

Rating: Buy
S&P 500: 1313

Imperial Oil Limited **Oil Sands and Arctic Natural Gas**

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$m)</i>	5,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	16
<i>Price (US\$/sh)</i>	105.68	<i>Natural Gas and Oil Production/Ebitda (%)</i>	74
<i>Pricing Date</i>	5/2/06	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	332	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$m)</i>	35,100	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$m)</i>	3,100	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$m)</i>	38,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.10
<i>Present Value (PV) (US\$m)</i>	33,000	<i>Present Value Proven Reserves(US\$/boe)</i>	19.45
<i>Net Present Value (US\$/share)</i>	90	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.24
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.60
<i>McDep Ratio - EV/PV</i>	1.16	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.87

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

Buy-recommended **Imperial Oil (IMO)** looks higher valued than peers on a long-term oil price of \$50 a barrel. Considering that long-term oil price is \$73 in the futures market, we should soon be raising estimated net present value (NPV) from the current level of \$90 a share. Also, NPV is higher than peers relative to estimated next twelve months (NTM) cash flow and adjusted reserve life. Yet, NTM cash flow and reported reserves do not include representation for more than 2 trillion cubic feet of Arctic natural gas that awaits a pipeline, nor for additional oil sands potential in the proposed Kearl mining project. Canadian crude oil price rebounded in April from low levels relative to the global standard reflected in first quarter results disclosed on May 2. The high-quality company has low financial risk with debt at just 0.09 times present value.

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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	861	3.7	4.6	4,000	12%
Syncrude	1,127	20.0	9.0	10,100	31%
Oil - Conventional and Cold Lake	1,927	7.8	5.7	10,900	33%
Downstream	1,356		5.9	8,000	24%
	5,270	9.2	6.3	33,000	100%
Debt (US\$mm)					3,100
Net Present Value (US\$mm)					29,900
Shares (mm)					332
Net Present Value - Standard Estimate (US\$/sh)					90
Net Present Value - Approximation by Correlation (US\$/sh)					81

Imperial Oil Limited
Oil Production and Revenue
 (Canadian Dollars)

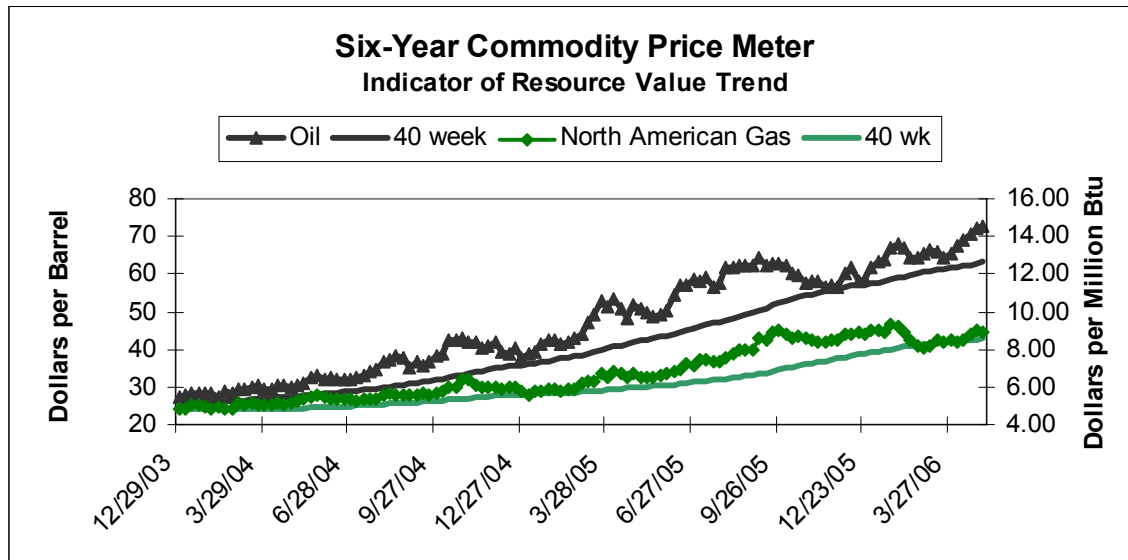
	<i>Q1</i> <i>3/31/05</i>	<i>Q4</i> <i>12/31/05</i>	<i>Year</i> <i>2005E</i>	<i>Q1</i> <i>3/31/06</i>	<i>Q4E</i> <i>6/30/06</i>	<i>Q3E</i> <i>9/30/06</i>	<i>Q4E</i> <i>12/31/06</i>	<i>Year</i> <i>2006E</i>	<i>Next</i> <i>Twelve</i> <i>Months</i> <i>3/31/07</i>
Volume									
Oil (mbd)									
Conventional	31	28	29	24	24	23	23	23	23
Cold Lake	139	137	123	139	139	139	139	139	139
Syncrude	39	56	53	51	66	79	79	69	69
Natural Gas Liquids	24	24	25	24	24	24	24	24	24
Total Oil	233	245	230	238	253	265	264	255	255
Price									
Currency (US\$/C\$)	0.82	0.83	0.82	0.87	0.90	0.90	0.90	0.89	0.89
Oil (C\$/bbl)									
Light, Sweet (US\$/bbl)	49.65	60.02	56.31	63.33	72.31	75.85	76.87	72.09	72.09
Light, Sweet (C\$/bbl)	60.85	72.14	68.53	73.13	80.02	83.94	85.06	80.54	80.54
Conventional	58.28	66.04	64.48	63.59	73.62	77.22	78.25	73.10	73.10
Cold Lake (Hardisty)	39.49	43.62	44.79	40.26	52.01	54.56	55.29	50.59	50.59
Syncrude (Par Edmonton)	62.63	72.21	70.54	68.88	75.37	79.06	80.12	76.61	76.61
Natural Gas Liquids	35.27	48.69	39.30	42.65	46.67	48.95	49.61	46.99	46.99
Total Oil	45.43	53.21	52.65	48.99	59.62	63.31	64.13	59.32	59.32
Ratio: Cold Lake/Light Swt	0.65	0.60	0.65	0.55	0.65	0.65	0.65	0.63	0.63
Revenue (C\$mm)									
Conventional	163	170	688	137	159	164	163	623	623
Cold Lake	494	550	2,013	504	665	698	707	2,574	2,574
Syncrude	220	372	1,373	316	458	573	580	1,927	1,927
Natural Gas Liquids	76	108	355	92	103	108	110	413	413
Total Oil	953	1,199	4,429	1,049	1,385	1,542	1,560	5,537	5,537

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Imperial Oil Limited
Next Twelve Months Operations
 (Canadian Dollars)

	<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>Next Twelve Months</i>
	<i>3/31/05</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>2006E</i>	<i>3/31/07</i>
Volume									
Natural Gas (mmcf)	522	507	514	520	520	520	520	520	520
Oil (mbd)	233	245	230	238	253	265	264	255	258
Total gas & oil (bcf)	173	182	692	175	185	194	194	748	755
Total gas & oil (mbd)	320	330	316	325	339	351	351	342	345
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	7.06	7.24	9.35	8.15	8.78
Currency (US\$/C\$)	0.82	0.85	0.83	0.87	0.90	0.90	0.90	0.89	0.90
Henry Hub (C\$/mmbtu)	7.68	15.30	10.48	10.36	7.81	8.01	10.34	9.12	9.71
Canada (C\$/mcf)	7.02	12.35	8.96	9.40	7.09	7.27	9.38	8.27	8.80
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	72.31	75.85	76.87	72.09	75.50
WTI Cushing (C\$/bbl)	60.85	70.61	68.15	73.13	80.02	83.94	85.06	80.54	83.54
Worldwide	45.43	53.21	52.65	48.99	59.62	63.31	64.13	59.32	62.85
Total gas & oil (\$/mcf)	7.43	9.76	8.83	8.43	9.21	9.74	10.37	9.46	10.05
NY Harbor 3-2-1 (\$/bbl)	6.17	9.06	10.63	7.40	16.52	12.90	8.60	11.36	12.01
Revenue (\$mm)									
Natural Gas	331	576	1,683	429	335	348	449	1,561	1,670
Oil	953	1,199	4,429	1,049	1,370	1,542	1,560	5,522	5,925
Other	4,674	5,968	22,102	4,340	4,340	4,340	4,340	17,359	17,359
Total	5,958	7,743	28,214	5,818	6,045	6,230	6,348	24,441	24,954
Expense (\$mm)									
Fixed	360	336	1,317	378	330	330	330	1,368	1,009
Variable	360	336	1,317	378	436	484	514	1,812	1,078
Other	4,390	5,491	20,826	3,940	4,756	4,803	4,784	18,283	14,675
Ebitda (\$mm)									
Exploration and Production	564	1,104	3,478	722	939	1,076	1,165	3,902	4,332
Other	284	476	1,276	400	350	350	400	1,500	1,500
Total Ebitda	847	1,580	4,754	1,122	1,289	1,426	1,565	5,402	5,832
Exploration	21	6	43	10	10	15	15	50	55
Deprec., Deplet., & Amort.	238	223	897	216	223	223	223	885	892
Other non cash		(200)	(100)					-	-
Ebit	588	1,551	3,914	896	1,056	1,188	1,327	4,467	4,885
Interest	2	-	8	5	5	5	5	20	20
Ebt	586	1,551	3,906	891	1,051	1,183	1,322	4,447	4,865
Income Tax	195	543	1,318	299	368	414	463	1,544	1,703
Net Income (\$mm)									
Exploration and Production	242	671	1,954	397				397	
Other	146	295	717	238				238	
Unallocated	3	42	(83)	(43)				(43)	
Total	391	1,008	2,588	592	683	769	859	2,903	3,162
Shares (millions)									
Earnings per share (\$)	1.12	3.00	7.59	1.78	2.06	2.31	2.58	8.73	9.51
Ebitda Margin (E&P)	44%	62%	57%	49%	55%	57%	58%	55%	57%
Tax Rate	33%	35%	34%	34%	35%	35%	35%	35%	35%

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