



Rating: Buy  
 S&P 500: 1358  
 Intraday

## Petro-Canada (PCZ) Facing Oil Sands Investment Decision

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$m)</i>	7,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	46.05	<i>Natural Gas and Oil Production/Ebitda (%)</i>	82
<i>Pricing Date</i>	1/31/08	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	489	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (US\$m)</i>	22,500	<i>PV/Ebitda</i>	5.8
<i>Debt (US\$m)</i>	6,100	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$m)</i>	28,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	45.30
<i>Present Value (PV) (US\$m)</i>	41,300	<i>Present Value Proven Reserves(US\$/boe)</i>	30.00
<i>Net Present Value (US\$/share)</i>	72	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.00
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.37
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.1	<i>Indicated Annual Dividend (US\$/sh)</i>	0.52
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\$80 a barrel and natural gas, \$11 a million btu.			
For historical research on PCZ since 2004 see <a href="http://www.mcdep.com/2pcz.htm">www.mcdep.com/2pcz.htm</a>			

### Summary and Recommendation

Buy-recommended **Petro-Canada (PCZ)** offers 44% unlevered appreciation potential to estimated Net Present Value (NPV) of \$72 a share revised from \$65 on December 18 when we raised long-term oil price to \$80 from \$66 a barrel. Fourth quarter results reported today were close to expectations for cash flow made in our analysis three months ago. The most important event for the company this year may be its final investment decision on the Fort Hills oil sands project. Six months ago the expected capital cost was \$18 billion and break even oil price was about \$50 a barrel. Since then costs have escalated further and the Province of Alberta has increased its oil sands tax to 40% from 25%, raising the break-even price to \$65 a barrel we estimated. Owning 12% of Syncrude, the largest existing oil sands facility, contributes to the company's financial strength to withstand the risk of constructing a large new mine and upgrader. Chief executive Ron Brenneman promises a decision in the third quarter of 2008.

Kurt H. Wulff, CFA



<b>Petro-Canada</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<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>12/31/08</i>
	<i>12/31/06</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>12/31/08</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	481	476	462	<b>471</b>	462	462	462	462	<b>462</b>
Overseas	91	91	104	<b>100</b>	118	86	91	104	<b>100</b>
Total	572	567	566	<b>571</b>	580	548	553	566	<b>563</b>
Oil (mbd)	232	283	261	<b>270</b>	261	261	261	261	<b>261</b>
Total gas & oil (mbd)	328	378	355	<b>365</b>	358	352	353	355	<b>355</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.57	6.16	6.97	<b>6.87</b>	7.76	8.07	8.28	8.63	<b>8.18</b>
Currency (US\$/C\$)	0.88	0.96	1.01	<b>0.93</b>	1.01	1.01	1.01	1.01	<b>1.01</b>
Henry Hub (C\$/mmbtu)	7.48	6.44	6.92	<b>7.38</b>	7.70	8.01	8.22	8.56	<b>8.12</b>
U.S. (or North America)	6.52	5.17	5.78	<b>6.30</b>	6.43	6.69	6.86	7.15	<b>6.78</b>
Overseas	7.24	5.93	6.48	<b>6.57</b>	6.43	6.69	6.86	7.15	<b>6.77</b>
Total	6.63	5.29	5.91	<b>6.35</b>	6.43	6.69	6.86	7.15	<b>6.78</b>
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	59.99	75.48	90.67	<b>72.28</b>	91.62	90.56	89.92	89.34	<b>90.36</b>
WTI Cushing (C\$/bbl)	68.33	78.95	90.02	<b>77.05</b>	90.96	89.90	89.27	88.69	<b>89.70</b>
Worldwide	62.37	74.32	82.71	<b>72.73</b>	83.57	82.60	82.02	81.49	<b>82.42</b>
Total gas & oil (\$/bbl)	53.80	62.23	68.27	<b>61.91</b>	69.29	69.96	69.59	69.16	<b>69.50</b>
NY Harbor 3-2-1 (\$/bbl)	7.54	12.64	8.19	<b>14.37</b>	9.18	14.37	13.89	9.82	<b>11.81</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	289	226	246	<b>1,083</b>	270	281	292	304	<b>1,147</b>
Overseas	61	50	62	<b>239</b>	69	52	57	68	<b>247</b>
Total	349	276	308	<b>1,322</b>	339	334	349	372	<b>1,394</b>
Oil	1,334	1,935	1,986	<b>7,175</b>	1,985	1,962	1,970	1,957	<b>7,873</b>
Downstream	2,934	3,348	3,583	<b>13,353</b>	3,583	3,583	3,583	3,583	<b>14,332</b>
Other	(67)	(62)	(443)	<b>(601)</b>	(443)	(443)	(443)	(443)	<b>(1,771)</b>
Total	4,550	5,497	5,434	<b>21,250</b>	5,465	5,436	5,459	5,470	<b>21,829</b>
<b>Expense (\$mm)</b>									
Upstream	586	872	831	<b>3,090</b>	860	849	858	862	<b>3,429</b>
Downstream	2,733	3,114	3,386	<b>12,102</b>	3,232	3,113	3,349	3,386	<b>13,081</b>
Other	(67)	(62)	(443)	<b>(601)</b>	(443)	(443)	(443)	(443)	<b>(1,771)</b>
Total	3,252	3,924	3,775	<b>14,591</b>	3,650	3,519	3,765	3,805	<b>14,739</b>
<b>Ebitda (\$mm)</b>									
Upstream	1,097	1,339	1,463	<b>5,408</b>	1,464	1,446	1,461	1,467	<b>5,839</b>
Downstream	201	234	197	<b>1,251</b>	351	470	234	197	<b>1,251</b>
Total	1,298	1,573	1,659	<b>6,659</b>	1,815	1,917	1,694	1,664	<b>7,090</b>
Exploration	107	65	183	<b>490</b>	90	90	90	90	<b>360</b>
Deprec., Deplet., & Amort.									
Upstream	322	426	567	<b>1,809</b>	567	567	567	567	<b>2,268</b>
Downstream	81	72	69	<b>282</b>	69	69	69	69	<b>276</b>
Other									
Total	403	498	636	<b>2,091</b>	636	636	636	636	<b>2,544</b>
<b>Ebit</b>	788	1,010	840	<b>4,078</b>	1,089	1,191	968	938	<b>4,186</b>
Interest	37	39	43	<b>165</b>	43	43	43	43	<b>172</b>
<b>Ebt</b>	751	971	797	<b>3,913</b>	1,046	1,148	925	895	<b>4,014</b>
Income Tax	263	340	279	<b>1,370</b>	366	402	324	313	<b>1,405</b>
<b>Net Income (\$mm)</b>									
Upstream	440	658	388						
Downstream	78	105	83						
Other	(30)	(132)	47						
Total	488	631	518	<b>2,543</b>	680	746	601	582	<b>2,609</b>
<b>Shares (millions)</b>	498	493	489	<b>496</b>	489	489	489	489	<b>489</b>
Per share (\$)	0.98	1.28	1.06	<b>5.13</b>	1.39	1.53	1.23	1.19	<b>5.34</b>
Ebitda Margin (E&P)	65%	61%	64%	<b>64%</b>	63%	63%	63%	63%	<b>63%</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>



<b>Petro-Canada</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	728	7.3	6.2	4,500	11%
Rest of World Natural Gas	157	5.8	6.4	1,000	2%
Oil	4,996	6.8	6.0	29,800	72%
Downstream	1,260		4.8	6,000	15%
	7,142	6.9	5.8	41,300	100%
Debt (US\$mm)					6,100
Net Present Value (US\$mm)					35,200
Shares (mm)					489
Net Present Value - Standard Estimate (US\$/sh)					72
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					72

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was 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.

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