

Rating: Hold  
 S&P 500: 1446

## Imperial Oil Limited Near Present Value

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	4,100
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	17
<i>Price (US\$/sh)</i>	36.11	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	2/1/07	<i>Adjusted Reserves/Production NTM</i>	11.6
<i>Shares (mm)</i>	963	<i>EV/Ebitda</i>	9.1
<i>Market Capitalization (US\$mm)</i>	34,800	<i>PV/Ebitda</i>	9.3
<i>Debt (US\$mm)</i>	2,700	<i>Undeveloped Reserves (%)</i>	14
<i>Enterprise Value (EV) (US\$mm)</i>	37,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	26.40
<i>Present Value (PV) (US\$mm)</i>	38,400	<i>Present Value Proven Reserves(US\$/boe)</i>	19.74
<i>Net Present Value (US\$/share)</i>	37	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.29
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.27
<i>McDep Ratio - EV/PV</i>	0.98	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.8	<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

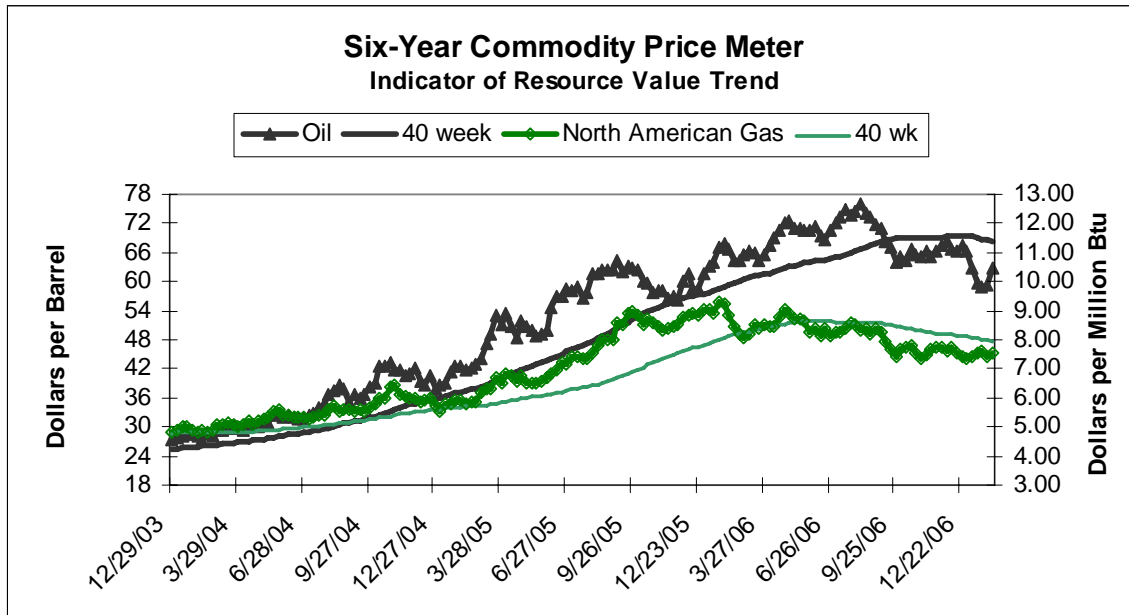
Hold-rated **Imperial Oil (IMO)** appears to be priced near estimated net present value (NPV) of \$37 a share where it would return 7% a year after inflation on our current estimates. About 70% of the value of the stock is in oil production including 33% for the company's quarter ownership of oil miner/upgrader Syncrude. Some \$6 a share of NPV is not indicated readily by near-term cash flow judging by correlation with about thirty producers (see table, Functional Cash flow and Present Value). Among sources of less obvious potential, the Kearl oil sands mine project, now in the planning stage after initial government approval, might be worth perhaps \$3 a share now. Valuation could be enhanced should oil for delivery over the next six years, priced currently at \$62 a barrel, resume an uptrend by crossing above the 40-week average later in 2007 (see chart, Six-Year Commodity Price Meter). Meanwhile fourth quarter 2006 results reported on February 1 came close to our estimates and provide the updated base for future projections (see table, Next Twelve Months Operating and Financial Estimates).

Kurt H. Wulff, CFA

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**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	495	4.1	7.1	3,500	9%
Syncrude	901	24.4	14.2	12,800	33%
Oil - Conventional and Cold Lake	1,593	9.3	8.8	14,000	37%
Downstream	1,125		7.1	8,000	21%
	4,114	11.6	9.3	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)					31



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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>12/31/05</i>	<i>9/30/06</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>12/31/07</i>
<b>Volume</b>									
Natural Gas (mmcf)	507	503	468	<b>496</b>	468	468	468	468	<b>468</b>
Oil (mbd)	245	227	228	<b>227</b>	229	232	235	234	<b>232</b>
Total gas & oil (bcf)	182	172	169	<b>679</b>	166	169	173	172	<b>680</b>
Total gas & oil (mbd)	330	311	306	<b>310</b>	307	310	313	312	<b>310</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	<b>7.23</b>	7.06	7.70	7.90	8.56	<b>7.81</b>
Currency (US\$/C\$)	0.85	0.89	0.88	<b>0.88</b>	0.86	0.86	0.86	0.86	<b>0.86</b>
Henry Hub (C\$/mmbtu)	15.30	7.38	7.48	<b>8.20</b>	8.23	8.98	9.22	9.98	<b>9.10</b>
Canada (C\$/mcf)	12.35	6.29	6.68	<b>7.23</b>	7.35	8.02	8.23	8.91	<b>8.13</b>
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	<b>66.05</b>	56.84	59.51	61.14	62.33	<b>59.95</b>
WTI Cushing (C\$/bbl)	70.61	78.96	68.34	<b>74.86</b>	66.28	69.39	71.29	72.68	<b>69.91</b>
Worldwide	53.21	64.85	53.07	<b>57.97</b>	51.50	56.58	58.28	55.58	<b>55.53</b>
Total gas & oil (\$/mcf)	9.76	9.59	8.29	<b>9.00</b>	8.27	9.08	9.34	9.18	<b>8.97</b>
NY Harbor 3-2-1 (\$/bbl)	9.06	11.67	7.54	<b>10.50</b>	8.01	11.89	12.22	8.06	<b>10.05</b>
<b>Revenue (\$mm)</b>									
Natural Gas	576	291	288	<b>1,300</b>	310	342	354	384	<b>1,389</b>
Oil	1,199	1,354	1,113	<b>4,808</b>	1,060	1,193	1,262	1,194	<b>4,710</b>
Other	5,968	5,006	4,230	<b>18,680</b>	4,230	4,230	4,230	4,230	<b>16,921</b>
Total	7,743	6,651	5,631	<b>24,788</b>	5,600	5,765	5,847	5,808	<b>23,020</b>
<b>Expense (\$mm)</b>									
Fixed	336	278	313	<b>1,280</b>	313	313	313	313	<b>991</b>
Variable	336	278	313	<b>1,280</b>	306	343	361	353	<b>956</b>
Other	5,491	4,670	3,886	<b>17,369</b>	4,449	4,654	4,569	4,551	<b>14,440</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	1,104	1,090	775	<b>3,547</b>	751	879	942	913	<b>3,485</b>
Other	476	335	344	<b>1,312</b>	400	232	335	344	<b>1,312</b>
Total Ebitda	1,580	1,425	1,119	<b>4,859</b>	1,150	1,111	1,278	1,257	<b>4,797</b>
Exploration	6	5	14	<b>32</b>	14	14	14	10	<b>52</b>
Deprec., Deplet., & Amort.	223	197	204	<b>831</b>	204	204	204	204	<b>816</b>
Other non cash	(200)			<b>(110)</b>					<b>-</b>
<b>Ebit</b>	1,551	1,223	901	<b>4,106</b>	932	893	1,060	1,043	<b>3,929</b>
Interest	-	(3)	-	<b>4</b>	-	-	-	-	<b>-</b>
<b>Ebt</b>	1,551	1,226	901	<b>4,102</b>	932	893	1,060	1,043	<b>3,929</b>
Income Tax	543	408	102	<b>1,056</b>	326	313	371	365	<b>1,375</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	671	617	608	<b>2,376</b>					
Other	295	187	249	<b>767</b>					
Unallocated	42	14	(58)	<b>(97)</b>					
Total	1,008	818	799	<b>3,046</b>	606	581	689	678	<b>2,554</b>
<b>Shares (millions)</b>									
Earnings per share (\$)	1.00	0.84	0.83	<b>3.11</b>	0.63	0.60	0.72	0.70	<b>2.65</b>
Ebitda Margin (E&P)	62%	66%	55%	<b>58%</b>	55%	57%	58%	58%	<b>57%</b>
Tax Rate	35%	33%	11%	<b>26%</b>	35%	35%	35%	35%	<b>35%</b>

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