

Rating: Buy  
 S&P 500: 1472

## Imperial Oil Limited

### High Return from Stock Repurchase

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	5,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	13
<i>Price (US\$/sh)</i>	45.88	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	8/2/07	<i>Adjusted Reserves/Production NTM</i>	13.3
<i>Shares (mm)</i>	940	<i>EV/Ebitda</i>	8.3
<i>Market Capitalization (US\$mm)</i>	43,100	<i>PV/Ebitda</i>	7.6
<i>Debt (US\$mm)</i>	3,100	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$mm)</i>	46,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	35.80
<i>Present Value (PV) (US\$mm)</i>	42,600	<i>Present Value Proven Reserves(US\$/boe)</i>	18.88
<i>Net Present Value (US\$/share)</i>	42	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.15
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.31
<i>McDep Ratio - EV/PV</i>	1.09	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.34

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\$66 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

Buy-recommended **Imperial Oil (IMO)** continues to be priced above estimated net present value (NPV) of \$42 a share revised up from \$37 a share on May 29 when we raised long-term oil price to \$66 a barrel from \$60. Reporting second quarter results on August 2, the Canadian blue chip saw unlevered cash flow (Ebitda) more than double from downstream (Other) along with record industry refining margin (NY Harbor 3-2-1) (see table [Next Twelve Months Operating and Financial Estimates](#)). NPV is concentrated some 60% on oil sands including Syncrude, the largest miner/upgrader and Cold Lake, the pioneering *in situ* project (see table [Functional Cash Flow and Present Value](#)). More certain of the value of existing production than of the economics of rapid expansion, Imperial spent C\$1.191 billion on stock repurchase compared to C\$416 million of capital and exploration expenditures in the first half of 2007. Those values seem likely to increase with the rising trend in long-term oil price despite volatility of short-term quotes (see chart [Six-Year Commodity Price Meter](#)). As long as six-year oil remains above its 40-week average we expect to keep our buy recommendation of IMO intact.

Kurt H. Wulff, CFA

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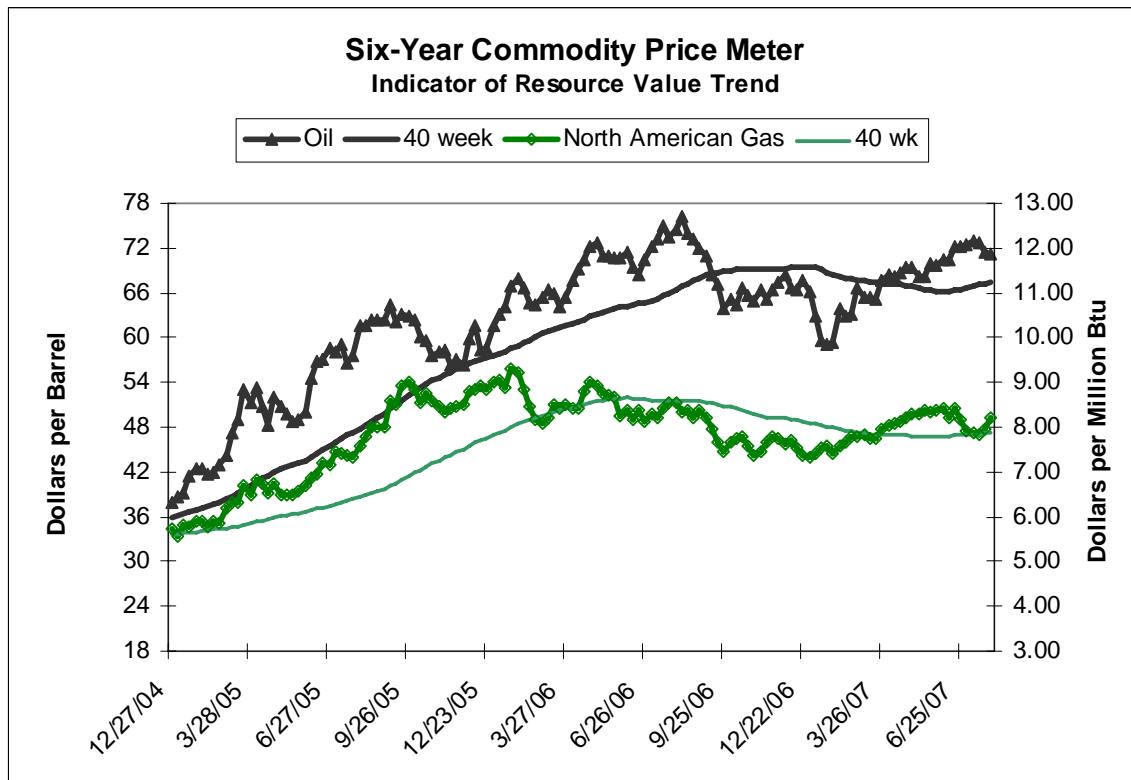
**Imperial Oil Limited**  
**Next Twelve Months Operations**  
 (Canadian Dollars)

	Q2	Q3	Year	Q1	Q2	Q3E	Q4E	Year	Next Twelve Months
	6/30/06	9/30/06	2006	3/31/07	6/30/07	9/30/07	12/31/07	2007E	6/30/08
<b>Volume</b>									
Natural Gas (mmcf)	493	503	<b>496</b>	456	434	434	434	<b>439</b>	<b>434</b>
Oil (mbd)	216	227	<b>227</b>	222	221	239	242	<b>231</b>	<b>241</b>
Total gas & oil (bcf)	163	172	<b>679</b>	161	160	172	173	<b>666</b>	<b>687</b>
Total gas & oil (mbd)	298	311	<b>310</b>	298	293	312	314	<b>304</b>	<b>314</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.58	<b>7.23</b>	6.81	7.56	6.64	7.64	<b>7.16</b>	<b>7.83</b>
Currency (US\$/C\$)	0.89	0.89	<b>0.88</b>	0.85	0.91	0.95	0.95	<b>0.92</b>	<b>0.95</b>
Henry Hub (C\$/mmbtu)	7.63	7.38	<b>8.20</b>	7.97	8.29	7.00	8.05	<b>7.82</b>	<b>8.25</b>
Canada (C\$/mcf)	6.52	6.29	<b>7.23</b>	7.75	7.61	6.42	7.38	<b>7.30</b>	<b>7.56</b>
Oil (\$/bbl)									
WTI Cushing	70.47	70.42	<b>66.05</b>	58.08	64.91	75.91	75.47	<b>68.59</b>	<b>74.50</b>
WTI Cushing (C\$/bbl)	79.00	78.96	<b>74.86</b>	68.01	71.25	79.99	79.52	<b>74.69</b>	<b>78.51</b>
Worldwide	65.67	64.85	<b>57.97</b>	56.63	58.57	68.29	65.08	<b>62.37</b>	<b>65.39</b>
Total gas & oil (\$/mcf)	9.73	9.59	<b>9.00</b>	9.06	9.23	10.23	10.05	<b>9.66</b>	<b>10.13</b>
NY Harbor 3-2-1 (\$/bbl)	15.39	11.67	<b>10.50</b>	11.68	24.96	12.67	8.80	<b>14.53</b>	<b>12.12</b>
<b>Revenue (\$mm)</b>									
Natural Gas	293	291	<b>1,300</b>	326	301	256	295	<b>1,178</b>	<b>1,198</b>
Oil	1,291	1,354	<b>4,808</b>	1,132	1,178	1,504	1,446	<b>5,260</b>	<b>5,761</b>
Other	5,105	5,006	<b>18,680</b>	4,476	4,861	4,861	4,861	<b>19,058</b>	<b>19,442</b>
Total	6,688	6,651	<b>24,788</b>	5,934	6,339	6,621	6,602	<b>25,496</b>	<b>26,401</b>
<b>Expense</b>			<b>7,419</b>	1,848	1,999	1,427	1,424	<b>6,698</b>	<b>11,335</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	960	1,090	<b>3,547</b>	956	754	1,091	1,080	<b>3,881</b>	<b>4,315</b>
Other	232	335	<b>1,312</b>	390	521	335	344	<b>1,590</b>	<b>1,590</b>
Total Ebitda	1,192	1,425	<b>4,859</b>	1,346	1,274	1,427	1,424	<b>5,471</b>	<b>5,905</b>
Exploration	3	5	<b>32</b>	28	43	43	10	<b>124</b>	<b>71</b>
Deprec., Deplet., & Amort.	214	197	<b>831</b>	189	198	198	198	<b>783</b>	<b>792</b>
Other non cash	(110)		<b>(110)</b>					<b>-</b>	<b>-</b>
<b>Ebit</b>	1,085	1,223	<b>4,106</b>	1,129	1,033	1,186	1,216	<b>4,564</b>	<b>5,042</b>
Interest	2	(3)	<b>4</b>	12	11			<b>23</b>	<b>-</b>
<b>Ebt</b>	1,083	1,226	<b>4,102</b>	1,117	1,022	1,186	1,216	<b>4,541</b>	<b>5,042</b>
Income Tax	247	408	<b>1,056</b>	341	308	415	426	<b>1,490</b>	<b>1,765</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	754	617	<b>2,376</b>	563	460				
Other	93	187	<b>767</b>	226	336				
Unallocated	(11)	14	<b>(97)</b>	(13)	(82)				
Total	836	818	<b>3,046</b>	776	714	771	790	<b>3,051</b>	<b>3,277</b>
<b>Shares (millions)</b>	984	974	<b>978</b>	958	940	940	940	<b>945</b>	<b>940</b>
Earnings per share (\$)	0.85	0.84	<b>3.11</b>	0.81	0.76	0.82	0.84	<b>3.23</b>	<b>3.49</b>
Ebitda Margin (E&P)	61%	66%	<b>58%</b>	66%	51%	62%	62%	<b>60%</b>	<b>62%</b>
Tax Rate	23%	33%	<b>26%</b>	31%	30%	35%	35%	<b>33%</b>	<b>35%</b>

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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	515	4.2	5.8	3,000	7%
Syncrude	1,362	25.4	10.1	13,700	32%
Oil - Conventional and Cold Lake	2,217	11.6	8.5	18,900	44%
Downstream	1,509		4.6	7,000	16%
	5,604	13.3	7.6	42,600	100%
Debt (US\$mm)					3,100
Net Present Value (US\$mm)					39,500
Shares (mm)					940
Net Present Value - Standard Estimate (US\$/sh)					42
Net Present Value - Approximation by Correlation (US\$/sh)					40



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