

Rating: Buy
 S&P 500: 1235

Imperial Oil Limited

Raise Net Present Value to \$84 a Share

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	4,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	19
<i>Price (US\$/sh)</i>	86.93	<i>Natural Gas and Oil Production/Ebitda (%)</i>	75
<i>Pricing Date</i>	8/1/05	<i>Adjusted Reserves/Production NTM</i>	10.5
<i>Shares (mm)</i>	345	<i>EV/Ebitda</i>	7.0
<i>Market Capitalization (US\$m)</i>	30,000	<i>PV/Ebitda</i>	6.8
<i>Debt (US\$m)</i>	2,800	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$m)</i>	32,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.90
<i>Present Value (PV) (US\$m)</i>	31,800	<i>Present Value Proven Reserves(US\$/boe)</i>	17.11
<i>Net Present Value (US\$/share)</i>	84	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.85
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.29
<i>McDep Ratio - EV/PV</i>	1.03	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.79

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 raise our estimated net present value of buy-recommended **Imperial Oil (IMO)** to \$84 a share from \$64 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. Our long-term real price expectation for the 3-2-1 refining crack (margin) in New York Harbor is now \$10 a barrel up from \$8. The stock is priced near present value where it offers a competitive return. Risk is low for Canada's energy blue chip 70% owned by **Exxon Mobil (XOM)**.

Kurt H. Wulff, CFA

Imperial Oil Limited

Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$m)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$m)</i>	
North American Natural Gas	898	4.2	4.5	4,000	13%
Syncrude	951	20.0	10.6	10,100	32%
Oil - Conventional and Cold Lake	1,657	10.3	5.9	9,700	31%
Downstream	1,156		6.9	8,000	25%
	4,662	10.5	6.8	31,800	100%
Debt (US\$m)				2,800	
Net Present Value (US\$m)				29,000	
Shares (mm)				345	
Net Present Value (US\$/sh)				84	

Please see disclosures on the final page.

Imperial Oil Limited
Next Twelve Months Operations
 (Canadian Dollars)

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>6/30/06</i>
Volume										
Natural Gas (mmcf)	524	500	522	514	514	514	516	514	514	514
Oil (mbd)	242	230	233	235	236	236	235	235	235	235
Total gas & oil (bcf)	182	688	173	175	178	177	703	173	175	703
Total gas & oil (mbd))	329	313	320	321	322	321	321	321	320	321
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.60	8.69	7.33	9.44	8.04	8.44
Currency (US\$/C\$)	0.82	0.77	0.82	0.80	0.83	0.83	0.82	0.83	0.83	0.83
Henry Hub (C\$/mmbtu)	8.66	7.98	7.68	8.40	9.20	10.53	8.96	11.43	9.74	10.23
Canada (C\$/mcf)	7.12	6.79	7.02	7.71	8.44	9.66	8.21	10.49	8.94	9.38
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	60.62	63.32	56.66	64.52	63.88	63.09
WTI Cushing (C\$/bbl)	58.94	53.68	60.85	65.99	73.45	76.71	69.25	78.17	77.40	76.43
Worldwide	43.85	42.85	45.43	49.85	57.09	59.59	53.07	60.87	60.23	59.43
Total gas & oil (\$/mcf)	7.26	7.05	7.43	8.15	9.23	9.86	8.68	10.24	9.74	9.76
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	12.11	7.97	9.21	8.32	11.22	9.91
Revenue (\$mm)										
Natural Gas	343	1,242	331	361	399	457	1,547	485	418	1,759
Oil	976	3,603	953	1,066	1,242	1,293	4,553	1,288	1,286	5,108
Other	4,793	17,615	4,674	5,375	5,375	5,375	20,800	5,375	5,375	21,501
Total	6,113	22,460	5,958	6,802	7,016	7,125	26,901	7,149	7,079	28,369
Expense (\$mm)										
Fixed	305	975	360	293	293	293	1,239	293	330	972
Variable	305	975	360	293	337	359	1,349	364	350	932
Other	4,463	16,529	4,390	5,172	5,655	5,678	20,896	5,683	5,705	15,527
Ebitda (\$mm)										
Exploration and Production	709	2,895	564	841	1,011	1,097	3,512	1,116	1,024	4,248
Other	331	1,085	284	203	350	350	1,187	350	350	1,400
Total Ebitda	1,040	3,980	847	1,044	1,361	1,447	4,699	1,466	1,374	5,648
Exploration	7	59	21	6	15	15	57	15	15	60
Deprec., Deplet., & Amort.	252	904	238	219	219	219	895	219	219	876
Ebit	781	3,017	588	819	1,127	1,213	3,747	1,232	1,140	4,712
Interest	1	11	2	6	6	6	20	6	6	24
Ebt	780	3,006	586	813	1,121	1,207	3,727	1,226	1,134	4,688
Income Tax	242	968	195	274	392	422	1,284	429	397	1,641
Net Income (\$mm)										
Exploration and Production	389	1,487	242	449						
Other	186	600	146	93						
Unallocated	(37)	(49)	3	(3)						
Total	538	2,038	391	539	728	784	2,443	797	737	3,047
Shares (millions)	352	357	350	345	345	345	346	345	345	345
Earnings per share (\$)	1.53	5.71	1.12	1.56	2.11	2.27	7.06	2.31	2.14	8.83
Ebitda Margin (E&P)	54%	60%	44%	59%	62%	63%	58%	63%	60%	62%
Tax Rate	31%	32%	33%	34%	35%	35%	34%	35%	35%	35%

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Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>1-Aug</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	88.61	123	10,910	20.00	0.76	1.83
Imperial Oil Limited (30%)	IMO	B	86.93	104	9,000	84.00	0.09	1.03
Marathon Oil Corporation	MRO	B	59.67	367	21,900	65.00	0.27	0.94
Petro-Canada	PCZ	B	73.30	263	19,280	84.00	0.18	0.90
PetroChina Company Ltd (10%)	PTR	B	92.67	176	16,290	120.00	0.04	0.78
Suncor Energy	SU	B	50.43	461	23,250	68.00	0.10	0.77
Norsk Hydro ASA	NHY	B	95.98	251	24,090	130.00	0.12	0.77
ConocoPhillips	COP	B	63.00	1,419	89,400	100.00	0.15	0.69
Lukoil Oil Company	LUKOY	B	41.75	830	35,000	65.00	0.02	0.65
	<i>Total or Median</i>				<i>249,000</i>		<i>0.12</i>	<i>0.78</i>

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