

Rating: Buy
S&P 500: 1531

Imperial Oil Limited

Oil Price Yes, Alberta Royalties No

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	6,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	53.63	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	10/30/07	<i>Adjusted Reserves/Production NTM</i>	13.7
<i>Shares (mm)</i>	928	<i>EV/Ebitda</i>	8.3
<i>Market Capitalization (US\$mm)</i>	49,800	<i>PV/Ebitda</i>	6.6
<i>Debt (US\$mm)</i>	3,300	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$mm)</i>	53,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.00
<i>Present Value (PV) (US\$mm)</i>	42,300	<i>Present Value Proven Reserves(US\$/boe)</i>	18.76
<i>Net Present Value (US\$/share)</i>	42	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.13
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.85
<i>McDep Ratio - EV/PV</i>	1.26	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.38

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

While the price of buy-recommended **Imperial Oil (IMO)** is above estimated net present value (NPV) currently estimated at \$42 a share, we keep our buy rating as long as six-year oil price is in an uptrend defined as current price above the 40-week average. Third quarter results reported today met expectations in Canadian dollars thereby exceeding expectations in U.S. dollars worth ten per cent less than just three months ago (see table Next Twelve Months Operating and Financial Estimates). Along with dollar devaluation, tax increases in Alberta help drive up oil price enough to strengthen stock price for the companies who provide investment to develop costly new supply. Six-year oil price doubled from the end of 2004 to mid 2006, traded sideways for almost a year and now is rising again perhaps toward another double subject to short declines from time to time (see chart Six-Year Commodity Price Meter). Chief Executive Tim Hearn remains a statesman as he focuses on converting Imperial's rich resources into proven reserves and an attractive financial return.

Kurt H. Wulff, CFA

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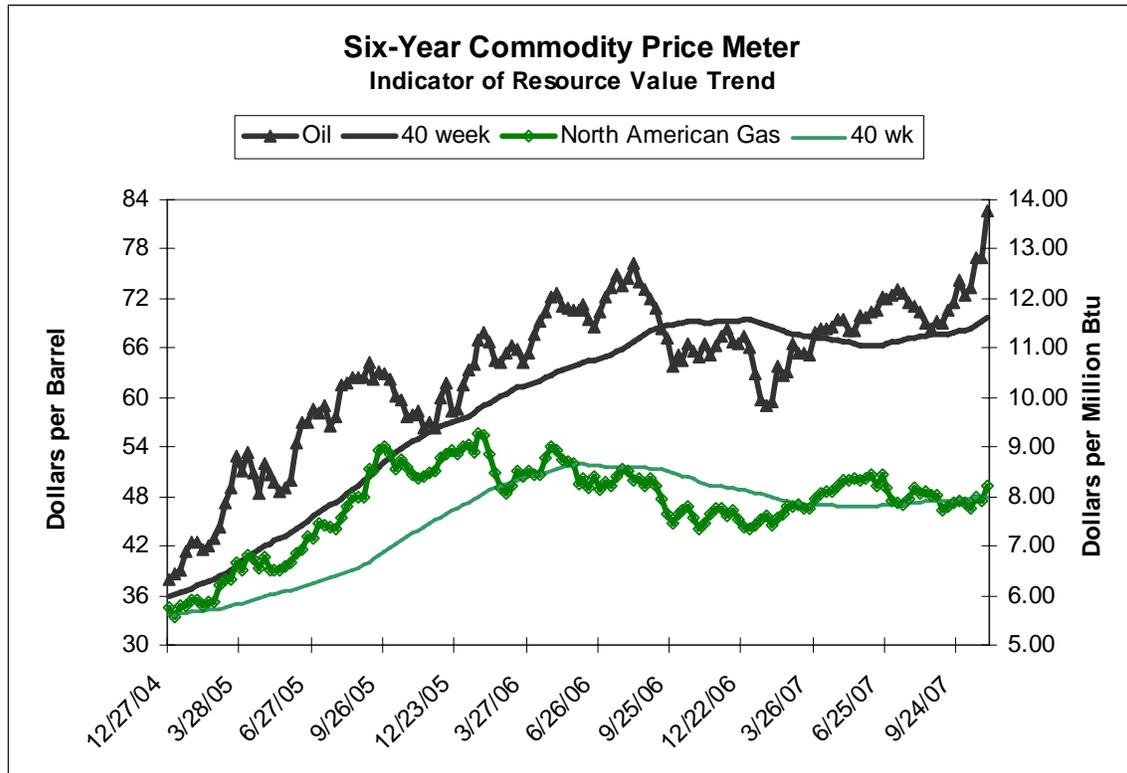
Imperial Oil Limited
Next Twelve Months Operations
(Canadian Dollars)

	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/06	6/30/07	9/30/07	12/31/07	2007E	3/31/08	6/30/08	9/30/08	9/30/08
Volume									
Natural Gas (mmcf)	503	434	379	379	412	379	379	379	379
Oil (mbd)	227	221	236	239	230	242	242	239	241
Total gas & oil (bcf)	172	160	165	167	653	167	167	167	668
Total gas & oil (mbd)	311	293	299	303	298	305	305	303	304
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	7.46	7.00	8.26	7.90	8.11	7.93
Currency (US\$/C\$)	0.89	0.91	0.96	1.05	0.94	1.05	1.05	1.05	1.05
Henry Hub (C\$/mmbtu)	7.38	8.29	6.44	7.11	7.42	7.87	7.53	7.73	7.56
Canada (C\$/mcf)	6.29	7.61	5.73	6.33	6.92	7.00	6.70	6.88	6.73
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	91.02	72.37	91.70	89.32	87.41	89.86
WTI Cushing (C\$/bbl)	78.96	71.25	78.95	86.74	76.24	87.39	85.12	83.30	85.64
Worldwide	64.85	58.57	65.32	70.52	63.00	69.85	72.68	70.52	70.89
Total gas & oil (\$/mcf)	9.59	9.23	9.80	10.62	9.69	10.68	10.99	10.74	10.76
NY Harbor 3-2-1 (\$/bbl)	11.67	24.96	12.64	7.35	14.16	9.14	14.06	13.09	10.91
Revenue (\$mm)									
Natural Gas	291	301	200	221	1,047	242	231	240	933
Oil	1,354	1,178	1,418	1,553	5,281	1,540	1,602	1,553	6,249
Other	5,006	4,861	4,812	4,812	18,961	4,812	4,812	4,812	19,248
Total	6,651	6,339	6,430	6,586	25,289	6,594	6,646	6,605	26,431
Expense (\$mm)									
		1,999	2,001	1,444	7,292	1,495	1,657	1,495	11,449
Ebitda (\$mm)									
Exploration and Production	1,090	754	1,042	1,100	3,851	1,105	1,137	1,112	4,453
Other	335	521	383	344	1,638	390	521	383	1,638
Total Ebitda	1,425	1,274	1,425	1,444	5,489	1,495	1,657	1,495	6,091
Exploration	5	43	19	10	100	10	8	8	36
Deprec., Deplet., & Amort.	197	198	205	205	797	205	205	205	820
Other non cash					-				-
Ebit									
	1,223	1,033	1,201	1,229	4,592	1,280	1,444	1,282	5,235
Interest	(3)	11	10		33	-			-
Ebt									
	1,226	1,022	1,191	1,229	4,559	1,280	1,444	1,282	5,235
Income Tax	408	308	374	430	1,453	448	506	449	1,832
Net Income (\$mm)									
Exploration and Production	617	460	607						
Other	187	336	215						
Unallocated	14	(82)	(5)						
Total	818	714	817	799	3,106	832	939	833	3,403
Shares (millions)									
	974	940	928	928	938	928	928	928	928
Earnings per share (\$)	0.84	0.76	0.88	0.86	3.31	0.90	1.01	0.90	3.67
Ebitda Margin (E&P)	66%	51%	64%	62%	61%	62%	62%	62%	62%
Tax Rate	33%	30%	31%	35%	32%	35%	35%	35%	35%

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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	444	4.8	6.8	3,000	7%
Syncrude	1,642	26.1	8.4	13,800	33%
Oil - Conventional and Cold Lake	2,587	11.4	6.8	17,500	41%
Downstream	1,718		4.7	8,000	19%
	6,391	13.7	6.6	42,300	100%
Debt (US\$mm)					3,300
Net Present Value (US\$mm)					39,000
Shares (mm)					928
Net Present Value - Standard Estimate (US\$/sh)					42
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					37



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