

Rating: Buy
S&P 500: 1280

Imperial Oil Limited **Oil Sands *in situ* and Mineable**

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	5,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	16
<i>Price (US\$/sh)</i>	37.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	77
<i>Pricing Date</i>	8/3/06	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	984	<i>EV/Ebitda</i>	6.9
<i>Market Capitalization (US\$mm)</i>	37,200	<i>PV/Ebitda</i>	6.7
<i>Debt (US\$mm)</i>	3,000	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$mm)</i>	40,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	38.40
<i>Present Value (PV) (US\$mm)</i>	39,400	<i>Present Value Proven Reserves(US\$/boe)</i>	24.16
<i>Net Present Value (US\$/share)</i>	37	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.03
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.33
<i>McDep Ratio - EV/PV</i>	1.02	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.28

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

After reporting results for the second quarter of 2006 on August 3, buy-recommended **Imperial Oil (IMO)** is priced near estimated net present value (NPV) of US\$37 a share presuming a long-term oil price of \$60 a barrel. We raised our estimate of NPV from \$30 a share when we revised our oil price from \$50 a barrel on June 6. The recent acquisition of Blackrock Ventures for more than US\$2 billion by the **Royal Dutch Shell (RDS-A)** affiliate, Shell Canada (SHC.TO), put higher values on undeveloped underground, or *in situ*, oil sands. A pioneer and largest *in situ* producer, Imperial has 39% of present value in oil operations, mostly its Cold Lake oil sands resource. In addition, the company's 25% ownership of Syncrude, Canada's largest producer of mineable oil sands last month, accounts for 32% of our estimate of present value. Meanwhile oil is priced not at \$60 a barrel as in our present value estimate, but at \$75 for the next six years in the futures market. In the publicly traded shares of Imperial, investors own a slice of 69% owner **ExxonMobil (XOM)**'s highest potential and politically safest energy resources.

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Imperial Oil Limited
Next Twelve Months Operations
(Canadian Dollars)

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>6/30/05</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>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/07</i>
Volume									
Natural Gas (mmcf)	514	514	520	493	493	493	500	493	493
Oil (mbd)	235	230	238	216	227	232	228	247	241
Total gas & oil (bcf)	175	692	175	163	171	173	682	178	707
Total gas & oil (mbd)	321	316	325	298	309	314	311	329	323
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.76	8.65	8.97	6.81	7.44	9.79	8.25	11.62	9.40
Currency (US\$/C\$)	0.80	0.83	0.87	0.89	0.89	0.89	0.88	0.89	0.89
Henry Hub (C\$/mmbtu)	8.40	10.48	10.36	7.63	8.37	11.02	9.34	13.07	10.58
Canada (C\$/mcf)	7.71	8.96	9.40	6.52	7.15	9.41	8.13	11.16	9.02
Oil (\$/bbl)									
WTI Cushing	53.05	56.31	63.33	70.47	74.40	76.40	71.15	77.82	76.74
WTI Cushing (C\$/bbl)	65.99	68.15	73.13	79.00	83.72	85.96	80.45	87.57	86.36
Worldwide	49.85	52.65	48.99	65.67	70.35	72.58	64.32	73.93	71.53
Total gas & oil (\$/mcf)	8.15	8.83	8.43	9.73	10.51	11.39	10.01	12.03	11.18
NY Harbor 3-2-1 (\$/bbl)	10.59	10.63	7.40	15.39	16.07	10.91	12.44	11.71	13.99
Revenue (\$mm)									
Natural Gas	361	1,683	429	293	324	427	1,472	495	1,624
Oil	1,066	4,429	1,049	1,291	1,468	1,547	5,355	1,641	6,289
Other	5,375	22,102	4,340	5,105	5,105	5,105	19,654	5,105	20,419
Total	6,802	28,214	5,818	6,688	6,896	7,079	26,481	7,241	28,332
Expense									
Fixed	293	1,317	378	312	312	312	1,313	312	990
Variable	293	1,317	378	312	353	388	1,431	420	947
Other	5,172	20,826	3,940	4,872	5,419	5,405	19,636	5,437	15,290
Ebitda (\$mm)									
Exploration and Production	841	3,478	722	960	1,128	1,274	4,084	1,404	5,091
Other	203	1,276	400	232	350	400	1,382	400	1,500
Total Ebitda	1,044	4,754	1,122	1,192	1,478	1,674	5,466	1,804	6,591
Exploration	6	43	10	3	15	15	43	15	60
Deprec., Deplet., & Amort.	219	897	216	214	214	214	858	214	856
Other non cash		(100)		(110)			(110)		-
Ebit	819	3,914	896	1,085	1,249	1,445	4,675	1,575	5,675
Interest	6	8	5	2	2	2	11	2	8
Ebt	813	3,906	891	1,083	1,247	1,443	4,664	1,573	5,667
Income Tax	274	1,318	299	247	436	505	1,487	551	1,984
Net Income (\$mm)									
Exploration and Production	449	1,954	397	754			1,151		
Other	93	717	238	93			331		
Unallocated	(3)	(83)	(43)	(11)			(54)		
Total	539	2,588	592	836	810	938	3,176	1,023	3,684
Shares (millions)	1,036	1,023	997	984	984	984	986	984	984
Earnings per share (\$)	0.52	2.53	0.59	0.85	0.82	0.95	3.22	1.04	3.74
Ebitda Margin (E&P)	59%	57%	49%	61%	63%	65%	60%	66%	64%
Tax Rate	34%	34%	34%	23%	35%	35%	32%	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	717	3.9	4.9	3,500	9%
Syncrude	1,148	20.0	11.1	12,700	32%
Oil - Conventional and Cold Lake	2,660	8.6	5.7	15,200	39%
Downstream	1,333		6.0	8,000	20%
	5,858	9.8	6.7	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)					35

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