

Rating: Buy
S&P 500: 1271

Imperial Oil Limited

Raise Net Present Value to \$90 a Share

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	5,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	17
<i>Price (US\$/sh)</i>	105.03	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	2/2/06	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	336	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (US\$m)</i>	35,300	<i>PV/Ebitda</i>	6.5
<i>Debt (US\$m)</i>	3,200	<i>Undeveloped Reserves (%)</i>	23
<i>Enterprise Value (EV) (US\$m)</i>	38,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.30
<i>Present Value (PV) (US\$m)</i>	33,400	<i>Present Value Proven Reserves(US\$/boe)</i>	17.38
<i>Net Present Value (US\$/share)</i>	90	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.90
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.34
<i>McDep Ratio - EV/PV</i>	1.15	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.84

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.

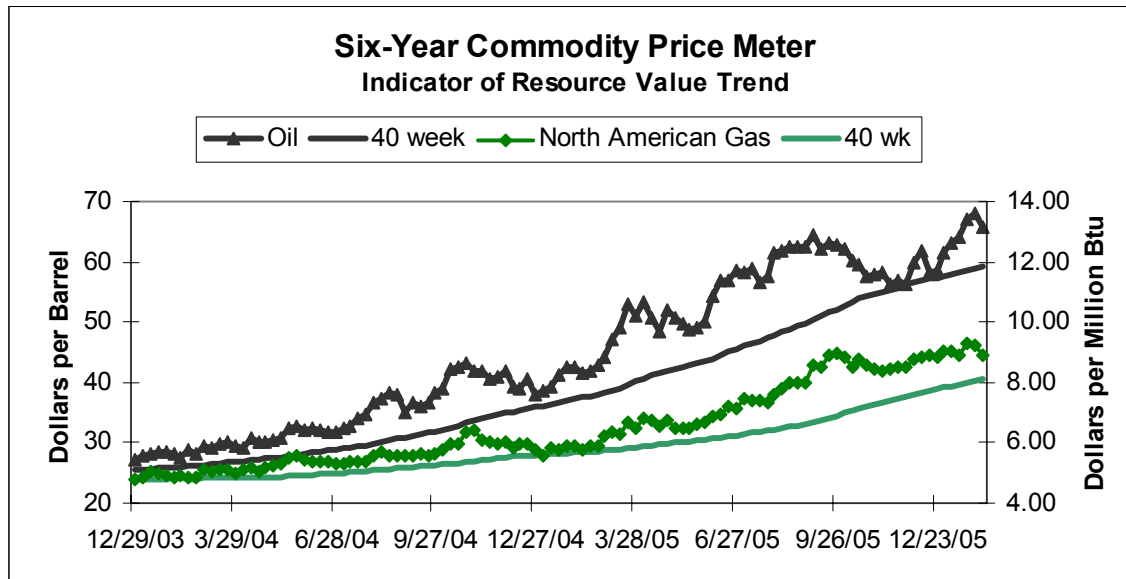
Summary and Recommendation

A strong finish to 2005 for buy-recommended **Imperial Oil (IMO)** supports higher projections for 2006 that contribute to an increase in estimated net present value to US\$90 from US\$84 a share. Present value does not count much for oil sands at a proposed new mining project, Kearl, nor additional volume at the company's Cold Lake project. Nor are we counting the more than 2 trillion cubic feet of Arctic natural gas that awaits a long-deliberated pipeline. Thus, a relatively high McDep Ratio for Imperial compared to buy-recommended peers could ultimately be justified for patient investors.

McDep Ratio Relates Oil Price to Opportunity

A McDep Ratio above 1.0 tells us that IMO's market cap and debt, or enterprise value, is somewhat more than the estimated present value of its energy resources assuming a long-term real price of \$50 a barrel for Light, Sweet Crude Oil. Meanwhile six-year oil futures are about \$66 a barrel. Momentum has been positive for more than three years as the current quote stays above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). Six-year oil has tripled in the four years we have been calculating it on a weekly basis. We do not need further gains in oil price to make money in buy recommendations. Yet our vision of \$150 oil in 2010 implies additional scope to exceed common expectations.

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IMO's McDep Ratio ranks above the median of peer companies (see table [Rank by McDep Ratio](#)). Aside from fundamental value, a McDep Ratio of 1.0 is an indication of takeover value. The McDep Ratio of buy-recommended **Burlington Resources (BR)**, increased to 1.0 immediately after buy-recommended **ConocoPhillips (COP)** announced its takeover offer.

Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 2-Feb 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	94.00	139	13,100	33.00	0.74	1.48
Imperial Oil Limited (30%)	IMO B	105.03	101	10,590	90.00	0.09	1.15
Petro-Canada	PCZ B	49.28	523	25,770	42.00	0.19	1.14
Suncor Energy	SU B	78.85	461	36,360	75.00	0.10	1.05
Marathon Oil Corporation	MRO B	73.12	368	26,900	75.00	0.25	0.98
Norsk Hydro ASA	NHY B	120.99	251	30,360	130.00	0.17	0.94
PetroChina Company Ltd (10%)	PTR B	96.02	176	16,880	120.00	0.01	0.80
Lukoil Oil Company	LUKOY B	76.60	830	64,000	100.00	0.01	0.77
Gazprom (50%)	OGZPF B	84.90	1,133	96,200	140.00	0.02	0.62
<i>Total or Median</i>				<i>320,000</i>		<i>0.10</i>	<i>0.98</i>

Low Cash Flow Multiple

Imperial has an adjusted reserve life index of 10.7 years that is below the median of peers, but may understate the company's real situation (see table [Rank by EV/Ebitda](#)). Imperial's unlevered multiple, EV/Ebitda, is at the upper end of peers, though low in absolute terms.

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

			<i>Price</i>	<i>Adjstd</i>				<i>Divd or</i>
	<i>Symbol/</i>		<i>(\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>	<i>P/E</i>	<i>Distrib</i>
	<i>Rating</i>	<i>2-Feb</i>	<i>2006</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>
				<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	94.00		8.2	12.1	19	3.7
Suncor Energy	SU	B	78.85	17.7	7.7	8.1	16	0.3
Imperial Oil Limited (30%)	IMO	B	105.03	10.7	6.5	7.5	13	0.8
Gazprom (50%)	OGZPF	B	84.90	20.0	10.2	6.3	10	0.5
Petro-Canada	PCZ	B	49.28	6.0	5.3	6.1	11	0.7
Norsk Hydro ASA	NHY	B	120.99	7.9	5.2	4.9	10	2.5
PetroChina Company Ltd (10%)	PTR	B	96.02	13.8	6.0	4.8	10	3.9
Marathon Oil Corporation	MRO	B	73.12	6.5	4.7	4.6	7	1.8
Lukoil Oil Company	LUKOY	B	76.60	19.7	5.8	4.4	7	1.3
	<i>Median</i>			<i>12.3</i>	<i>6.0</i>	<i>6.1</i>	<i>10</i>	<i>1.3</i>

More Concentration on Oil

Each oil and gas stock has its own unique mix of energy resources (see table Business Segments). Imperial is the median among peers with oil concentration of 64% and downstream, 24%.

Home Country and Business Segments

				<i>North</i>	<i>Rest</i>			<i>Total</i>
	<i>Symbol/</i>		<i>Non-</i>	<i>Amer.</i>	<i>of World</i>	<i>Oil</i>	<i>Down-</i>	<i>Total</i>
	<i>Rating</i>	<i>Domicile</i>	<i>U.S.</i>	<i>Natural</i>	<i>Natural</i>	<i>Prod'n</i>	<i>stream</i>	<i>Present</i>
				<i>Gas</i>	<i>Gas</i>	<i>(%)</i>	<i>(%)</i>	<i>Value</i>
				<i>(%)</i>	<i>(%)</i>			<i>(US\$mm)</i>
Producer/Refiners - Large Cap and Mid Cap								
Gazprom	OGZPF	B	Russia		100			325,000
PetroChina Company Ltd.	PTR	B	China	-	9	71	20	213,000
Lukoil Oil Company	LUKOY	B	Russia	-	-	75	25	83,600
Norsk Hydro ASA	NHY	B	Norway	-	29	38	33	39,200
Suncor Energy	SU	B	Canada	4	-	89	7	38,300
Marathon Oil Corporation	MRO	B		13	7	40	41	36,600
Imperial Oil Limited	IMO	B	Canada	12	-	64	24	33,400
Petro-Canada	PCZ	B	Canada	23	4	53	20	27,200
	<i>Median</i>			<i>4</i>	<i>5</i>	<i>64</i>	<i>24</i>	<i>796,000</i>

Correlation Verifies Present Value in Real Time

Our underlying quantitative method for estimating present value projects cash flows years into the future and brings them to the present by applying a real discount rate, currently 7% a year. Around that traditional discounted cash flow analysis (DCF) we deal with uncertainty on a qualitative basis. "Option value" to us, for example, is "upside potential". After awhile DCF analyses fall into a pattern where differences among companies depend mostly on first year cash flow and reserve life. Meanwhile input information is continually changing as companies make new disclosures, each on a different day or at a different hour and commodity prices fluctuate. We aggregate latest information into a correlation analysis that determines a real-time present

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value approximation. When that approximation deviates too much from our steady, official estimate of present value and we cannot justify the difference with company-specific explanation, we change the official estimate. Net present value indicated by the current correlation matches our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

Imperial Oil Limited
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	857	4.3	4.7	4,000	12%
Syncrude	894	20.0	11.3	10,100	30%
Oil - Conventional and Cold Lake	2,156	10.2	5.2	11,300	34%
Downstream	1,223		6.5	8,000	24%
	5,130	10.7	6.5	33,400	100%
Debt (US\$mm)					3,200
Net Present Value (US\$mm)					30,200
Shares (mm)					336
Net Present Value - Standard Estimate (US\$/sh)					90
Net Present Value - Approximation by Correlation (US\$/sh)					90

Futures Prices Propel Estimated Cash Flow by Quarter

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

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Imperial Oil Limited
Next Twelve Months Operations
(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>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)	524	513	507	514	507	507	507	507	507
Oil (mbd)	242	209	245	230	231	247	259	249	247
Total gas & oil (bcf)	182	163	182	692	171	181	190	184	725
Total gas & oil (mbd)	329	295	330	316	316	331	344	334	331
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	9.35	8.60	8.88	9.85	9.17
Currency (US\$/C\$)	0.82	0.83	0.85	0.83	0.87	0.87	0.87	0.87	0.87
Henry Hub (C\$/mmbtu)	8.66	10.29	15.30	10.48	10.70	9.84	10.16	11.27	10.49
Canada (C\$/mcf)	7.12	8.80	12.35	8.96	8.64	7.94	8.20	9.10	8.47
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	64.95	66.12	67.39	67.94	66.60
WTI Cushing (C\$/bbl)	58.94	75.14	70.61	68.15	74.34	75.68	77.13	77.76	76.23
Worldwide	43.85	63.00	53.21	52.65	59.37	61.79	63.95	62.50	61.98
Total gas & oil (\$/mcf)	7.26	10.01	9.76	8.83	9.56	9.70	10.05	10.08	9.86
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.06	10.63	6.97	11.66	12.52	10.17	10.33
Revenue (\$mm)									
Natural Gas	343	415	576	1,683	394	366	383	424	1,568
Oil	976	1,211	1,199	4,429	1,237	1,389	1,525	1,432	5,582
Other	4,793	6,084	5,968	22,102	5,968	5,968	5,968	5,968	23,870
Total	6,113	7,711	7,743	28,214	7,598	7,723	7,875	7,824	31,020
Expense (\$mm)									
Fixed	305	328	336	1,317	336	330	330	330	1,009
Variable	305	328	336	1,317	308	332	361	351	955
Other	4,463	5,771	5,491	20,826	6,262	6,279	6,308	6,299	16,180
Ebitda (\$mm)									
Exploration and Production	709	970	1,104	3,478	986	1,093	1,216	1,175	4,471
Other	331	313	476	1,276	350	350	350	350	1,400
Total Ebitda	1,040	1,283	1,580	4,754	1,336	1,443	1,566	1,525	5,871
Exploration	7	10	6	43	6	6	15	15	42
Deprec., Deplet., & Amort.	252	217	223	897	223	223	223	223	892
Other non cash		100	(200)	(100)					-
Ebit	781	956	1,551	3,914	1,107	1,214	1,328	1,287	4,937
Interest	1	-	-	8	-	-	-	-	-
Ebt	780	956	1,551	3,906	1,107	1,214	1,328	1,287	4,937
Income Tax	242	306	543	1,318	388	425	465	451	1,728
Net Income (\$mm)									
Exploration and Production	389	592	671	1,954					
Other	186	183	295	717					
Unallocated	(37)	(125)	42	(83)					
Total	538	650	1,008	2,588	720	789	863	837	3,209
Shares (millions)									
Earnings per share (\$)	1.53	1.91	3.00	7.59	2.14	2.35	2.57	2.49	9.55
Ebitda Margin (E&P)	54%	60%	62%	57%	60%	62%	64%	63%	63%
Tax Rate	31%	32%	35%	34%	35%	35%	35%	35%	35%

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