.94	6.48	6.73	6.74
WTI Cushing (US\$/bbl)	62.52	63.33	70.47	70.66	64.18	67.16	66.84	68.44	69.35	67.20
WTI Cushing (C\$/bbl)	73.66	72.79	79.00	79.26	71.99	75.90	74.97	76.77	77.79	75.38
Differential (C\$/bbl)	16.31	29.00	18.95	19.01	17.27	21.04	17.98	18.41	18.66	18.08
Company (C\$/bbl)	57.35	43.79	60.05	60.25	54.72	54.86	56.99	58.35	59.13	57.30
Total (\$/bbl)	54.99	46.34	50.33	49.93	45.55	47.98	52.60	49.24	50.35	49.42
Revenue (\$mm)										
Natural Gas	1,127	1,073	827	809	987	3,695	1,309	1,081	1,135	4,512
Oil	1,768	1,277	1,847	1,873	1,747	6,744	1,780	1,843	1,888	7,257
Total	2,895	2,350	2,674	2,682	2,734	10,440	3,089	2,924	3,023	11,769
Expense	1,072	978	899	904	939	3,719	1,151	1,042	1,108	4,240
Ebitda (\$mm)	1,823	1,372	1,775	1,778	1,796	6,721	1,938	1,881	1,915	7,529
Exploration										
Deprec., Deplet., & Amort.	505	538	573	573	650	2,334	650	650	650	2,600
Hedging	368	396	381	381	200	1,358				200
Interest	38	25	28	28	84	165	84	84	84	336
Ebt	912	413	793	796	862	2,864	1,204	1,147	1,181	4,394
Income tax	319	145	278	279	302	1,002	421	402	413	1,538
Net Income (\$mm)	593	269	516	518	560	1,862	782	746	768	2,856
Per share (\$)	1.10	0.50	0.96	0.96	1.04	3.47	1.46	1.39	1.43	5.32
Shares (millions)	539	537	537	537	537	537	537	537	537	537
Ebitda margin	63%	58%	66%	66%	66%	64%	63%	64%	63%	64%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%