

We sold IMO on April 2nd, when we rebalanced the Canadian model portfolio.

IMPERIAL OIL LTD **IMO.**

Report Date : **06Apr15** Price : **\$ 51.78**

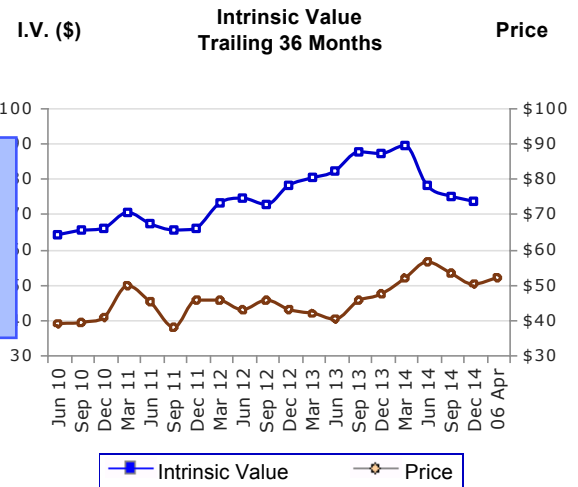
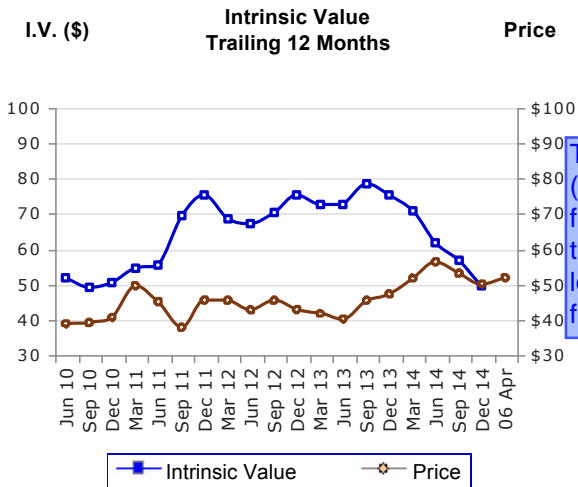
Address **237 Fourth Avenue SW  
Calgary, Alberta CANADA T2P 3M9**  
Telephone **800-567-3776**  
Stock Exchange **TSE**  
Web Site **www.imperialoil.ca**  
Fiscal Year **December**  
Economic Sector **Energy**  
SIC **2911**  
Price / Earning Ratio **11.6**  
Price / Book Value Ratio **1.85**  
Currency **CND \$ in Millions**

IMO's Intrinsic Value has moved from \$80 in September 2013 (P/IV of 0.6) down to \$49.56 today (P/IV of 1.04), indicating a slight overvaluation.

Intrinsic Value	IV	Price / IV
Trailing 12 Months :	\$ 49.56	1.04
Trailing 36 Months :	\$ 73.16	0.71
Market Value Added (MVA)	\$	%
Market Value of Total Capital :	54,744.359	100.0%
- Invested Capital :	34,523.532	63.1%
= Market Value Added :	20,220.827	36.9%
Future Growth Value (FGV)	\$	%
Market Value of Total Capital :	54,744.359	100.0%
- Current Operating Value :	33,071.314	60.4%
= Future Growth Value :	21,673.046	39.6%

Peers US: BHI BRGY CHK DVN EC ENB HAL HFC IMO NOV OXY SSL SU SXL UGP  
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INTRINSIC VALUE



The return on capital (NOPAT/Capital) fell from 23.8% in 2011 to 9.9% in 2014, the lowest it's been in five years.

Trailing 12 Months					Trailing 36 Months				
Dec10	Dec11	Dec12	Dec13	Dec14	Dec10	Dec11	Dec12	Dec13	Dec14

					PERFORMANCE					
2,689.470	3,963.119	3,645.743	3,349.561	3,085.861	NOPAT	2,654.006	2,998.573	3,432.777	3,652.807	3,360.388
14,169.101	16,672.665	20,925.748	24,213.078	31,279.714	÷ Capital	14,169.101	16,672.665	20,925.748	24,213.078	31,279.714
<b>19.0%</b>	<b>23.8%</b>	<b>17.4%</b>	<b>13.8%</b>	<b>9.9%</b>	= Return / Capital	<b>20.4%</b>	<b>20.7%</b>	<b>19.9%</b>	<b>17.7%</b>	<b>13.2%</b>
8.6%	8.5%	8.2%	7.8%	9.3%	- Cost of Capital	8.6%	8.5%	8.2%	7.8%	9.3%
<b>10.4%</b>	<b>15.3%</b>	<b>9.2%</b>	<b>6.0%</b>	<b>0.5%</b>	= Performance Spread	<b>11.9%</b>	<b>12.2%</b>	<b>11.7%</b>	<b>9.9%</b>	<b>3.9%</b>

					VALUATION					
31,174.864	51,187.053	47,079.546	46,218.681	17,779.546	Future EVA	44,308.607	43,100.875	49,311.348	56,105.928	37,778.837
14,764.093	17,364.663	21,765.825	25,142.375	32,706.516	+ Capital (Adj. Mid-Year)	14,764.093	17,364.663	21,765.825	25,142.375	32,706.516
<b>45,938.958</b>	<b>68,551.716</b>	<b>68,845.370</b>	<b>71,361.056</b>	<b>50,486.063</b>	= Total IV	<b>59,072.700</b>	<b>60,465.538</b>	<b>71,077.173</b>	<b>81,248.303</b>	<b>70,485.353</b>
527.000	843.000	1,175.000	4,444.000	4,913.000	- Long Term Debt	527.000	843.000	1,175.000	4,444.000	4,913.000
2,753.000	3,876.000	3,983.000	3,091.000	3,565.000	- Other Liabilities	2,753.000	3,876.000	3,983.000	3,091.000	3,565.000
<b>42,658.958</b>	<b>63,832.716</b>	<b>63,687.370</b>	<b>63,826.056</b>	<b>42,008.063</b>	= IV of Equity	<b>55,792.700</b>	<b>55,746.538</b>	<b>65,919.173</b>	<b>73,713.303</b>	<b>62,007.353</b>
847.600	847.700	847.400	847.600	847.600	+ Shares Outstanding	847.600	847.700	847.400	847.600	847.600
<b>\$ 50.33</b>	<b>\$ 75.30</b>	<b>\$ 75.16</b>	<b>\$ 75.30</b>	<b>\$ 49.56</b>	= IV of a Share	<b>\$ 65.82</b>	<b>\$ 65.76</b>	<b>\$ 77.79</b>	<b>\$ 86.97</b>	<b>\$ 73.16</b>
\$ 40.58	\$ 45.39	\$ 42.73	\$ 47.04	\$ 50.05	Share Price	\$ 40.58	\$ 45.39	\$ 42.73	\$ 47.04	\$ 50.05
<b>0.81</b>	<b>0.60</b>	<b>0.57</b>	<b>0.62</b>	<b>1.01</b>	Price / Intrinsic Value	<b>0.62</b>	<b>0.69</b>	<b>0.55</b>	<b>0.54</b>	<b>0.68</b>

Since 2011, Imperial Oil's NOPAT (net operating profit after tax) has consistently dropped while its capital charges have doubled. In other words, it appears that the additional focus on capital investment since 2011 has only served to decelerate the continued drop in NOPAT, when ideally these investments would serve to accelerate earnings growth.

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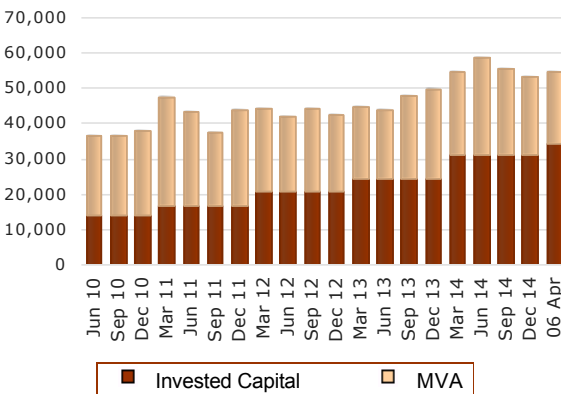
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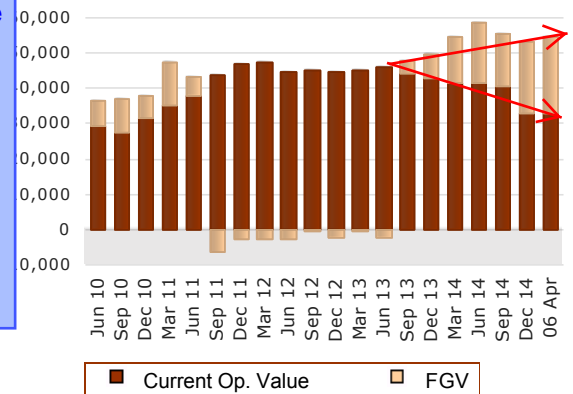
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**MARKET PERFORMANCE**

(M\$) **Market Value Added (MVA)**



(M\$) **Future Growth Value (FGV)**



Future growth value (FGV) is at around 40% as of April 6<sup>th</sup>, 2015, and represents a premium which we consider high given short term growth prospects in the sector.

**Trailing 12 Months**

**Quarterly**

Dec10	Dec11	Dec12	Dec13	Dec14	Price	Dec13	Mar14	Jun14	Sep14	Dec14
\$ 40.58	\$ 45.39	\$ 42.73	\$ 47.04	\$ 50.05		\$ 47.04	\$ 51.48	\$ 56.23	\$ 52.91	\$ 50.05
<b>Market Value Added (MVA)</b>										
38,092.618	43,907.004	42,266.557	49,562.582	53,278.013	<b>Total Market Value</b>	49,562.582	54,490.080	58,516.174	55,702.146	53,278.013
14,169.101	16,672.665	20,925.748	24,213.078	31,279.714	<b>- Invested Capital</b>	24,213.078	31,279.714	31,279.714	31,279.714	31,279.714
<b>23,923.517</b>	<b>27,234.340</b>	<b>21,340.809</b>	<b>25,349.504</b>	<b>21,998.300</b>	<b>= MVA</b>	<b>25,349.504</b>	<b>23,210.366</b>	<b>27,236.461</b>	<b>24,422.433</b>	<b>21,998.300</b>
63%	62%	50%	51%	41%	<b>% Market Value</b>	51%	43%	47%	44%	41%
<b>Current Operating Value (COV)</b>										
2,689.470	3,963.119	3,645.743	3,349.561	3,085.861	<b>NOPAT</b>	3,349.561	3,260.628	3,704.146	3,743.214	3,085.861
8.6%	8.5%	8.2%	7.8%	9.3%	<b>÷ Cost of Capital</b>	7.8%	7.9%	8.9%	9.3%	9.3%
<b>31,364.842</b>	<b>46,772.052</b>	<b>44,513.024</b>	<b>42,815.220</b>	<b>33,071.314</b>	<b>= COV</b>	<b>42,815.220</b>	<b>41,482.453</b>	<b>41,607.029</b>	<b>40,360.449</b>	<b>33,071.314</b>
82%	107%	105%	86%	62%	<b>% Market Value</b>	86%	76%	71%	72%	62%
<b>Future Growth Value (FGV)</b>										
38,092.618	43,907.004	42,266.557	49,562.582	53,278.013	<b>Total Market Value</b>	49,562.582	54,490.080	58,516.174	55,702.146	53,278.013
31,364.842	46,772.052	44,513.024	42,815.220	33,071.314	<b>- COV</b>	42,815.220	41,482.453	41,607.029	40,360.449	33,071.314
<b>6,727.776</b>	<b>(2,865.048)</b>	<b>(2,246.467)</b>	<b>6,747.362</b>	<b>20,206.700</b>	<b>= FGV</b>	<b>6,747.362</b>	<b>13,007.627</b>	<b>16,909.146</b>	<b>15,341.697</b>	<b>20,206.700</b>
18%	-7%	-5%	14%	38%	<b>% Market Value</b>	14%	24%	29%	28%	38%

You'll note that the premium shown by FGV has also increased continually over the past six quarters, all while Imperial's current operating value (COV) has been decreasing. This shows an increase in short term risk as the proportion of the price of the stock supported by the company's COV is smaller and smaller.

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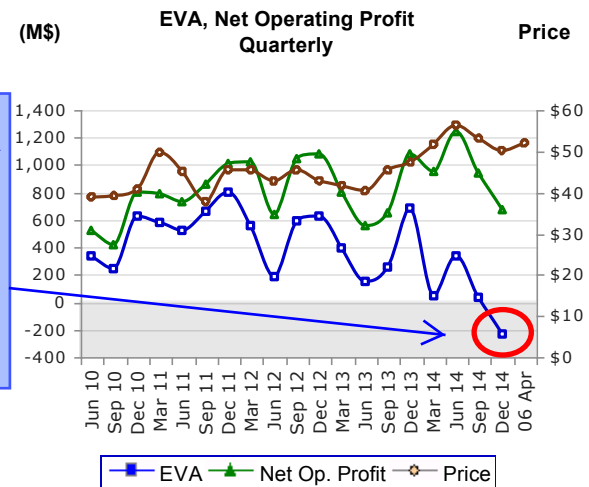
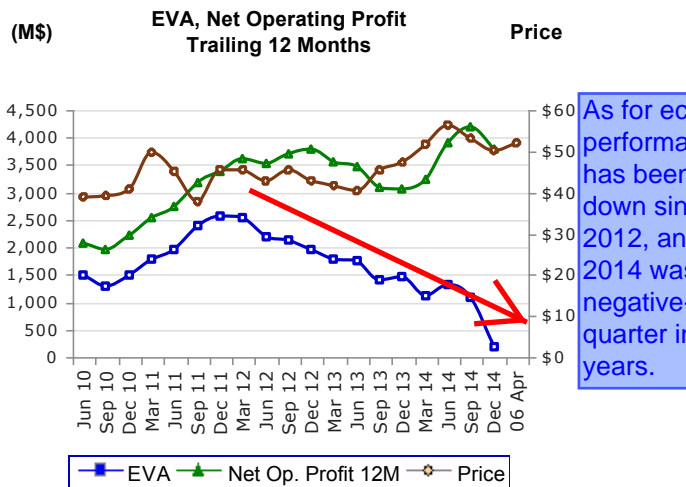
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**ECONOMIC PERFORMANCE**



As for economic performance, EVA has been trending down since March 2012, and its Q4 2014 was the first negative-EVA quarter in five years.

**Trailing 12 Months**

**Quarterly**

Dec10	Dec11	Dec12	Dec13	Dec14		Dec13	Mar14	Jun14	Sep14	Dec14
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**Net Operating Profit After Tax (NOPAT)**

2,815.000	4,169.000	4,857.000	3,918.000	4,290.000	<b>Operating Profit</b>	1,299.000	1,233.000	998.000	1,227.000	832.000
746.001	992.227	211.857	662.509	179.461	<b>+ Adjustments</b>	229.377	(109.385)	510.615	(122.385)	(99.385)
871.530	1,198.109	1,423.114	1,230.949	1,383.600	<b>- Income Tax</b>	374.310	350.900	450.900	345.900	235.900
<b>2,689.470</b>	<b>3,963.119</b>	<b>3,645.743</b>	<b>3,349.561</b>	<b>3,085.861</b>	<b>= NOPAT</b>	<b>1,154.068</b>	<b>772.715</b>	<b>1,057.715</b>	<b>758.715</b>	<b>496.715</b>

**Economic Value Added (EVA)**

2,689.470	3,963.119	3,645.743	3,349.561	3,085.861	<b>NOPAT</b>	1,154.068	772.715	1,057.715	758.715	496.715
1,214.971	1,412.719	1,713.878	1,894.260	2,918.688	<b>- Capital Charge</b>	473.565	729.672	729.672	729.672	729.672
<b>1,474.499</b>	<b>2,550.400</b>	<b>1,931.865</b>	<b>1,455.300</b>	<b>167.173</b>	<b>= EVA</b>	<b>680.503</b>	<b>43.043</b>	<b>328.043</b>	<b>29.043</b>	<b>(232.957)</b>
333.721	1,075.901	(618.535)	(476.565)	(1,288.127)	<b>Change in EVA</b>	434.420	(637.459)	285.000	(299.000)	(262.000)

**Analysis**

14,169.101	16,672.665	20,925.748	24,213.078	31,279.714	<b>Capital</b>	24,213.078	31,279.714	31,279.714	31,279.714	31,279.714
19.0%	23.8%	17.4%	13.8%	9.9%	<b>Return / Capital</b>	4.8%	2.5%	3.4%	2.4%	1.6%
2.21	2.81	2.13	1.77	1.06	<b>Performance Index</b>	0.61	0.31	0.38	0.26	0.17
0.09	0.12	0.08	0.05	0.00	<b>EVA / Capital</b>	0.02	0.00	0.01	0.00	(0.01)
\$ 1.74	\$ 3.01	\$ 2.28	\$ 1.72	\$ 0.20	<b>EVA / Share</b>	\$ 0.80	\$ 0.05	\$ 0.39	\$ 0.03	\$ (0.27)
\$ 0.39	\$ 1.27	\$ (0.73)	\$ (0.56)	\$ (1.52)	<b>Change in EVA / Share</b>	\$ 0.51	\$ (0.75)	\$ 0.34	\$ (0.35)	\$ (0.31)

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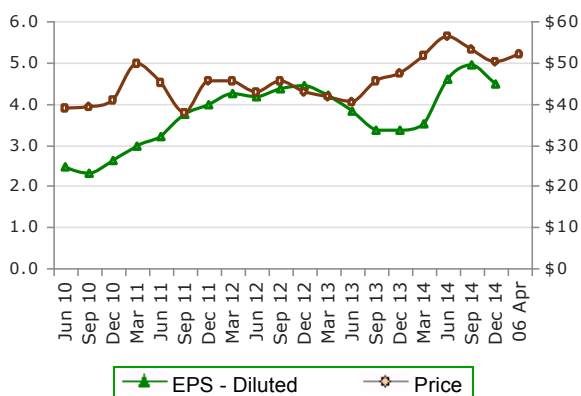
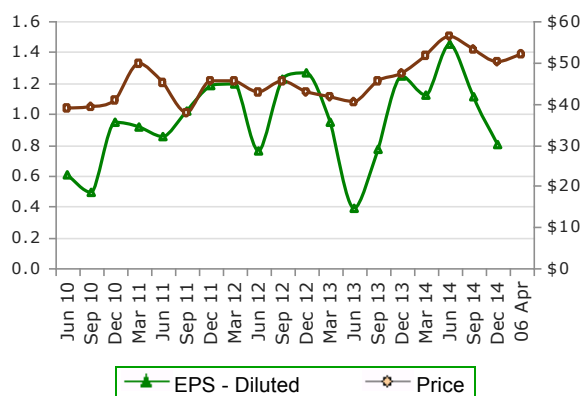
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**ACCOUNTING PERFORMANCE**
**EPS (Diluted) and Price**  
**Trailing 12 Months**

**EPS (Diluted) and Price**  
**Quarterly**

**Trailing 12 Months**

Dec10    Dec11    Dec12    Dec13    Dec14

**Quarterly**

Dec13    Mar14    Jun14    Sep14    Dec14

**Selected Income Statement Items**

23,630.000	29,154.000	29,715.000	31,299.000	34,669.000	<b>Sales</b>	7,870.000	8,827.000	9,016.000	9,229.000	7,597.000
18,807.000	22,961.000	22,933.000	25,443.000	28,141.000	<b>Cost of Goods Sold</b>	6,009.000	7,018.000	7,425.000	7,458.000	6,240.000
107.000	163.000	201.000	199.000	175.000	<b>R + D</b>	@AF	@AF	@AF	@AF	@AF
2,815.000	4,169.000	4,857.000	3,918.000	4,290.000	<b>Operating Profit</b>	1,299.000	1,233.000	998.000	1,227.000	832.000
2,210.000	3,371.000	3,766.000	2,828.000	3,785.000	<b>Net Income</b>	1,056.000	946.000	1,232.000	936.000	671.000
\$ 0.43	\$ 0.44	\$ 0.48	\$ 0.49	\$ 0.52	<b>Dividends</b>	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13
\$ 2.61	\$ 3.98	\$ 4.44	\$ 3.34	\$ 4.47	<b>EPS</b>	\$ 1.25	\$ 1.12	\$ 1.45	\$ 1.10	\$ 0.80
\$ 2.59	\$ 3.95	\$ 4.42	\$ 3.32	\$ 4.45	<b>EPS - Diluted</b>	\$ 1.24	\$ 1.11	\$ 1.45	\$ 1.10	\$ 0.79
847.600	847.700	847.400	847.600	847.600	<b>Common Shares</b>	847.600	847.600	847.600	847.600	847.600

**Selected Balance Sheet and CashFlow Items**

3,538.000	5,083.000	4,092.000	4,287.000	3,569.000	<b>Current Assets</b>	4,287.000	4,889.000	4,797.000	4,465.000	3,569.000
1,137.000	1,184.000	1,350.000	1,611.000	1,687.000	<b>Other Assets</b>	1,611.000	1,621.000	1,586.000	1,655.000	1,687.000
4,577.000	5,949.000	5,905.000	7,088.000	5,981.000	<b>Current Liabilities</b>	7,088.000	7,659.000	7,086.000	7,028.000	5,981.000
9,403.000	12,108.000	12,987.000	17,694.000	18,300.000	<b>Total Liabilities</b>	17,694.000	18,384.000	17,879.000	17,863.000	18,300.000
11,177.000	13,321.000	16,377.000	19,524.000	22,530.000	<b>Common Equity</b>	19,524.000	20,361.000	21,519.000	22,379.000	22,530.000
(1,005.000)	197.000	(1,196.000)	(3,412.000)	(1,326.000)	<b>Free CashFlow</b>	31.000	(231.000)	(406.000)	(232.000)	(457.000)

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