



Rating: Buy
 S&P 500: 1379

Imperial Oil Limited

Long-Term Canadian Oil Money Maker

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$m)</i>	6,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	49.22	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	1/31/08	<i>Adjusted Reserves/Production NTM</i>	14.1
<i>Shares (mm)</i>	915	<i>EV/Ebitda</i>	7.8
<i>Market Capitalization (US\$m)</i>	45,000	<i>PV/Ebitda</i>	7.6
<i>Debt (US\$m)</i>	3,200	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$m)</i>	48,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.50
<i>Present Value (PV) (US\$m)</i>	47,100	<i>Present Value Proven Reserves(US\$/boe)</i>	20.76
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.46
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.81
<i>McDep Ratio - EV/PV</i>	1.02	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.7	<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

We continue our buy recommendation on the stock of **Imperial Oil Limited (IMO)** because of its long, distinguished record of making money for investors in oil, a commodity whose price continues in an uptrend. Reporting fourth quarter results an hour before the market close on January 31, the company notched record earnings for 2007 while cash flow for the fourth quarter was below our projections. Canada's bluest blue chip, its only AAA-rated industrial company, is priced slightly above Net Present Value (NPV) of US\$48 a share. We raised NPV from US\$42 a share on December 18 when we increased our long-term oil price for calculating present value to \$80 from \$66 a barrel. Acknowledging the higher McDep Ratio than for peers, we limit the weighting of Imperial stock in the illustrative McDep Energy Portfolio to four-tenths of a normal position. Considering that the company is the technological leader in oil sands and that it has ample choice resources beyond proven reserves, stock price may be modest relative to the long-term opportunity.

Kurt H. Wulff, CFA



Imperial Oil Limited									
Next Twelve Months Operations									
(Canadian Dollars)									
									<i>Next</i>
	<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>Twelve</i>
	<i>12/31/06</i>	<i>9/30/07</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>Months</i>
	<i>12/31/06</i>	<i>9/30/07</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>12/31/08</i>
Volume									
Natural Gas (mmcf)	468	379	345	403	345	345	345	345	345
Oil (mbd)	228	236	235	229	239	236	232	243	237
Total gas & oil (bcf)	169	165	162	648	162	160	160	166	648
Total gas & oil (mbd)	306	299	293	296	296	294	289	301	295
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.57	6.16	6.97	6.87	7.76	8.07	8.28	8.63	8.18
Currency (US\$/C\$)	0.88	0.96	1.02	0.94	1.01	1.01	1.01	1.01	1.01
Henry Hub (C\$/mmbtu)	7.48	6.44	6.84	7.35	7.70	8.01	8.22	8.56	8.12
Canada (C\$/mcf)	6.68	5.73	6.33	6.93	7.13	7.42	7.61	7.93	7.52
Oil (\$/bbl)									
WTI Cushing	59.99	75.48	90.67	72.28	91.62	90.56	89.92	89.34	90.36
WTI Cushing (C\$/bbl)	68.34	78.95	88.91	76.78	90.96	89.90	89.27	88.69	89.70
Worldwide	53.07	65.32	71.42	63.19	69.65	74.57	73.78	68.95	71.70
Total gas & oil (\$/mcf)	8.29	9.80	10.81	9.73	10.74	11.45	11.36	10.81	11.09
NY Harbor 3-2-1 (\$/bbl)	7.54	12.64	8.19	14.37	9.18	14.37	13.89	9.82	11.81
Revenue (\$mm)									
Natural Gas	288	200	201	1,028	224	233	241	252	950
Oil	1,113	1,418	1,545	5,273	1,512	1,604	1,574	1,542	6,232
Other	4,230	4,812	4,994	19,142	4,994	4,994	4,994	4,994	19,975
Total	5,631	6,430	6,740	25,443	6,730	6,831	6,809	6,787	27,157
Expense									
	1,745	2,001	2,129	7,977	1,466	1,659	1,508	1,494	11,984
Ebitda (\$mm)									
Exploration and Production	775	1,042	871	3,622	1,076	1,139	1,125	1,112	4,452
Other	344	383	383	1,676	390	521	383	383	1,676
Total Ebitda	1,119	1,425	1,253	5,298	1,466	1,659	1,508	1,494	6,128
Exploration	14	19	16	106	16	8	8	10	42
Deprec., Deplet., & Amort.	204	205	188	780	188	188	188	188	752
Other non cash				-					-
Ebit	901	1,201	1,049	4,412	1,262	1,463	1,312	1,296	5,334
Interest	-	10	3	36	3				3
Ebt	901	1,191	1,046	4,376	1,259	1,463	1,312	1,296	5,331
Income Tax	102	374	168	1,191	441	512	459	454	1,866
Net Income (\$mm)									
Exploration and Production	608	607	739						
Other	249	215	241						
Unallocated	(58)	(5)	(102)						
Total	799	817	878	3,185	819	951	853	843	3,465
Shares (millions)									
	963	928	915	934	915	915	915	915	915
Earnings per share (\$)	0.83	0.88	0.96	3.41	0.89	1.04	0.93	0.92	3.79
Ebitda Margin (E&P)	55%	64%	50%	57%	62%	62%	62%	62%	62%
Tax Rate	11%	31%	16%	27%	35%	35%	35%	35%	35%



Imperial Oil Limited					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	431	5.2	7.0	3,000	6%
Syncrude	1,444	28.8	10.7	15,500	33%
Oil - Conventional and Cold Lake	2,610	11.2	7.9	20,600	44%
Downstream	1,688		4.7	8,000	17%
	6,173	14.1	7.6	47,100	100%
Debt (US\$mm)					3,200
Net Present Value (US\$mm)					43,900
Shares (mm)					915
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					41

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.