

Rating: Hold
 S&P 500: 1321

Imperial Oil Limited

Change to Hold on Oil Price Momentum

| | | | |
|---------------------------------------|---------|--|-------|
| <i>Symbol</i> | IMO | <i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i> | 5,100 |
| <i>Rating</i> | Hold | <i>North American Natural Gas/Ebitda (%)</i> | 14 |
| <i>Price (US\$/sh)</i> | 34.35 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 74 |
| <i>Pricing Date</i> | 9/18/06 | <i>Adjusted Reserves/Production NTM</i> | 9.6 |
| <i>Shares (mm)</i> | 984 | <i>EV/Ebitda</i> | 7.3 |
| <i>Market Capitalization (US\$mm)</i> | 33,800 | <i>PV/Ebitda</i> | 7.8 |
| <i>Debt (US\$mm)</i> | 3,000 | <i>Undeveloped Reserves (%)</i> | 16 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 36,800 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 31.10 |
| <i>Present Value (PV) (US\$mm)</i> | 39,400 | <i>Present Value Proven Reserves(US\$/boe)</i> | 23.22 |
| <i>Net Present Value (US\$/share)</i> | 37 | <i>Present Value Proven Reserves(US\$/mcf)</i> | 3.87 |
| <i>Debt/Present Value</i> | 0.08 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 2.80 |
| <i>McDep Ratio - EV/PV</i> | 0.93 | <i>Price/Earnings Next Twelve Months</i> | 12 |
| <i>Dividend Yield (%/year)</i> | 0.8 | <i>Indicated Annual Dividend (US\$/sh)</i> | 0.29 |

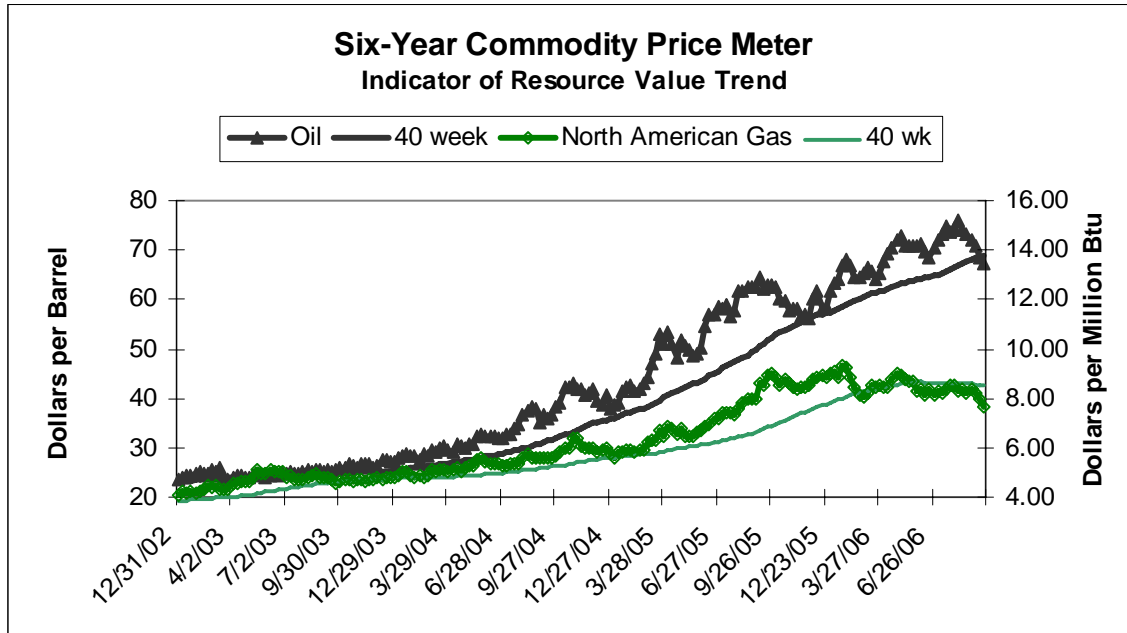
Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.
 Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Hold-rated **Imperial Oil (IMO)** offers fundamental value at a stock price below estimated net present value (NPV) of US\$37 a share. We change our rating from Buy to recognize that the benchmark price of crude oil to be delivered over the next six years at \$67 a barrel is below its 40-week average of \$69. At least for now by that measure, oil price is no longer in the uptrend it had been for more than the past three years. Holders of IMO with its 71% concentration on oil may have to be patient in expecting immediate appreciation. Our fundamental outlook as expressed by NPV remains unchanged as it is tied to a long-term oil price of \$60 a barrel, a level exceeded by current quotes. Though our vision of \$150 a barrel in 2010 continues to characterize the upside potential, investors may give that potential more weight when current oil price momentum is positive. The only industrial company in Canada to have the AAA bond rating, IMO has a higher market recognition measured by unlevered market cash flow multiple, EV/Ebitda, than the median of peers while reported reserve life matches the median.

Kurt H. Wulff, CFA

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

| | Symbol/ Rating | Price (US\$/sh) 18-Sep 2006 | Shares (mm) | Market Cap (US\$mm) | Net Present Value (US\$/sh) | Debt/ Present Value | McDep Ratio |
|--|-------------------|--------------------------------------|----------------|---------------------------|--------------------------------------|---------------------------|----------------|
| Producer/Refiners - Large Cap and Mid Cap | | | | | | | |
| Kinder Morgan, Inc. | KMI S2 | 104.45 | 135 | 14,100 | 33.00 | 0.75 | 1.54 |
| Imperial Oil Limited (30%) | IMO H | 34.35 | 295 | 10,140 | 37.00 | 0.08 | 0.93 |
| Petro-Canada | PCZ B | 40.71 | 512 | 20,840 | 49.00 | 0.18 | 0.86 |
| Norsk Hydro ASA | NHY B | 24.00 | 1,247 | 29,930 | 31.00 | 0.14 | 0.81 |
| Marathon Oil Corporation | MRO B | 75.53 | 367 | 27,720 | 98.00 | 0.14 | 0.80 |
| PetroChina Company Ltd (10%) | PTR B | 108.63 | 179 | 19,440 | 140.00 | 0.04 | 0.78 |
| Suncor Energy | SU B | 70.41 | 461 | 32,470 | 95.00 | 0.06 | 0.76 |
| Lukoil Oil Company | LUKOY B | 79.60 | 830 | 66,000 | 110.00 | 0.01 | 0.73 |
| <i>Total or Median</i> | | | | 221,000 | | 0.11 | 0.80 |

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

| | Symbol/ Rating | Price (US\$/sh) 18-Sep 2006 | Adjstd Resrvs/ Prod NTM | PV/ Ebitda NTM | EV/ Ebitda NTM | P/E NTM | Divd or Distrib NTM (%) |
|--|-------------------|--------------------------------------|----------------------------------|----------------------|----------------------|------------|----------------------------------|
| Producer/Refiners - Large Cap and Mid Cap | | | | | | | |
| Kinder Morgan, Inc. | KMI S2 | 104.45 | | 8.8 | 13.5 | 22 | 3.4 |
| Suncor Energy | SU B | 70.41 | 18.8 | 10.2 | 7.7 | 14 | 0.3 |
| Imperial Oil Limited (30%) | IMO H | 34.35 | 9.6 | 7.8 | 7.3 | 12 | 0.8 |
| Petro-Canada | PCZ B | 40.71 | 6.8 | 6.8 | 5.9 | 11 | 0.9 |
| Lukoil Oil Company | LUKOY B | 79.60 | 18.9 | 7.2 | 5.2 | 8 | 1.5 |
| PetroChina Company Ltd (10%) | PTR B | 108.63 | 14.7 | 6.3 | 5.0 | 10 | 4.4 |
| Norsk Hydro ASA | NHY B | 24.00 | 7.9 | 5.6 | 4.5 | 9 | 2.8 |
| Marathon Oil Corporation | MRO B | 75.53 | 8.6 | 4.7 | 3.8 | 6 | 1.7 |
| <i>Median</i> | | | 9.6 | 7.0 | 5.6 | 10 | 1.6 |

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Imperial Oil Limited
Next Twelve Months Operations
(Canadian Dollars)

| | <i>Q3</i> | <i>Q2</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Q3E</i> | <i>Next Twelve Months</i> |
|----------------------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|----------------|-----------------------------------|
| | <i>9/30/05</i> | <i>6/30/06</i> | <i>9/30/06</i> | <i>12/31/06</i> | <i>2006E</i> | <i>3/31/07</i> | <i>6/30/07</i> | <i>9/30/07</i> | <i>9/30/07</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | 513 | 493 | 493 | 493 | 500 | 493 | 493 | 493 | 493 |
| Oil (mbd) | 209 | 216 | 227 | 232 | 228 | 247 | 259 | 258 | 249 |
| Total gas & oil (bcf) | 163 | 163 | 171 | 173 | 682 | 178 | 186 | 188 | 725 |
| Total gas & oil (mbd) | 295 | 298 | 309 | 314 | 311 | 329 | 341 | 340 | 331 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 8.56 | 6.81 | 6.58 | 6.33 | 7.18 | 8.33 | 7.51 | 7.77 | 7.49 |
| Currency (US\$/C\$) | 0.83 | 0.89 | 0.89 | 0.89 | 0.89 | 0.89 | 0.89 | 0.89 | 0.89 |
| Henry Hub (C\$/mmbtu) | 10.29 | 7.63 | 7.36 | 7.08 | 8.09 | 9.31 | 8.40 | 8.69 | 8.37 |
| Canada (C\$/mcf) | 8.80 | 6.52 | 6.29 | 6.05 | 7.07 | 7.95 | 7.18 | 7.42 | 7.15 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 62.52 | 70.47 | 70.83 | 64.56 | 67.30 | 67.02 | 68.62 | 69.52 | 67.43 |
| WTI Cushing (C\$/bbl) | 75.14 | 79.00 | 79.20 | 72.19 | 75.88 | 74.94 | 76.72 | 77.73 | 75.39 |
| Worldwide | 63.00 | 65.67 | 66.55 | 56.10 | 59.15 | 58.10 | 64.22 | 65.05 | 61.04 |
| Total gas & oil (\$/mcf) | 10.01 | 9.73 | 9.81 | 8.49 | 9.10 | 9.25 | 9.85 | 10.02 | 9.42 |
| NY Harbor 3-2-1 (\$/bbl) | 16.70 | 15.39 | 11.84 | 5.71 | 10.09 | 7.76 | 12.30 | 12.60 | 9.59 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 415 | 293 | 285 | 274 | 1,281 | 353 | 322 | 337 | 1,286 |
| Oil | 1,211 | 1,291 | 1,388 | 1,196 | 4,924 | 1,290 | 1,512 | 1,546 | 5,543 |
| Other | 6,084 | 5,105 | 5,105 | 5,105 | 19,654 | 5,105 | 5,105 | 5,105 | 20,419 |
| Total | 7,711 | 6,688 | 6,778 | 6,575 | 25,859 | 6,747 | 6,938 | 6,987 | 27,248 |
| Expense (\$mm) | | | | | | | | | |
| Fixed | 328 | 312 | 312 | 312 | 1,313 | 312 | 330 | 330 | 1,009 |
| Variable | 328 | 312 | 329 | 289 | 1,308 | 323 | 361 | 370 | 965 |
| Other | 5,771 | 4,872 | 5,396 | 5,229 | 19,437 | 5,340 | 5,563 | 5,455 | 15,327 |
| Ebitda (\$mm) | | | | | | | | | |
| Exploration and Production | 970 | 960 | 1,033 | 869 | 3,584 | 1,008 | 1,143 | 1,182 | 4,202 |
| Other | 313 | 232 | 350 | 476 | 1,458 | 400 | 232 | 350 | 1,458 |
| Total Ebitda | 1,283 | 1,192 | 1,383 | 1,346 | 5,042 | 1,408 | 1,375 | 1,532 | 5,660 |
| Exploration | 10 | 3 | 15 | 15 | 43 | 15 | 15 | 15 | 60 |
| Deprec., Deplet., & Amort. | 217 | 214 | 214 | 214 | 858 | 214 | 214 | 214 | 856 |
| Other non cash | 100 | (110) | | | (110) | | | | - |
| Ebit (\$mm) | | | | | | | | | |
| Ebit | 956 | 1,085 | 1,154 | 1,117 | 4,251 | 1,179 | 1,146 | 1,303 | 4,744 |
| Interest | - | 2 | 2 | 2 | 11 | 2 | 2 | 2 | 8 |
| Ebt (\$mm) | | | | | | | | | |
| Ebt | 956 | 1,083 | 1,152 | 1,115 | 4,240 | 1,177 | 1,144 | 1,301 | 4,736 |
| Income Tax | 306 | 247 | 403 | 390 | 1,339 | 412 | 400 | 455 | 1,658 |
| Net Income (\$mm) | | | | | | | | | |
| Exploration and Production | 592 | 754 | | | 1,151 | | | | |
| Other | 183 | 93 | | | 331 | | | | |
| Unallocated | (125) | (11) | | | (54) | | | | |
| Total | 650 | 836 | 749 | 724 | 2,901 | 765 | 744 | 846 | 3,079 |
| Shares (millions) | | | | | | | | | |
| Shares | 1,022 | 984 | 984 | 984 | 987 | 984 | 984 | 984 | 984 |
| Earnings per share (\$) | 0.64 | 0.85 | 0.76 | 0.74 | 2.94 | 0.78 | 0.76 | 0.86 | 3.13 |
| Ebitda Margin (E&P) | 60% | 61% | 62% | 59% | 58% | 61% | 62% | 63% | 62% |
| Tax Rate | 32% | 23% | 35% | 35% | 32% | 35% | 35% | 35% | 35% |

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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 | 525 | 3.9 | 6.7 | 3,500 | 9% |
| Syncrude | 1,063 | 20.0 | 11.8 | 12,600 | 32% |
| Oil - Conventional and Cold Lake | 2,170 | 8.2 | 7.1 | 15,300 | 39% |
| Downstream | 1,304 | | 6.1 | 8,000 | 20% |
| | 5,063 | 9.6 | 7.8 | 39,400 | 100% |
| Debt (US\$mm) | | | | | 3,000 |
| Net Present Value (US\$mm) | | | | | 36,400 |
| Shares (mm) | | | | | 984 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 37 |
| Net Present Value - Approximation by Correlation (US\$/sh) | | | | | 33 |

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