



Rating: Buy
 S&P 500: 1408

Imperial Oil Limited ExxonMobil's Undeveloped Opportunities

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$m)</i>	6,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	56.68	<i>Natural Gas and Oil Production/Ebitda (%)</i>	79
<i>Pricing Date</i>	5/1/08	<i>Adjusted Reserves/Production NTM</i>	13.9
<i>Shares (mm)</i>	906	<i>EV/Ebitda</i>	8.0
<i>Market Capitalization (US\$m)</i>	51,400	<i>PV/Ebitda</i>	6.9
<i>Debt (US\$m)</i>	3,100	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$m)</i>	54,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	53.80
<i>Present Value (PV) (US\$m)</i>	46,600	<i>Present Value Proven Reserves(US\$/boe)</i>	22.76
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.79
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.15
<i>McDep Ratio - EV/PV</i>	1.17	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.36
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 Imperial Oil since 2004 see http://www.mcdep.com/2imo.htm			

Summary and Recommendation

The stock of buy-recommended **Imperial Oil Limited (IMO)** may be priced higher than estimated Net Present Value (NPV) of US\$48 a share, but NPV appears to be a moving target on an upward trend. First quarter results fell short of our estimates from three months ago, particularly in the volatile downstream segment. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). NPV exceeds that supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). We make some allowance for the company's conservative reporting of proven reserves in estimating NPV. The oft-asked question is "Why doesn't **ExxonMobil (XOM)** (the buy-recommended 70% owner of IMO) buy the minority interest? IMO accounts for 10% of XOM market cap and 20% of XOM's inventory of undeveloped opportunities. The value of the opportunities may expand further as oil price trades above its moving average (see chart Six-Year Commodity Price Meter).

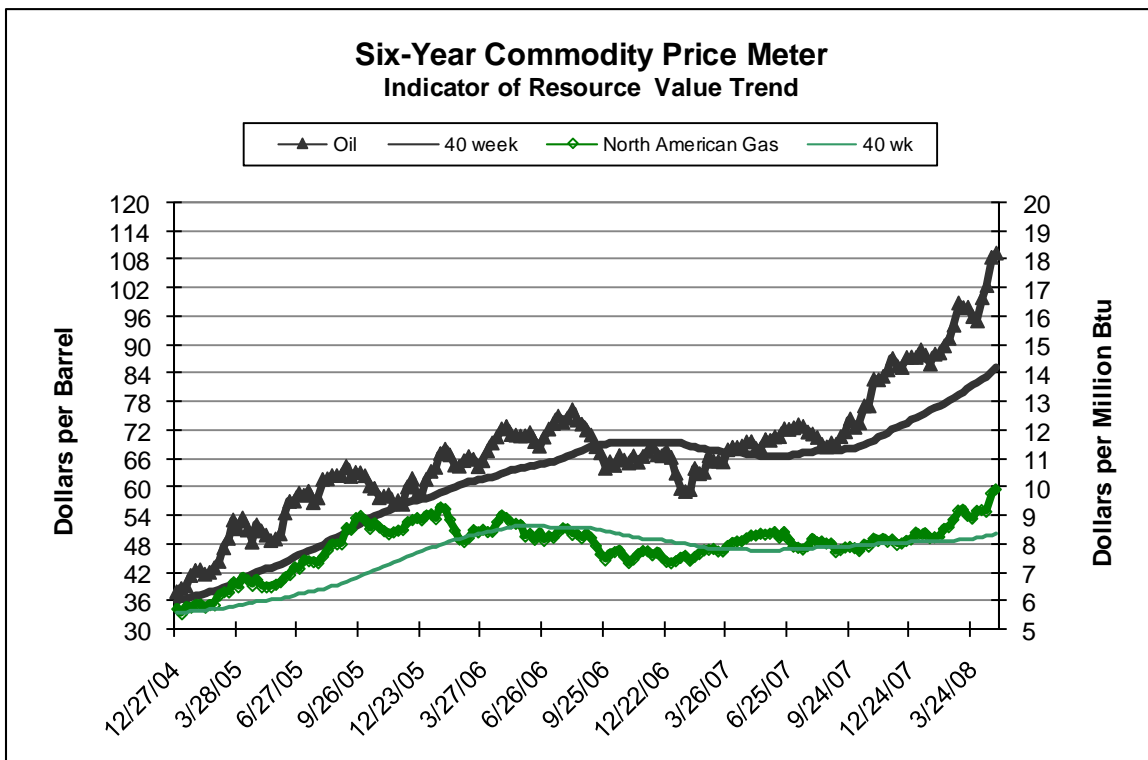
Kurt H. Wulff, CFA



Imperial Oil Limited									
Next Twelve Months Operations									
(Canadian Dollars)									
									<i>Next</i>
	<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>Months</i>
	<i>3/31/07</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>2008E</i>	<i>3/31/09</i>
Volume									
Natural Gas (mmcf)	456	345	403	259	259	259	259	259	259
Days	90	92	365	91	91	92	92	366	365
Oil (mbd)	222	230	227	216	223	224	235	225	230
Total gas & oil (bcf)	161	158	645	142	145	147	154	588	598
Total gas & oil (mbd)	298	287	294	259	266	267	278	268	273
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.97	6.87	8.02	10.75	11.49	11.85	10.52	11.58
Currency (US\$/C\$)	0.85	1.02	0.94	0.99	0.99	0.99	0.99	0.99	0.99
Henry Hub (C\$/mmbtu)	7.97	6.84	7.35	8.12	10.88	11.64	12.00	10.66	11.73
Canada (C\$/mcf)	7.75	6.33	6.93	8.00	10.72	11.47	11.82	10.32	11.55
Oil (\$/bbl)									
WTI Cushing	58.08	90.67	72.28	97.94	116.85	116.98	115.03	111.70	115.57
WTI Cushing (C\$/bbl)	68.01	88.91	76.78	99.18	118.33	118.46	116.48	113.11	117.03
Worldwide	56.63	87.87	67.33	83.91	95.27	95.47	94.96	92.52	94.87
Total gas & oil (\$/mcf)	9.06	12.98	10.25	13.43	15.04	15.19	15.21	14.73	15.14
NY Harbor 3-2-1 (\$/bbl)	11.68	8.19	14.37	7.57	13.66	12.76	9.80	10.95	12.07
Revenue (\$mm)									
Natural Gas	326	201	1,028	251	253	273	282	1,059	1,092
Oil	1,132	1,855	5,583	1,649	1,933	1,966	2,054	7,602	7,957
Other	4,476	4,684	18,832	5,362	5,362	5,362	5,362	21,450	21,450
Total	5,934	6,740	25,443	7,263	7,548	7,602	7,698	30,111	30,499
Expense (\$mm)									
Ebitda (\$mm)									
Exploration and Production	956	871	3,622	1,046	1,311	1,344	1,401	5,103	5,429
Other	390	383	1,676	135	521	383	383	1,421	1,421
Total Ebitda	1,346	1,253	5,298	1,182	1,832	1,727	1,784	6,524	6,850
Exploration	28	16	106	40	8	8	10	66	36
Deprec., Deplet., & Amort.	189	188	780	181	188	188	188	745	752
Other non cash			-		200			200	200
Ebit	1,129	1,049	4,412	961	1,436	1,531	1,586	5,513	5,862
Interest	12	3	36	(3)				(3)	-
Ebt	1,117	1,046	4,376	964	1,436	1,531	1,586	5,516	5,862
Income Tax	341	168	1,191	284	503	536	555	1,877	2,052
Net Income (\$mm)									
Exploration and Production	563	739		650					
Other	226	241		54					
Unallocated	(13)	(102)		(25)					
Total	776	878	3,185	680	933	995	1,031	3,638	3,811
Shares (millions)									
Earnings per share (\$)	0.81	0.96	3.41	0.75	1.03	1.10	1.14	4.02	4.21
Ebitda Margin (E&P)	66%	42%	55%	55%	60%	60%	60%	59%	60%
Tax Rate	31%	16%	27%	29%	35%	35%	35%	34%	35%



Imperial Oil Limited					
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	513	6.2	5.5	2,800	6%
Syncrude	1,860	30.0	8.3	15,500	33%
Oil - Conventional and Cold Lake	2,989	11.6	6.8	20,300	44%
Downstream	1,403		5.7	8,000	17%
	6,765	13.9	6.9	46,600	100%
Debt (US\$mm)					3,100
Net Present Value (US\$mm)					43,500
Shares (mm)					906
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					39



McDep LLC
Independent Stock Idea
May 1, 2008



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