

Rating: Buy
 S&P 500: 1519
 Intraday

Petro-Canada Political Pall over Canada

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	7,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	54.21	<i>Natural Gas and Oil Production/Ebitda (%)</i>	82
<i>Pricing Date</i>	10/25/07	<i>Adjusted Reserves/Production NTM</i>	6.4
<i>Shares (mm)</i>	493	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (US\$mm)</i>	26,700	<i>PV/Ebitda</i>	5.3
<i>Debt (US\$mm)</i>	6,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	32,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.80
<i>Present Value (PV) (US\$mm)</i>	38,000	<i>Present Value Proven Reserves(US\$/boe)</i>	30.00
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.00
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.14
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.54

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\$66 a barrel and natural gas, \$11 a million btu.

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

Summary and Recommendation

Buy-recommended **Petro-Canada (PCZ)** offers currently estimated net present value (NPV) of \$65 a share concentrated 70% on oil production, 16% on downstream refining/marketing and 14% on natural gas. Third quarter results reported today display oil volume growth primarily offshore Eastern Canada (see table [Next Twelve Months Operating and Financial Estimates](#)). High cash flow from oil production capitalized at an unlevered cash flow multiple (PV/Ebitda) related to reserve life (Adjusted R/P) supports estimated NPV (see table [Functional Cash Flow and Present Value](#)). Estimates do not reflect any adverse impact from possible tax increases following the outrageous recommendations of an Alberta government-appointed royalty review panel on September 18. Premier Ed Stelmach may give his specific recommendations later today that may then take longer to be digested and implemented. Canada proves that no government is without risk to investors. Taxes are a large part of the driving force behind the rising trend in oil price (see chart [Six-Year Commodity Price Meter](#)).

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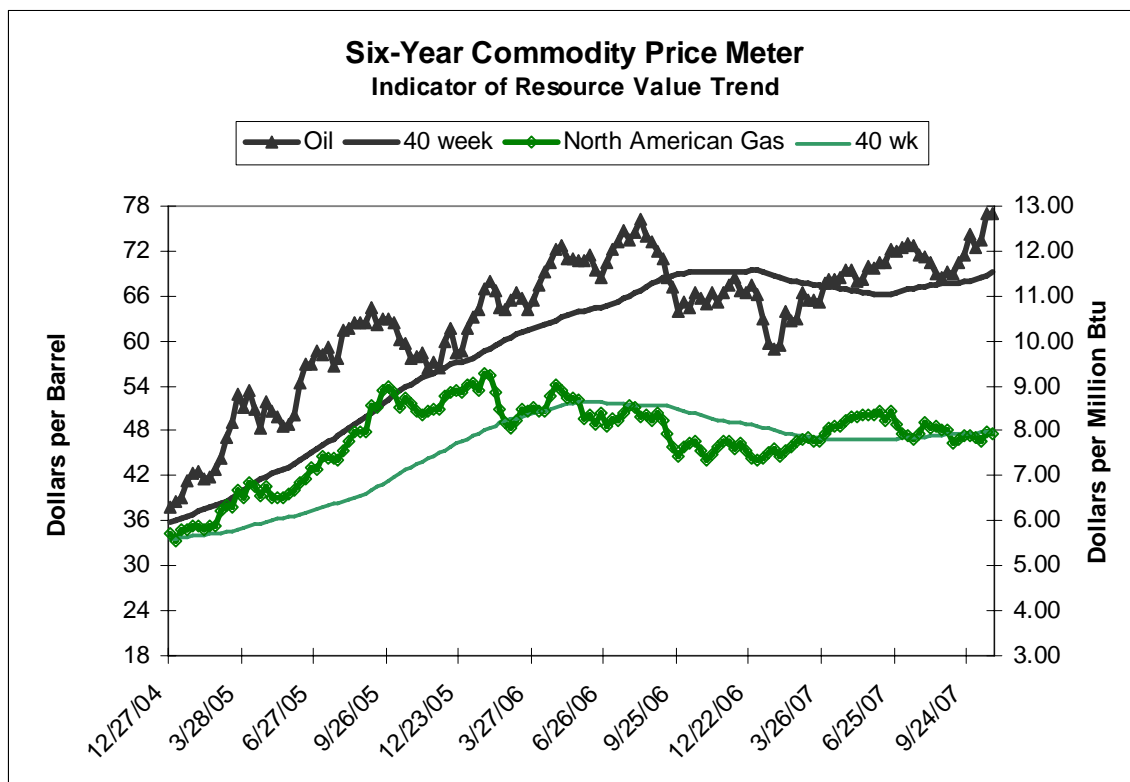
Petro-Canada
Next Twelve Months Operating and Financial Estimates
(Canadian Dollars)

	<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>9/30/06</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>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	509	470	476	476	475	476	476	476	476
Overseas	84	86	91	91	96	118	86	91	97
Total	593	556	567	567	571	594	562	567	574
Oil (mbd)	197	279	283	283	276	283	283	283	283
Total gas & oil (mbd)	296	372	378	378	371	382	377	378	379
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.58	7.56	6.16	6.95	6.87	7.87	7.53	7.76	7.53
Currency (US\$/C\$)	0.89	0.91	0.96	1.03	0.94	1.03	1.03	1.03	1.03
Henry Hub (C\$/mmbtu)	7.38	8.29	6.44	6.73	7.32	7.62	7.29	7.51	7.29
U.S. (or North America)	5.97	6.87	5.17	5.40	6.20	6.12	5.85	6.03	5.85
Overseas	6.61	6.79	5.93	5.40	6.32	6.12	5.85	6.03	5.87
Total	6.06	6.86	5.29	5.40	6.22	6.12	5.85	6.03	5.85
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	70.42	64.91	75.48	86.12	71.15	84.42	82.44	80.91	83.47
WTI Cushing (C\$/bbl)	78.95	71.25	78.95	83.35	75.39	81.71	79.79	78.31	80.79
Worldwide	70.76	70.14	74.32	78.46	71.83	76.92	75.11	73.72	76.05
Total gas & oil (\$/bbl)	57.39	61.34	62.23	65.63	61.33	64.61	63.83	62.87	64.24
NY Harbor 3-2-1 (\$/bbl)	11.67	24.96	12.64	5.49	13.69	9.38	14.14	14.02	10.76
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	280	294	226	236	1,074	265	254	264	1,019
Overseas	51	53	50	45	222	66	46	50	207
Total	331	347	276	282	1,296	331	299	314	1,226
Oil	1,282	1,781	1,935	2,043	7,232	1,981	1,934	1,919	7,877
Downstream	3,477	3,334	3,348	3,348	13,118	3,348	3,348	3,348	13,392
Other	112	16	(62)	(62)	(220)	(62)	(62)	(62)	(248)
Total	5,201	5,478	5,497	5,611	21,427	5,597	5,520	5,520	22,248
Expense (\$mm)									
Upstream	673	700	872	860	3,119	855	826	827	3,368
Downstream	3,135	2,864	3,114	3,147	11,862	2,997	2,878	3,114	12,136
Other	112	16	(62)	(62)	(220)	(62)	(62)	(62)	(248)
Total	3,920	3,580	3,924	3,945	14,761	3,791	3,642	3,879	15,257
Ebitda (\$mm)									
Upstream	939	1,428	1,339	1,464	5,410	1,456	1,407	1,407	5,735
Downstream	342	470	234	201	1,256	351	470	234	1,256
Total	1,281	1,898	1,573	1,665	6,665	1,807	1,878	1,641	6,991
Exploration	57	100	65	65	372	90	90	90	335
Deprec., Deplet., & Amort.									
Upstream	240	444	426	426	1,668	426	426	426	1,704
Downstream	71	72	72	72	285	72	72	72	288
Other									
Total	311	516	498	498	1,953	498	498	498	1,992
Ebit	913	1,282	1,010	1,102	4,340	1,219	1,290	1,053	4,664
Interest	41	41	39	39	161	39	39	39	156
Ebt	872	1,241	971	1,063	4,179	1,180	1,251	1,014	4,508
Income Tax	305	434	340	372	1,463	413	438	355	1,578
Net Income (\$mm)									
Upstream	433	644	658						
Downstream	176	259	105						
Other	(42)	(96)	(132)						
Total	567	807	631	691	2,716	767	813	659	2,930
Shares (millions)									
Per share (\$)	1.12	1.62	1.28	1.40	5.47	1.56	1.65	1.34	5.94
Ebitda Margin (E&P)	58%	67%	61%	63%	63%	63%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Petro-Canada
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	663	7.1	6.8	4,500	12%
Rest of World Natural Gas	135	6.0	5.9	800	2%
Oil	5,128	6.3	5.2	26,700	70%
Downstream	1,297		4.6	6,000	16%
	7,223	6.4	5.3	38,000	100%
Debt (US\$mm)					6,000
Net Present Value (US\$mm)					32,000
Shares (mm)					493
Net Present Value - Standard Estimate (US\$/sh)					65
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					69



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