Rating: Buy
S&P 500: 1165

Imperial Oil Limited
Raise Present Value to US$58 a Share

Symbol	IMO	*Ebitda Next Twelve Months ending 9/30/05 (US$mm)*	3,800
Rating	Buy	*North American Natural Gas/Ebitda (%)*	22
Price (US$/sh)	57.30	*Natural Gas and Oil Production/Ebitda (%)*	77
Pricing Date	11/8/04	*Adjusted Reserves/Production NTM*	11.3
Shares (mm)	356	*EV/Ebitda*	6.1
Market Capitalization (US$mm)	20,400	*PV/Ebitda*	6.1
Debt (US$mm)	2,400	*Undeveloped Reserves (%)*	30
Enterprise Value (EV) (US$mm)	22,800	*Natural Gas and Oil Ebitda (US$/boe)*	25.70
Present Value (PV) (US$mm)	23,100	*Present Value Proven Reserves(US$/boe)*	11.88
Net Present Value (US$/share)	58	*Present Value Proven Reserves(US$/mcfe)*	1.98
Debt/Present Value	0.10	*Earnings Next Twelve Months (US$/sh)*	5.31
McDep Ratio - EV/PV	0.99	*Price/Earnings Next Twelve Months*	11
Dividend Yield (%/year)	1.3	*Indicated Annual Dividend (US$/sh)*	0.74

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

We continue a Buy rating on the common shares of **Imperial Oil Limited (IMO)** as a direct participation in Canadian operations of 70% owner **ExxonMobil (XOM)**. We raise our present value to $58 a share from $52 on the basis of projected cash flow and a multiple in line with peers. In our opinion, the estimate can be justified by a constant real crude oil price of $35 a barrel. Next twelve months futures of $48 a barrel point to record earnings and cash flow well in excess of typical expectations. A continued favorable industry outlook and IMO's favorable long-term historical performance support our current buy rating up to a McDep Ratio of 1.2 that, in turn, relates to a stock price of $71 a share.

Long-Life Oil and Short-Life Natural Gas

Most of the company's value, to no surprise, is in oil production (see table Functional Cash Flow and Present Value). We present separately the oil sands venture, Syncrude, where IMO's 25% position is the largest position of the operating company partners. Our value for the large oil sands facility is the same as the increased value we now carry for 35% Syncrude owner, **Canadian Oil Sands Trust (COSWF)**.

Oil Sands also account for much of the company's remaining oil exposure. Imperial's Cold Lake heavy oil production exceeds its share of Syncrude. While Syncrude recovers oil from sands mined on the surface, Imperial's Cold Lake production is from sands too deep to be mined. The company has depended primarily on cyclic steam injection rather than SAGD, the Steam-Assisted Gravity Drainage technique.

Discoveries in the MacKenzie Delta would lengthen natural gas life when transformed to reserves as a proposed Arctic pipeline project proceeds after imminent approval. The company consumes natural gas in heavy oil production.

Downstream is the most profitable in Canada. When it processes its own heavy oil production Imperial can earn the most value-added, as it does now with its share of Syncrude, and protect itself from potentially steep discounts for heavy oil.

Imperial Oil Limited
Functional Cash Flow and Present Value

	NTM Ebitda (US$mm)	*Adjusted R/P*	*PV/ Ebitda*	*Present Value (US$mm)*	
North American Natural Gas	825	5.1	3.9	3,200	
Syncrude	556	20.0	10.2	5,700	
Oil	1,510	11.5	6.1	9,200	
Downstream	862		5.8	5,000	
	3,754	11.3	6.2	23,100	
Debt (US$mm)					2,400
Net Present Value (US$mm)					20,700
Shares (mm)					356
Net Present Value (US$/sh)					58

More Gains Appear to Lie Ahead

Commodity price drives further gains in cash flow in our model (see table Next Twelve Months Operating and Financial Estimates). The high rate of cash flow implies a multiple of Enterprise Value to Ebitda of about 6 times that is low, but higher than peers. The multiple reflects in part a reserve life of 11.3 years on our adjusted basis that is longer than for peer companies.

Investors' greatest concern may be the sustainability of the current level of oil price. Energy consumers and energy investors should, in our opinion, take recent oil price action as a sign of a long term change to higher price. Recent softening of oil price is welcome relief for the economy while we adjust to the price increases that have occurred and prepare for those that may occur in the future.

Imperial Oil Limited
Next Twelve Months Operations
(Canadian Dollars)

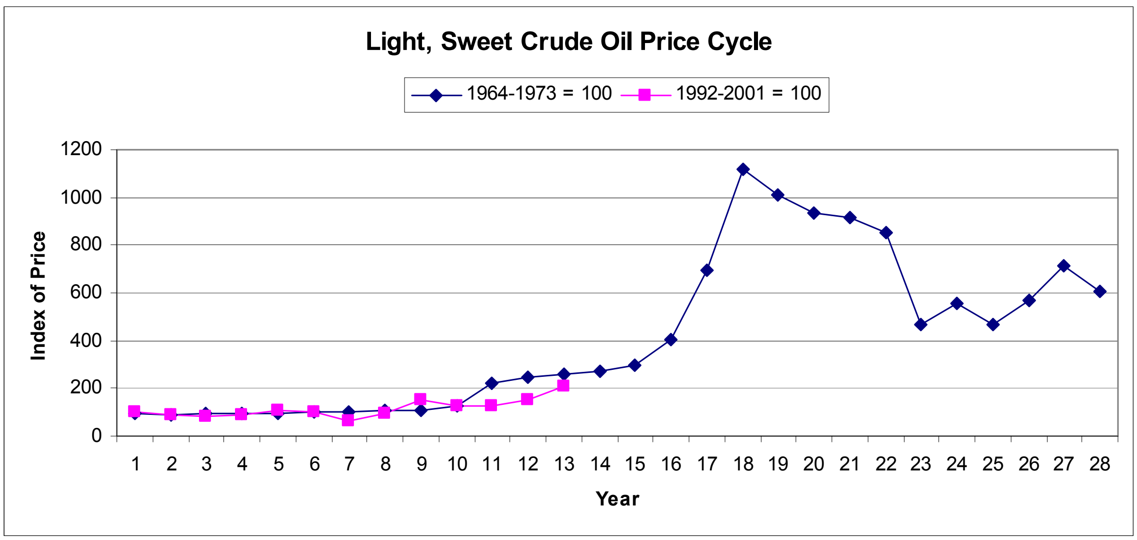
	Q1 3/31/04	*Q2 6/30/04*	*Q3 9/30/04*	*Q4E 12/31/04*	*Year 2004E*	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	*Next Twelve Months 9/30/05*
Volume									
Natural Gas (mmcfd)	449	493	533	533	504	533	533	533	533
Days	91	91	92	92	366	90	91	92	365
Oil (mmb)	21	20	20	20	82	20	20	20	80
Oil (mbd)	236	222	219	219	224	219	219	219	219
Total gas & oil (bcf)	170	166	170	170	676	166	168	170	674
Total gas & oil (mbd))	311	304	308	308	308	308	308	308	308
Price									
Natural gas ($/mcf)									
Henry Hub ($/mmbtu)	5.64	6.10	5.49	6.84	6.02	8.04	6.80	6.80	7.12
Currency (US$/C$)	0.76	0.74	0.77	0.84	0.77	0.84	0.84	0.84	0.84
Henry Hub (C$/mmbtu)	7.43	8.29	7.17	8.16	7.77	9.60	8.12	8.11	8.50
U.S. (or North America)	6.58	6.87	6.57	7.48	6.89	8.80	7.44	7.44	7.78
Oil ($/bbl)									
WTI Cushing	35.23	38.34	43.89	50.62	42.02	48.99	47.89	46.61	48.53
WTI Cushing (C$/bbl)	46.41	52.09	57.30	60.42	54.06	58.47	57.16	55.63	57.92
Worldwide	39.08	41.64	46.97	49.52	44.21	47.93	46.85	45.59	47.47
Total gas & oil ($/mcf)	6.53	6.92	7.46	8.03	7.24	8.22	7.70	7.55	7.88
NY Harbor 3-2-1 ($/bbl)	6.98	12.62	7.83	5.71	8.29	6.43	8.13	7.42	6.92
Revenue ($mm)									
Natural Gas	269	308	322	367	1,266	422	361	365	1,514
Oil	839	841	946	998	3,624	945	934	919	3,795
Other	3,959	4,317	4,546	4,546	17,367	4,546	4,546	4,546	18,182
Total	5,067	5,466	5,814	5,910	22,257	5,912	5,840	5,829	23,491
Expense									
Fixed	224	220	227	227	896	227	227	230	909
Variable	224	220	227	244	914	244	231	229	824
Other	3,678	4,101	4,288	4,793	16,859	4,779	4,735	4,705	14,576
Ebitda ($mm)									
Exploration and Production	661	710	815	894	3,081	896	837	824	3,451
Other	281	215	258	223	978	237	269	300	1,029
Total Ebitda	942	925	1,073	1,118	4,058	1,133	1,105	1,124	4,480
Exploration	16	15	21	21	73	21	21	21	84
Deprec., Deplet., & Amort.	215	217	220	220	872	220	220	220	880
Ebit	711	693	832	877	3,113	892	864	883	3,516
Interest			10	10	20	10	10	10	40
Ebt	711	693	822	867	3,093	882	854	873	3,476
Income Tax	204	241	281	303	1,029	309	299	306	1,217
Net Income ($mm)									-
Exploration and Production	366	321	411						
Other	147	137	130						
Unallocated	(6)	(6)	0						
Total	507	452	541	563	2,064	574	555	568	2,260
Shares (millions)	362	359	356	356	358	356	356	356	356
Per share ($)	1.40	1.26	1.52	1.58	5.76	1.61	1.56	1.59	6.34
Ebitda Margin (E&P)	60%	62%	64%	66%	63%	66%	65%	64%	65%
Tax Rate	29%	35%	34%	35%	33%	35%	35%	35%	35%

Oil Price Move Possibly Just Starting

To offset any inclination to underestimate further potential for oil and gas price, we compare the relatively stable price period from 1992 to 2001 to the period from 1964 to 1973. Each was a ten year period that immediately preceded a sharply lower stock market in 2002 and in 1974. After quiescence, oil price started moving up in each case. We may be in the early stages of a new historic move (see chart Light, Sweet Crude Oil Price Cycle).

Frankly, few investors would give much weight to the likelihood of continued oil price strength. Contrast that with the growing chorus for a weaker dollar. It may just be that oil price is not high, but the real value of the dollar is low. That, too, is a parallel to historical experience.

Let us imagine how the cycle might unfold. By the way we chose to draw the chart Year 13 corresponds to 1976 and 2004. Once the move got going in the previous cycle, the annual average oil price did not decline until Year 19 (1982). The annual peak of 1100, or 11 times the first ten year average, was too high to be sustained. It might be less disruptive economically if the peak ahead of us were lower and the decline shallower. The end point in Year 28 at 600 implies a tripling over the next 15 years. If higher oil price unfolded gradually it would give everyone time to adjust.



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