

Rating: Buy  
S&P 500: 1417

## Imperial Oil Limited

### Upgrade to Buy on Oil Price Momentum

|                                       |         |  |       |
|---------------------------------------|---------|--|-------|
| <i>Symbol</i>                         | IMO     | <i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i> | 4,600 |
| <i>Rating</i>                         | Buy     | <i>North American Natural Gas/Ebitda (%)</i>             | 16    |
| <i>Price (US\$/sh)</i>                | 37.35   | <i>Natural Gas and Oil Production/Ebitda (%)</i>         | 75    |
| <i>Pricing Date</i>                   | 3/28/07 | <i>Adjusted Reserves/Production NTM</i>                  | 13.2  |
| <i>Shares (mm)</i>                    | 963     | <i>EV/Ebitda</i>   | 8.5   |
| <i>Market Capitalization (US\$mm)</i> | 36,000  | <i>PV/Ebitda</i>   | 8.4   |
| <i>Debt (US\$mm)</i>                  | 2,700   | <i>Undeveloped Reserves (%)</i>                          | 16    |
| <i>Enterprise Value (EV) (US\$mm)</i> | 38,700  | <i>Natural Gas and Oil Ebitda (US\$/boe)</i>             | 30.00 |
| <i>Present Value (PV) (US\$mm)</i>    | 38,400  | <i>Present Value Proven Reserves(US\$/boe)</i>           | 17.56 |
| <i>Net Present Value (US\$/share)</i> | 37      | <i>Present Value Proven Reserves(US\$/mcf)</i>           | 2.93  |
| <i>Debt/Present Value</i>             | 0.07    | <i>Earnings Next Twelve Months (US\$/sh)</i>             | 2.58  |
| <i>McDep Ratio - EV/PV</i>            | 1.01    | <i>Price/Earnings Next Twelve Months</i>                 | 14    |
| <i>Dividend Yield (%/year)</i>        | 0.7     | <i>Indicated Annual Dividend (US\$/sh)</i>               | 0.27  |

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.

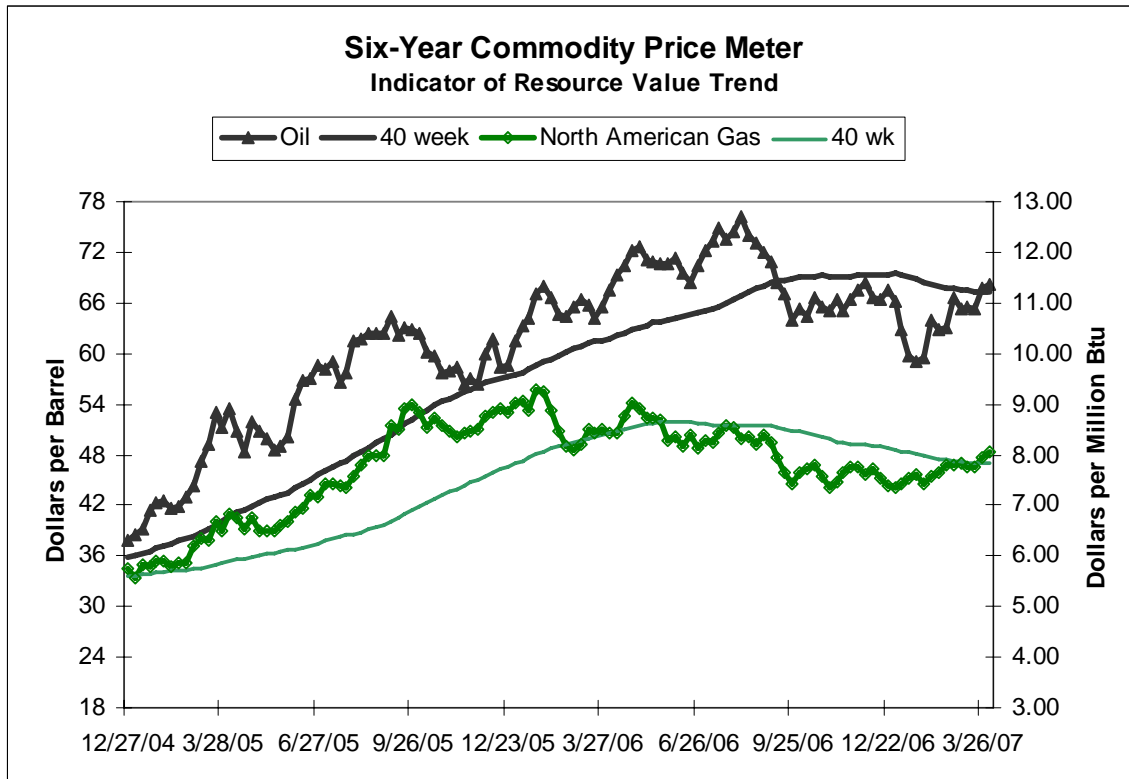
For historical research on Imperial Oil since 2004 see <http://www.mcdep.com/2imo.htm>

### Summary and Recommendation

As global benchmark crude oil confirms a renewed uptrend by trading above its 40-week average quote of \$67 for delivery over the next six years we upgrade our rating of **Imperial Oil (IMO)** to Buy from Hold (see chart [Six-Year Commodity Price Meter](#)). Though stock price matches estimated net present value (NPV) of \$37 a share, the estimate depends on oil price and could be raised with continued long-term commodity price strength (see table [Functional Cash Flow and Present Value](#)). Tied to proven reserves of 1.6 billion barrels, NPV could also increase if we took more account of 12 billion barrels of non-proven resources Chief Executive Tim Hearn believes lie under Imperial's lands. Mineable oil resources are not in our count for Kearn, a new project in preliminary engineering or for future expansion of 25%-owned Syncrude. In situ oil sands resources are not in our count for Cold Lake lands beyond those currently developed. Achieving long-term growth with reinvestment of just a third of after tax cash flow, the company may return more than 6% of current stock price in the next twelve months to shareholders in dividends and stock repurchase. We restore IMO to a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

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**Imperial Oil Limited**  
**Functional Cash Flow and Present Value**

|  | <i>NTM Ebitda</i><br><i>(US\$mm)</i> | <i>Adjusted</i><br><i>R/P</i> | <i>PV/</i><br><i>Ebitda</i> | <i>Present</i><br><i>Value</i><br><i>(US\$mm)</i> |      |
|--|--------------------------------------|-------------------------------|-----------------------------|---|------|
| North American Natural Gas                                 | 566                                  | 3.9                           | 5.3                         | 3,000   | 8%   |
| Syncrude   | 1,092                                | 25.6                          | 11.7                        | 12,800  | 33%  |
| Oil - Conventional and Cold Lake                           | 1,785                                | 11.9                          | 8.7                         | 15,500  | 40%  |
| Downstream   | 1,125                                |                               | 6.2                         | 7,000   | 18%  |
|  | 4,568                                | 13.2                          | 8.4                         | 38,300  | 100% |
| Debt (US\$mm)  |                                      |                               |                             | 2,700   |      |
| Net Present Value (US\$mm)                                 |                                      |                               |                             | 35,600  |      |
| Shares (mm)  |                                      |                               |                             | 963   |      |
| Net Present Value - Standard Estimate (US\$/sh)            |                                      |                               |                             | 37  |      |
| Net Present Value - Approximation by Correlation (US\$/sh) |                                      |                               |                             | 34  |      |

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**Imperial Oil Limited**  
**Next Twelve Months Operations**  
 (Canadian Dollars)

|                            | <i>Q1</i>      | <i>Q4</i>       | <i>Year</i>   | <i>Q1E</i>     | <i>Q2E</i>     | <i>Q3E</i>     | <i>Q4E</i>      | <i>Year</i>   | <i>Next<br/>Twelve<br/>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>                    |
| <b>Volume</b>              |                |                 |               |                |                |                |                 |               |                                   |
| Natural Gas (mmcf)         | 520            | 468             | <b>496</b>    | 468            | 468            | 468            | 468             | <b>468</b>    | <b>468</b>                        |
| Oil (mbd)                  | 238            | 228             | <b>227</b>    | 225            | 236            | 235            | 237             | <b>233</b>    | <b>237</b>                        |
| Total gas & oil (bcf)      | 175            | 169             | <b>679</b>    | 163            | 171            | 173            | 174             | <b>682</b>    | <b>689</b>                        |
| Total gas & oil (mbd)      | 325            | 306             | <b>310</b>    | 303            | 314            | 313            | 315             | <b>311</b>    | <b>315</b>                        |
| <b>Price</b>               |                |                 |               |                |                |                |                 |               |                                   |
| Natural gas (\$/mcf)       |                |                 |               |                |                |                |                 |               |                                   |
| Henry Hub (\$/mmbtu)       | 8.97           | 6.57            | <b>7.23</b>   | 6.81           | 7.39           | 7.78           | 8.62            | <b>7.65</b>   | <b>8.32</b>                       |
| Currency (US\$/C\$)        | 0.87           | 0.88            | <b>0.88</b>   | 0.86           | 0.86           | 0.86           | 0.86            | <b>0.86</b>   | <b>0.86</b>                       |
| Henry Hub (C\$/mmbtu)      | 10.36          | 7.48            | <b>8.20</b>   | 7.94           | 8.62           | 9.07           | 10.05           | <b>8.92</b>   | <b>9.70</b>                       |
| Canada (C\$/mcf)           | 9.40           | 6.68            | <b>7.23</b>   | 7.09           | 7.69           | 8.10           | 8.97            | <b>7.97</b>   | <b>8.66</b>                       |
| Oil (\$/bbl)               |                |                 |               |                |                |                |                 |               |                                   |
| WTI Cushing                | 63.33          | 59.99           | <b>66.05</b>  | 57.97          | 63.45          | 66.18          | 67.39           | <b>63.75</b>  | <b>66.25</b>                      |
| WTI Cushing (C\$/bbl)      | 73.13          | 68.34           | <b>74.86</b>  | 67.59          | 73.98          | 77.17          | 78.58           | <b>74.33</b>  | <b>77.25</b>                      |
| Worldwide                  | 48.99          | 53.07           | <b>57.97</b>  | 52.32          | 60.49          | 63.08          | 61.18           | <b>59.38</b>  | <b>61.40</b>                      |
| Total gas & oil (\$/mcf)   | 8.43           | 8.29            | <b>9.00</b>   | 8.30           | 9.49           | 9.91           | 9.89            | <b>9.41</b>   | <b>9.84</b>                       |
| NY Harbor 3-2-1 (\$/bbl)   | 7.40           | 7.54            | <b>10.50</b>  | 11.74          | 17.59          | 14.39          | 9.91            | <b>13.41</b>  | <b>12.96</b>                      |
| <b>Revenue (\$mm)</b>      |                |                 |               |                |                |                |                 |               |                                   |
| Natural Gas                | 429            | 288             | <b>1,300</b>  | 299            | 328            | 349            | 386             | <b>1,362</b>  | <b>1,480</b>                      |
| Oil                        | 1,049          | 1,113           | <b>4,808</b>  | 1,058          | 1,297          | 1,366          | 1,333           | <b>5,054</b>  | <b>5,301</b>                      |
| Other                      | 4,340          | 4,230           | <b>18,680</b> | 4,230          | 4,230          | 4,230          | 4,230           | <b>16,921</b> | <b>16,921</b>                     |
| Total                      | 5,818          | 5,631           | <b>24,788</b> | 5,587          | 5,855          | 5,945          | 5,950           | <b>23,337</b> | <b>23,702</b>                     |
| <b>Expense (\$mm)</b>      |                |                 |               |                |                |                |                 |               |                                   |
| Fixed                      | 378            | 313             | <b>1,280</b>  | 313            | 313            | 313            | 313             | <b>1,252</b>  | <b>991</b>                        |
| Variable                   | 378            | 313             | <b>1,280</b>  | 303            | 363            | 383            | 384             | <b>1,433</b>  | <b>978</b>                        |
| Other                      | 3,940          | 3,886           | <b>17,369</b> | 4,446          | 4,674          | 4,591          | 4,583           | <b>18,294</b> | <b>14,462</b>                     |
| <b>Ebitda (\$mm)</b>       |                |                 |               |                |                |                |                 |               |                                   |
| Exploration and Production | 722            | 775             | <b>3,547</b>  | 741            | 949            | 1,019          | 1,023           | <b>3,731</b>  | <b>4,014</b>                      |
| Other                      | 400            | 344             | <b>1,312</b>  | 400            | 232            | 335            | 344             | <b>1,312</b>  | <b>1,312</b>                      |
| Total Ebitda               | 1,122          | 1,119           | <b>4,859</b>  | 1,141          | 1,181          | 1,354          | 1,367           | <b>5,043</b>  | <b>5,326</b>                      |
| Exploration                | 10             | 14              | <b>32</b>     | 14             | 14             | 14             | 10              | <b>52</b>     | <b>48</b>                         |
| Deprec., Deplet., & Amort. | 216            | 204             | <b>831</b>    | 204            | 204            | 204            | 204             | <b>816</b>    | <b>816</b>                        |
| Other non cash             |                |                 | <b>(110)</b>  |                |                |                |                 | <b>-</b>      | <b>-</b>                          |
| <b>Ebit</b>                | 896            | 901             | <b>4,106</b>  | 923            | 963            | 1,136          | 1,153           | <b>4,175</b>  | <b>4,462</b>                      |
| Interest                   | 5              | -               | <b>4</b>      | -              | -              | -              | -               | <b>-</b>      | <b>-</b>                          |
| <b>Ebt</b>                 | 891            | 901             | <b>4,102</b>  | 923            | 963            | 1,136          | 1,153           | <b>4,175</b>  | <b>4,462</b>                      |
| Income Tax                 | 299            | 102             | <b>1,056</b>  | 323            | 337            | 398            | 404             | <b>1,461</b>  | <b>1,562</b>                      |
| <b>Net Income (\$mm)</b>   |                |                 |               |                |                |                |                 |               |                                   |
| Exploration and Production | 397            | 608             | <b>2,376</b>  |                |                |                |                 | <b>-</b>      | <b>-</b>                          |
| Other                      | 238            | 249             | <b>767</b>    |                |                |                |                 | <b>-</b>      | <b>-</b>                          |
| Unallocated                | (43)           | (58)            | <b>(97)</b>   |                |                |                |                 | <b>-</b>      | <b>-</b>                          |
| Total                      | 592            | 799             | <b>3,046</b>  | 600            | 626            | 739            | 749             | <b>2,714</b>  | <b>2,900</b>                      |
| <b>Shares (millions)</b>   |                |                 |               |                |                |                |                 |               |                                   |
| Earnings per share (\$)    | 0.59           | 0.83            | <b>3.11</b>   | 0.62           | 0.65           | 0.77           | 0.78            | <b>2.82</b>   | <b>3.01</b>                       |
| Ebitda Margin (E&P)        | 49%            | 55%             | <b>58%</b>    | 55%            | 58%            | 59%            | 59%             | <b>58%</b>    | <b>59%</b>                        |
| Tax Rate                   | 34%            | 11%             | <b>26%</b>    | 35%            | 35%            | 35%            | 35%             | <b>35%</b>    | <b>35%</b>                        |

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