

Rating: Buy
 S&P 500: 1424

Petro-Canada Volume Corner Turned

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	4,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	16
<i>Price (US\$/sh)</i>	37.48	<i>Natural Gas and Oil Production/Ebitda (%)</i>	83
<i>Pricing Date</i>	1/25/07	<i>Adjusted Reserves/Production NTM</i>	6.5
<i>Shares (mm)</i>	498	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$mm)</i>	18,700	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$mm)</i>	5,600	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$mm)</i>	24,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.70
<i>Present Value (PV) (US\$mm)</i>	30,000	<i>Present Value Proven Reserves(US\$/boe)</i>	30.00
<i>Net Present Value (US\$/share)</i>	49	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.00
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.89
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.44

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 <http://www.mcdep.com/2pcz.htm>

Summary and Recommendation

Buy-recommended **Petro-Canada (PCZ)** is scoring the oil volume reversal promised with new and renewed production offshore Newfoundland and in the North Sea. More volume boosts projected near-term cash flow despite lower futures price for oil (see table, Next Twelve Months Operating and Financial Estimates). The relatively short producing life for specific deposits of offshore oil can usually be extended by developing new deposits nearby as the company is demonstrating as a leading producer in Eastern Canada. Offshore resources represents the largest portion of the 65% of present value in oil production (see table, Functional Cash Flow and Present Value). The company's 12% interest in oil sands giant, Syncrude, worth 20% of corporate present value, will also see volume grow in 2007 to a new level that can be sustained practically indefinitely. Currently out of favor with investors with stock price below its 200-day average, PCZ has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

Please see disclosures on the final page.

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

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/05</i>	<i>9/30/06</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>12/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	488	509	481	492	481	481	481	481	481
Overseas	118	84	91	104	144	97	84	91	104
Total	606	593	572	596	625	578	565	572	585
Oil (mbd)	211	197	232	206	232	232	232	232	232
Total gas & oil (mbd)	312	296	328	305	337	329	327	328	330
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	13.00	6.58	6.57	7.23	6.55	7.02	7.25	7.99	7.20
Currency (US\$/C\$)	0.85	0.89	0.88	0.88	0.85	0.85	0.85	0.85	0.85
Henry Hub (C\$/mmbtu)	15.30	7.38	7.48	8.19	7.75	8.30	8.58	9.45	8.52
U.S. (or North America)	11.83	5.97	6.52	6.82	6.76	7.24	7.48	8.24	7.43
Overseas	9.19	6.61	7.24	7.51	6.76	7.24	7.48	8.24	7.34
Total	11.32	6.06	6.63	6.94	6.76	7.24	7.48	8.24	7.42
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	60.02	70.42	59.99	66.05	54.07	55.83	57.55	58.78	56.56
WTI Cushing (C\$/bbl)	70.61	78.95	68.33	74.77	63.97	66.06	68.09	69.54	66.91
Worldwide	60.50	70.76	62.37	67.31	58.39	60.29	62.15	63.48	61.09
Total gas & oil (\$/bbl)	59.42	57.39	53.80	56.40	49.98	53.22	55.25	57.10	53.88
NY Harbor 3-2-1 (\$/bbl)	9.06	11.67	7.54	10.50	7.99	12.22	12.18	8.35	10.19
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	531	280	289	1,225	293	317	331	364	1,305
Overseas	100	51	61	284	88	64	58	69	278
Total	631	331	349	1,509	380	381	389	433	1,583
Oil	1,174	1,282	1,334	5,058	1,221	1,275	1,329	1,357	5,182
Downstream	3,038	3,477	2,934	12,381	2,934	2,934	2,934	2,934	11,736
Other	(5)	112	(67)	(279)	(67)	(67)	(67)	(67)	(266)
Total	4,838	5,201	4,550	18,669	4,469	4,523	4,585	4,658	18,235
Expense									
Upstream	519	673	586	2,569	565	499	513	529	2,106
Downstream	2,816	3,135	2,733	11,399	2,766	2,663	2,592	2,733	10,754
Other	(5)	112	(67)	(279)	(67)	(67)	(67)	(67)	(266)
Total	3,330	3,920	3,252	13,689	3,264	3,096	3,039	3,196	12,593
Ebitda (\$mm)									
Upstream	1,287	939	1,097	3,998	1,037	1,157	1,205	1,261	4,660
Downstream	222	342	201	982	168	271	342	201	982
Total	1,508	1,281	1,298	4,980	1,205	1,428	1,546	1,462	5,642
Exploration	77	57	107	339	90	90	90	90	360
Deprec., Deplet., & Amort.									
Upstream	234	240	322	1,099	322	322	322	322	1,288
Downstream	51	71	81	262	81	81	81	81	324
Other									
Total	285	311	403	1,361	403	403	403	403	1,612
Ebit	1,146	913	788	3,280	712	935	1,053	969	3,670
Interest	52	41	37	165	37	37	37	37	148
Ebt	1,094	872	751	3,115	675	898	1,016	932	3,522
Income Tax	383	305	263	1,090	236	314	356	326	1,233
Net Income (\$mm)									
Upstream	651	433	440	1,367					
Downstream	111	176	78	468					
Other	(51)	(42)	(30)	190					
Total	711	567	488	2,025	439	584	661	606	2,289
Shares (millions)	523	506	498	509	498	498	498	498	498
Per share (\$)	1.36	1.12	0.98	3.98	0.88	1.17	1.33	1.22	4.60
Ebitda Margin (E&P)	75%	60%	68%	64%	68%	73%	73%	73%	72%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

Petro-Canada
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	760	7.7	6.6	5,000	17%
Rest of World Natural Gas	162	6.3	6.2	1,000	3%
Oil	3,017	6.1	6.5	19,500	65%
Downstream	830		5.4	4,500	15%
	4,768	6.5	6.3	30,000	100%
Debt (US\$mm)					5,600
Net Present Value (US\$mm)					24,400
Shares (mm)					498
Net Present Value - Standard Estimate (US\$/sh)					49
Net Present Value - Approximation by Correlation (US\$/sh)					54

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

Please see disclosures on the final page.