

Rating: Buy
S&P 500: 1486

Imperial Oil Limited Oil Sands Deal Unmasks Value

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	4,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	18
<i>Price (US\$/sh)</i>	38.03	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	4/30/07	<i>Adjusted Reserves/Production NTM</i>	13.6
<i>Shares (mm)</i>	958	<i>EV/Ebitda</i>	8.0
<i>Market Capitalization (US\$mm)</i>	36,400	<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>	39,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	33.70
<i>Present Value (PV) (US\$mm)</i>	38,400	<i>Present Value Proven Reserves(US\$/boe)</i>	17.75
<i>Net Present Value (US\$/share)</i>	37	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.96
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.82
<i>McDep Ratio - EV/PV</i>	1.03	<i>Price/Earnings Next Twelve Months</i>	13
<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.

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

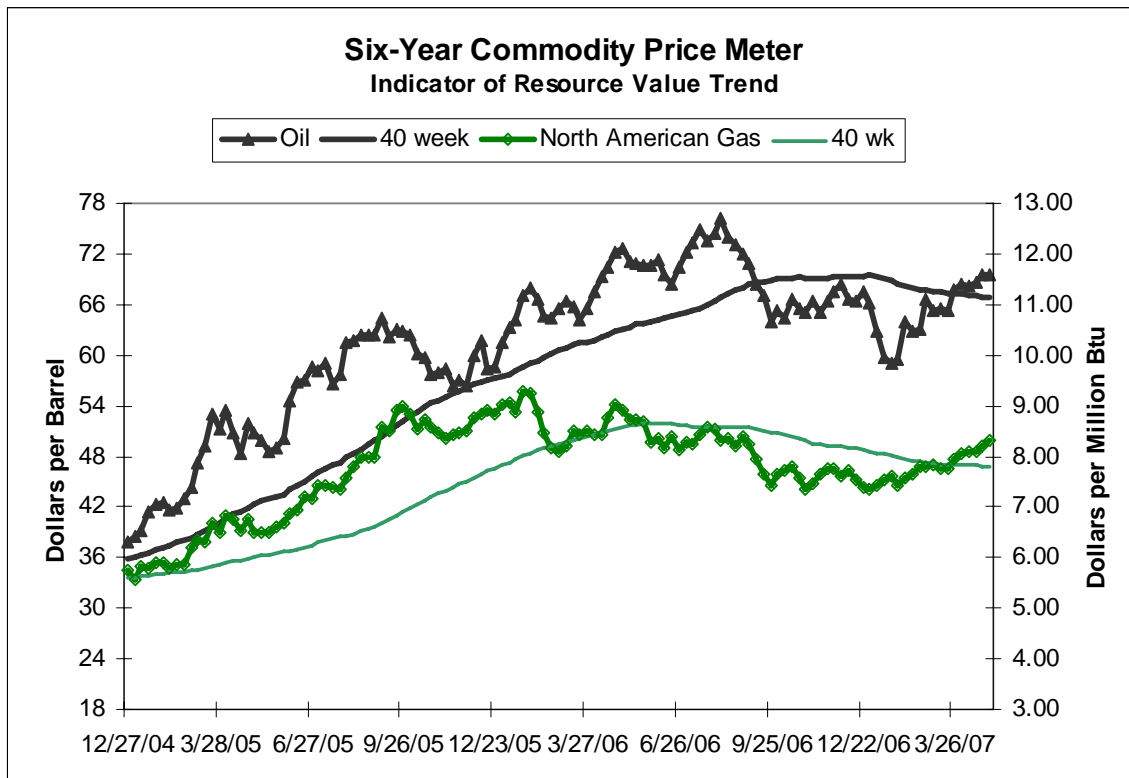
Latest quarterly results released on May 1 validate estimated Net Present Value (NPV) of US\$37 a share for buy-recommended **Imperial Oil (IMO)** and a \$2 billion oil deal on nearby leases unmasks value not included in NPV. First quarter 2007 cash flow benefited from higher than normal Canadian oil prices relative to the global benchmark and NPV is concentrated 76% on oil production (see table Functional Cash Flow and Present Value). Meanwhile, Norwegian company Statoil (STO)'s purchase announced April 27 of non-producing oil sands leases appears to value recoverable resources in the ground for a dollar a barrel. Chief Executive Tim Hearn believes Imperial has 12 billion barrels of non-proven resources under its lands. Such opportunity helps explain why Imperial's stock may have additional appeal at the same time it has a McDep Ratio near 1.0 on the present value we recognize. Moreover, long-term global oil price has resumed an uptrend with the current quote of \$69 a barrel above the 40-week average (see chart Six-Year Commodity Price Meter). IMO has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

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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	662	4.0	4.5	3,000	8%
Syncrude	1,113	27.3	11.5	12,800	33%
Oil - Conventional and Cold Lake	1,980	12.0	8.4	16,600	43%
Downstream	1,173		5.1	6,000	16%
	4,927	13.6	7.8	38,400	100%
Debt (US\$mm)					3,000
Net Present Value (US\$mm)					35,400
Shares (mm)					958
Net Present Value - Standard Estimate (US\$/sh)					37
Net Present Value - Approximation by Correlation (US\$/sh)					35



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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>3/31/06</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>2007E</i>	<i>3/31/08</i>
Volume									
Natural Gas (mmcf)	520	468	496	456	456	456	456	456	456
Oil (mbd)	238	228	227	222	216	234	231	226	230
Total gas & oil (bcf)	175	169	679	161	159	171	170	661	669
Total gas & oil (mbd)	325	306	310	298	292	310	307	302	306
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.97	6.57	7.23	6.81	7.66	8.11	8.98	7.89	8.66
Currency (US\$/C\$)	0.87	0.88	0.88	0.85	0.90	0.90	0.90	0.89	0.90
Henry Hub (C\$/mmbtu)	10.36	7.48	8.20	7.97	8.50	9.01	9.97	8.87	9.62
Canada (C\$/mcf)	9.40	6.68	7.23	7.75	8.26	8.75	9.69	8.61	9.34
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	66.05	58.08	65.13	68.03	69.72	65.24	68.39
WTI Cushing (C\$/bbl)	73.13	68.34	74.86	68.01	72.29	75.50	77.38	73.29	75.90
Worldwide	48.99	53.07	57.97	56.63	59.64	63.34	61.53	60.37	61.65
Total gas & oil (\$/mcf)	8.43	8.29	9.00	9.06	9.50	10.12	10.11	9.71	10.04
NY Harbor 3-2-1 (\$/bbl)	7.40	7.54	10.50	11.68	20.08	19.62	11.69	15.77	15.54
Revenue (\$mm)									
Natural Gas	429	288	1,300	326	343	367	406	1,443	1,555
Oil	1,049	1,113	4,808	1,132	1,170	1,366	1,308	4,975	5,166
Other	4,340	4,230	18,680	4,476	4,476	4,476	4,476	17,904	17,904
Total	5,818	5,631	24,788	5,934	5,989	6,209	6,191	24,322	24,625
Expense	1,878	1,745	7,419	1,848	1,170	1,410	1,407	5,835	9,954
Ebitda (\$mm)									
Exploration and Production	722	775	3,547	956	938	1,074	1,063	4,031	4,167
Other	400	344	1,312	390	232	335	344	1,302	1,302
Total Ebitda	1,122	1,119	4,859	1,346	1,170	1,410	1,407	5,333	5,469
Exploration	10	14	32	28	8	8	10	54	36
Deprec., Deplet., & Amort.	216	204	831	189	204	204	204	801	816
Other non cash			(110)					-	-
Ebit	896	901	4,106	1,129	958	1,198	1,193	4,478	4,617
Interest	5	-	4	12				12	-
Ebt	891	901	4,102	1,117	958	1,198	1,193	4,466	4,617
Income Tax	299	102	1,056	341	335	419	418	1,513	1,616
Net Income (\$mm)									
Exploration and Production	397	608	2,376	563					
Other	238	249	767	226					
Unallocated	(43)	(58)	(97)	(13)					
Total	592	799	3,046	776	623	779	776	2,953	3,001
Shares (millions)	997	963	978	958	958	958	958	958	958
Earnings per share (\$)	0.59	0.83	3.11	0.81	0.65	0.81	0.81	3.08	3.13
Ebitda Margin (E&P)	49%	55%	58%	66%	62%	62%	62%	63%	62%
Tax Rate	34%	11%	26%	31%	35%	35%	35%	34%	35%

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