

Rating: Hold
S&P 500: 1367

Imperial Oil Limited **Hold While Six-Year Oil below 40-Week Average**

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	4,800
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	16
<i>Price (US\$/sh)</i>	34.23	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	11/2/06	<i>Adjusted Reserves/Production NTM</i>	10.4
<i>Shares (mm)</i>	974	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (US\$mm)</i>	33,300	<i>PV/Ebitda</i>	8.1
<i>Debt (US\$mm)</i>	2,800	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$mm)</i>	36,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.40
<i>Present Value (PV) (US\$mm)</i>	38,900	<i>Present Value Proven Reserves(US\$/boe)</i>	21.93
<i>Net Present Value (US\$/share)</i>	37	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.66
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.72
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	13
<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.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

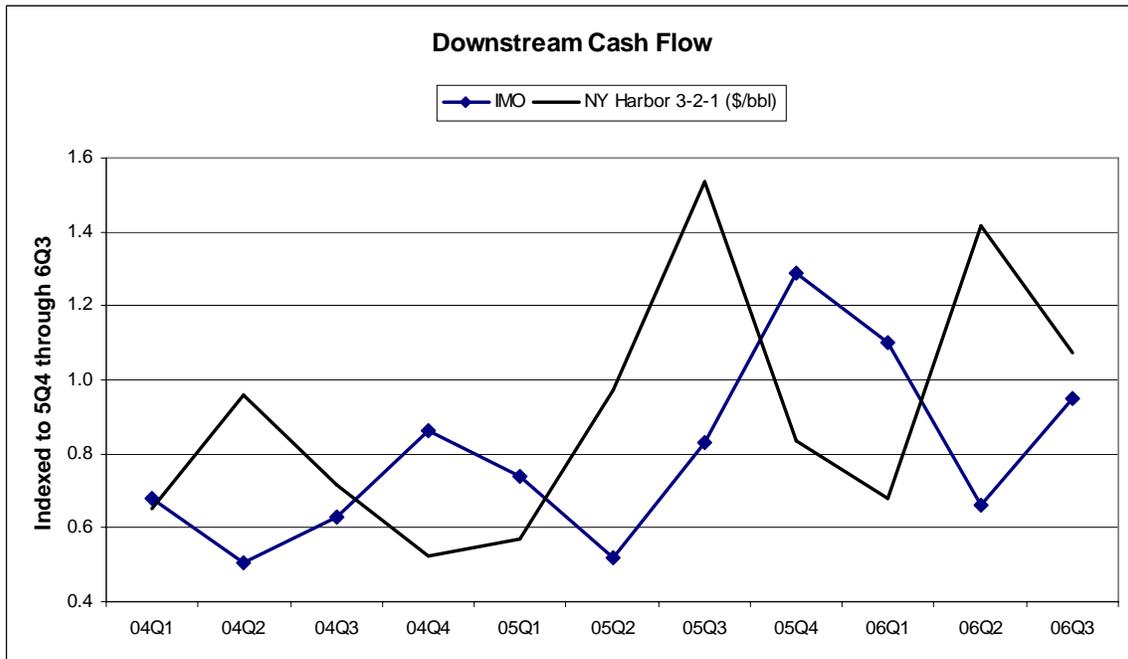
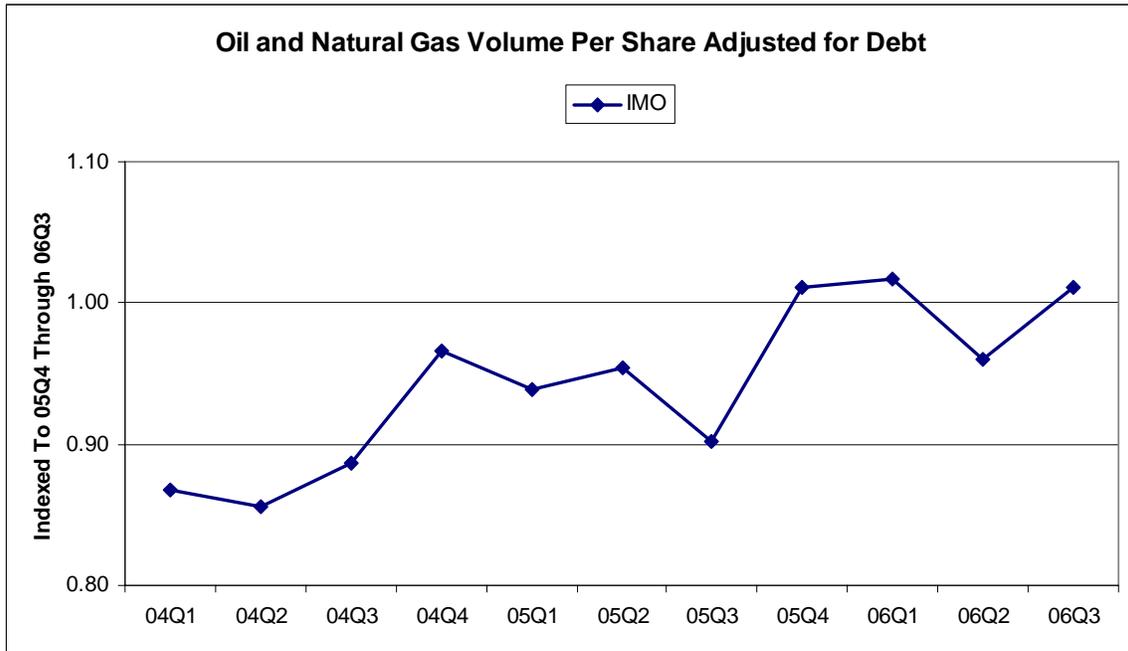
For historical research on Imperial Oil since 2004 see <http://www.mcdep.com/2imo.htm>

Summary and Recommendation

Hold-rated **Imperial Oil (IMO)** at a McDep Ratio of 0.93 offers unlevered appreciation potential of 7% to a McDep Ratio of 1.00 where stock price would equal estimated net present value (NPV). Third quarter operations, reported on October 31, demonstrate growth in oil and gas production volume per share adjusted for debt (see chart). Downstream cash flow has been highest in winter quarters in colder Canada compared to the summer strength in the New York Crack measure of refining margin (see chart). Correlating the rate of production relative to reserves with present value as a multiple of cash flow for some thirty natural gas and oil producers portrays a gap of about \$4 a share (see table on page 4). We fill that in mainly with our expectations for additional future production from oil sands, both *in situ* and mining, not counted in current reserves or cash flow. At its 200-day average price signifying a stock that may be returning to favor, IMO is rated Hold for patient investors rather than Buy to acknowledge that 6-year oil price is below its 40-week average.

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Imperial Oil Limited
Next Twelve Months Operations
(Canadian Dollars)

	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07
Volume									
Natural Gas (mmcf)	513	493	503	503	505	503	503	503	503
Oil (mbd)	209	216	227	226	227	230	240	240	234
Total gas & oil (bcf)	163	163	172	171	681	169	177	179	697
Total gas & oil (mbd)	295	298	311	310	311	314	324	324	318
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.30	7.17	8.30	7.74	7.94	7.57
Currency (US\$/C\$)	0.83	0.89	0.89	0.88	0.88	0.88	0.88	0.88	0.88
Henry Hub (C\$/mmbtu)	10.29	7.63	7.38	7.14	8.12	9.41	8.76	9.00	8.58
Canada (C\$/mcf)	8.80	6.52	6.29	6.08	7.07	8.02	7.47	7.67	7.30
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	58.20	65.60	60.80	63.32	64.77	61.77
WTI Cushing (C\$/bbl)	75.14	79.00	78.96	65.93	74.25	68.88	71.73	73.38	69.98
Worldwide	63.00	65.67	64.85	50.50	57.33	53.04	59.80	61.18	56.26
Total gas & oil (\$/mcf)	10.01	9.73	9.59	7.79	8.87	8.62	9.32	9.54	8.83
NY Harbor 3-2-1 (\$/bbl)	16.70	15.39	11.67	6.14	10.15	6.44	10.45	10.75	8.44
Revenue (\$mm)									
Natural Gas	415	293	291	282	1,294	363	342	355	1,341
Oil	1,211	1,291	1,354	1,051	4,746	1,098	1,309	1,353	4,811
Other	6,084	5,105	5,006	5,006	19,456	5,006	5,006	5,006	20,023
Total	7,711	6,688	6,651	6,338	25,495	6,466	6,656	6,714	26,175
Expense (\$mm)									
Fixed	328	312	278	278	1,245	278	278	278	956
Variable	328	312	278	225	1,192	246	279	288	883
Other	5,771	4,872	4,670	5,032	18,515	5,130	5,330	5,236	15,108
Ebitda (\$mm)									
Exploration and Production	970	960	1,090	830	3,602	936	1,094	1,142	4,003
Other	313	232	335	476	1,444	400	232	335	1,444
Total Ebitda	1,283	1,192	1,425	1,306	5,045	1,336	1,326	1,478	5,446
Exploration	10	3	5	10	28	10	10	10	40
Deprec., Deplet., & Amort.	217	214	197	197	824	197	197	197	788
Other non cash	100	(110)			(110)				-
Ebit (\$mm)									
Ebit	956	1,085	1,223	1,099	4,303	1,129	1,119	1,271	4,618
Interest	-	2	(3)		4	-	-	-	-
Ebt (\$mm)									
Ebt	956	1,083	1,226	1,099	4,299	1,129	1,119	1,271	4,618
Income Tax	306	247	408	385	1,339	395	392	445	1,616
Net Income (\$mm)									
Exploration and Production	592	754	617		1,768				
Other	183	93	187		518				
Unallocated	(125)	(11)	14		(40)				
Total	650	836	818	715	2,961	734	728	826	3,002
Shares (millions)									
Shares	1,022	984	974	974	981	974	974	974	974
Earnings per share (\$)	0.64	0.85	0.84	0.73	3.02	0.75	0.75	0.85	3.08
Ebitda Margin (E&P)	60%	61%	66%	62%	60%	64%	66%	67%	65%
Tax Rate	32%	23%	33%	35%	31%	35%	35%	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	566	3.8	6.2	3,500	9%
Syncrude	951	24.4	13.3	12,600	32%
Oil - Conventional and Cold Lake	2,016	8.6	7.3	14,700	38%
Downstream	1,274		6.3	8,000	21%
	4,807	10.4	8.1	38,800	100%
Debt (US\$mm)					2,800
Net Present Value (US\$mm)					36,000
Shares (mm)					974
Net Present Value - Standard Estimate (US\$/sh)					37
Net Present Value - Approximation by Correlation (US\$/sh)					33

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