

Rating: Buy
 S&P 500: 1480

Petro-Canada Volume Up 15%

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	5,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (US\$/sh)</i>	43.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	82
<i>Pricing Date</i>	4/24/07	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	502	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	21,900	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$mm)</i>	5,600	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	27,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	37.30
<i>Present Value (PV) (US\$mm)</i>	30,100	<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>	4.76
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.1	<i>Indicated Annual Dividend (US\$/sh)</i>	0.46

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.

For historical research on PCZ since 2004 see www.mcdep.com/2pcz.htm

Summary and Recommendation

Buy-recommended **Petro-Canada (PCZ)** reported on April 24 first quarter 2007 production volume 15% above the average for 2006 thus lending credibility to Chief Executive Ron Brenneman's expectation of a gain of 15% for all of 2007. Higher volume in the year ahead makes our estimate of present value of US\$49 a share look low just as lower volume last year made it look high. Though the volume gains are from short-life oil production off the East Coast of Canada and in the North Sea, the company has long-life production in its 12% share of the Syncrude oil sands venture. Similarly, expansion of the company's Edmonton refinery due in 2008 will make its potentially long-life *in situ* oil sands production more valuable by eliminating the market risk in placing low-grade oil. Yet the Fort Hills mining project, which we have not counted in present value, may be further delayed as steep cost increases raise investment risk in new construction. Meanwhile, Petro-Canada stock is back in favor as it trades above its 200-day average along with six-year oil and natural gas.

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Petro-Canada
Production and Reserves, 2006

	2006 Production		<u>12/31/2006 Proven Reserves</u>			Weighted Life Index (years)	2007 Adjusted R/P (years)
	(daily)	(annual)	Developed (bcf or mmb)	Undeveloped (bcf or mmb)	Weighted (bcf or mmb)		
North American Natural Gas							
Western Canada	455	166	1,109	42	1,130	6.8	
U.S. Rockies	33	12	92	30	107	8.9	
Total	488	178	1,201	72	1,237	6.9	7.1
Rest of World Natural Gas							
Northwest Europe	63	23	80	4	82	3.6	
Northern Latin America	33	12	68	121	129	10.7	
Total	96	35	148	125	211	6.0	5.9
Oil							
Western Canada	8	3	32		32	10.7	
East Coast	68	25	74	24	86	3.4	
Oil Sands	22	8	27	124	89	11.1	
U.S. Rockies	16	6	2	3	4	0.6	
Northwest Europe	33	12	101	42	122	10.2	
North Africa/Near East	44	16	120	2	121	7.6	
Syncrude	27	10	107	182	198	19.8	
Total	219	80	463	377	652	8.1	6.9
Total Oil Equivalent	396	145	811	514	1,068	7.4	6.9

Weighted Life Index counts undeveloped reserves at half stated value and is computed on latest calendar year volume.
 NTM Adjusted R/P also counts undeveloped reserves at half and is computed on next twelve months production.

Petro-Canada
Functional Cash Flow and Present Value

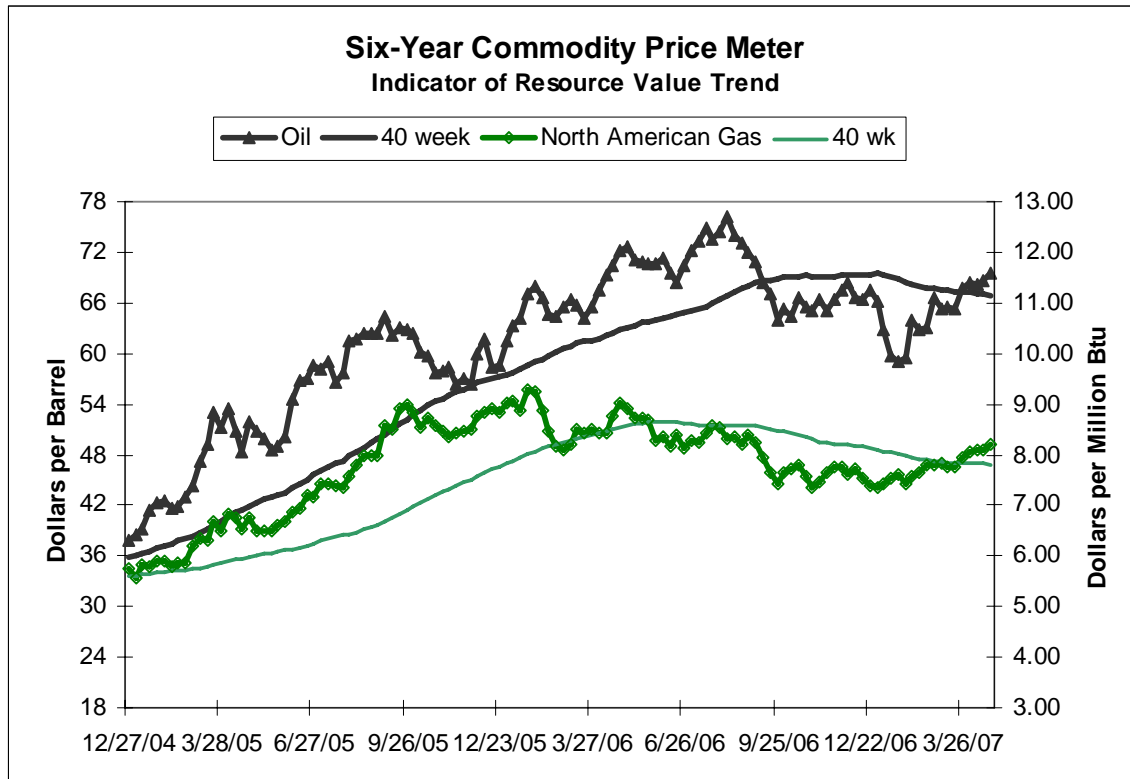
	<u>NTM Ebitda</u> (US\$mm)	<u>Adjusted</u> <u>R/P</u>	<u>PV/</u> <u>Ebitda</u>	<u>Present</u> <u>Value</u> (US\$mm)	
North American Natural Gas	865	7.1	5.8	5,000	17%
Rest of World Natural Gas	178	5.9	5.6	1,000	3%
Oil	3,776	6.9	5.4	20,200	67%
Downstream	1,037		3.9	4,000	13%
	5,856	6.9	5.2	30,200	100%
Debt (US\$mm)					5,600
Net Present Value (US\$mm)					24,600
Shares (mm)					502
Net Present Value - Standard Estimate (US\$/sh)					49
Net Present Value - Approximation by Correlation (US\$/sh)					57

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

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>3/31/08</i>
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	487	481	492	477	477	477	477	477	477	477
Overseas	144	91	104	118	97	84	91	97	118	97
Total	631	572	596	595	574	561	568	574	595	574
Oil (mbd)	205	232	206	258	258	258	258	258	258	258
Total gas & oil (mbd)	310	328	305	357	354	352	353	354	357	354
Price										
Natural gas (\$/mcf)										
Henry Hub (US\$/mmbtu)	8.97	6.57	7.23	6.81	7.60	7.95	8.80	7.79	9.71	8.52
Currency (US\$/C\$)	0.87	0.88	0.88	0.85	0.89	0.89	0.89	0.88	0.89	0.89
Henry Hub (C\$/mmbtu)	10.31	7.48	8.19	7.97	8.53	8.92	9.88	8.84	10.90	9.56
U.S. (or North America)	8.69	6.52	6.82	7.39	7.91	8.27	9.16	8.19	10.10	8.85
Overseas	8.48	7.24	7.51	7.00	7.91	8.27	9.16	8.01	10.10	8.94
Total	8.64	6.63	6.94	7.31	7.91	8.27	9.16	8.16	10.10	8.87
Oil (\$/bbl)										
WTI Cushing (US\$/bbl)	63.33	59.99	66.05	58.08	65.07	67.85	69.47	65.12	70.42	68.20
WTI Cushing (C\$/bbl)	72.79	68.33	74.77	68.01	73.04	76.16	77.98	73.80	79.04	76.55
Worldwide	64.18	62.37	67.31	63.46	68.16	71.07	72.77	68.90	73.76	71.43
Total gas & oil (\$/bbl)	56.06	53.80	56.40	55.71	60.39	63.38	65.62	61.29	66.77	64.04
NY Harbor 3-2-1 (\$/bbl)	7.40	7.54	10.50	11.68	21.91	17.36	11.15	15.53	10.96	15.35
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	381	289	1,225	317	343	363	402	1,425	434	1,542
Overseas	110	61	284	74	70	64	77	285	107	318
Total	491	349	1,509	392	413	427	478	1,710	541	1,859
Oil	1,184	1,334	5,058	1,474	1,600	1,687	1,727	6,488	1,713	6,727
Downstream	2,757	2,934	12,381	3,088	3,088	3,088	3,088	12,352	3,088	12,352
Other	(244)	(67)	(279)	(112)	(112)	(112)	(112)	(449)	(112)	(449)
Total	4,188	4,550	18,669	4,841	4,989	5,089	5,181	20,101	5,229	20,490
Expense (\$mm)										
Upstream	606	586	2,569	687	745	782	816	3,030	834	3,177
Downstream	2,589	2,733	11,399	2,737	2,817	2,746	2,887	11,188	2,737	11,188
Other	(244)	(67)	(279)	(112)	(112)	(112)	(112)	(449)	(112)	(449)
Total	2,951	3,252	13,689	3,312	3,450	3,416	3,591	13,769	3,459	13,916
Ebitda (\$mm)										
Upstream	1,069	1,097	3,998	1,178	1,268	1,332	1,390	5,168	1,420	5,409
Downstream	168	201	982	351	271	342	201	1,164	351	1,164
Total	1,237	1,298	4,980	1,529	1,539	1,673	1,591	6,332	1,770	6,573
Exploration	97	107	339	142	142	142	142	568	90	516
Deprec., Deplet., & Amort.										
Upstream	282	322	1,099	372	372	372	372	1,488	372	1,488
Downstream	53	81	262	69	69	69	69	276	69	276
Other										
Total	335	403	1,361	441	441	441	441	1,764	441	1,764
Ebit	805	788	3,280	946	956	1,090	1,008	4,000	1,239	4,293
Interest	45	37	165	42	42	42	42	168	42	168
Ebt	760	751	3,115	904	914	1,048	966	3,832	1,197	4,125
Income Tax	266	263	1,090	316	320	367	338	1,341	419	1,444
Net Income (\$mm)										
Upstream	68	440	1,367	440						
Downstream	75	78	468	183						
Other	351	(30)	190	(36)						
Total	494	488	2,025	587	594	681	628	2,491	778	2,682
Shares (millions)	520	498	509	502	502	502	502	502	502	502
Per share (\$)	0.95	0.98	3.98	1.17	1.18	1.36	1.25	4.96	1.55	5.34
Ebitda Margin (E&P)	64%	65%	61%	63%	63%	63%	63%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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