



Imperial Oil

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Imperial Oil Limited

Notice of 2007  
Annual Meeting of  
Shareholders and  
Management Proxy Circular

## NOTICE OF ANNUAL MEETING

Imperial Oil Limited invites you to attend the annual meeting of shareholders on May 1, 2007, in Calgary, Alberta

Dear Shareholder,

It is my pleasure to invite you to attend the company's annual meeting of shareholders, to be held in the TELUS Convention Centre, North Building, Upper Level, 136 Eighth Avenue S.E., Calgary, Alberta, Canada on Tuesday, May 1, 2007, at 9:30 a.m. (MDT).

The meeting is called for the following purposes:

1. to consider the consolidated financial statements for the year ended December 31, 2006, and the auditors' report,
2. to reappoint the auditors,
3. to elect directors, and
4. to transact other business that may properly be brought before the meeting.

It is important that your shares be represented at the meeting and that your wishes on matters for decision at the meeting be made known to the directors and management of the company. This will be assured, whether or not you attend the meeting, if you complete and submit the enclosed proxy as soon as possible. You may do so by mail, fax, telephone or Internet as described on the enclosed proxy form.

Your proxy must be received at the Toronto office of CIBC Mellon Trust Company, the company's share transfer agent, by 5:00 p.m. (EDT) on April 27, 2007.

We can provide reasonable assistance to people with disabilities who wish to attend the meeting. Please contact the corporate secretary by telephone at (403) 237-2915 or fax at (403) 237-2490 at least two weeks before the meeting.

The company will be providing a live Web cast of the annual meeting again this year. Shareholders who cannot attend the meeting in person are encouraged to listen to the Web cast. However, shareholders will not be able to vote through the Web cast or otherwise participate in the meeting. A link to the Web cast will be available on the company's website at [www.imperialoil.ca](http://www.imperialoil.ca) several days prior to the meeting.



T.J. (Tim) Hearn  
Chairman, president and chief executive officer  
March 15, 2007

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# Management Proxy Circular

## I. Proxy Information and Voting Instructions

### Frequently Asked Questions

The following questions and answers provide guidance on how to vote your shares. Should you have any questions, please contact our transfer agent, CIBC Mellon Trust Company, as indicated in Q&A No. 13.

If you are a **non-registered shareholder**, please refer to Q&A No. 4 for a description of the procedure to be followed to vote your shares.

#### 1. Q: Who is soliciting my proxy?

**A:** This circular is furnished in connection with the solicitation by the directors and management of Imperial Oil Limited of proxies for use in voting at its annual meeting of shareholders on May 1, 2007. Proxies from **registered** shareholders will be solicited primarily by mail, but may also be solicited personally by employees. Voting instructions or proxies from **non-registered** shareholders will be solicited primarily by mail by intermediaries, or by the company if the names and addresses of non-registered shareholders are provided by the intermediaries. The company will bear the cost of the solicitation.

#### 2. Q: Who is entitled to vote?

**A:** Shareholders as of 5:00 p.m. (EST) on March 2, 2007, or their duly appointed proxyholders, will be entitled to attend the meeting and to vote in person or by proxy.

The list of shareholders was prepared as of 5:00 p.m. (EST) on March 2, 2007. This was the record date for determining which shareholders are entitled to vote at the meeting. Each shareholder entitled to vote at the meeting receives the invitation to attend the annual meeting, this management proxy circular and the enclosed proxy form, all of which were sent to shareholders on March 15, 2007. Each common share registered in your name in the list of shareholders entitles you to one vote at the annual meeting.

As of February 15, 2007, there were 949 989 788 common shares outstanding.

#### 3. Q: How do I vote?

**A:** There are two ways in which you can vote your shares if you are a **registered** shareholder. You can vote in person at the meeting or you can use the enclosed proxy appointing the named persons or some other person you choose to represent you and vote your shares at the meeting. If you wish to vote in person at the meeting, do not use the proxy. Your vote will be taken and counted at the meeting. Using your proxy does not preclude you from attending the meeting in person. If you do not wish to attend the meeting or do not wish to vote in person, you should use the enclosed proxy.

A proxy must be in writing and must be executed by the shareholder or by the shareholder's attorney authorized in writing, unless you have chosen to complete your proxy by telephone or the Internet, as described on the enclosed proxy form. Unless otherwise specified, shareholder votes will be conducted by ballot.

If your shares are **not registered** in your name, but are held in the name of a nominee (a bank, trust company, securities broker or other financial institution), please see Q&A No. 4 for voting instructions. All shares represented by properly completed proxies received by CIBC Mellon Trust Company prior to 5:00 p.m. (EDT) on Friday, April 27, 2007 will be voted or withheld from voting, in accordance with your instructions as specified in the proxy, on any ballot votes that take place at the annual meeting.

In the absence of instructions, the shares will be voted **FOR** the reappointment of the auditors and **FOR** the election of directors as stated in **bold blue type** on page 7.

**4. Q: If my shares are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my shares?**

**A: Non-registered** shareholders should follow the directions of their intermediaries with respect to the procedures to be followed for voting their proxies. Non-registered shareholders can also vote by telephone or the Internet, as directed by their intermediaries. Generally, non-registered shareholders will either be provided with: (a) a request for voting instructions (the intermediary is required to send to the company an executed proxy form completed in accordance with any voting instructions received by it); or (b) a proxy form executed by the intermediary but otherwise uncompleted (the non-registered shareholder may complete the proxy form and return it directly to the company's share transfer agent).

To vote at the meeting in person, a non-registered shareholder must have himself or herself appointed as proxyholder. Non-registered shareholders who appoint themselves as proxyholders should, at the meeting, identify themselves at the registration desk.

**5. Q: Who will be my proxyholder?**

**A:** Signing the enclosed proxy form gives authority to T.J. Hearn or R.L. Broiles or J.F. Shepard, all of whom are directors of the company, to vote your shares at the meeting.

**6. Q: Can I appoint someone other than these directors to vote my shares?**

**A: Yes. In order to appoint some other person to represent you as your proxyholder at the annual meeting, you may do so either by inserting the name of such person in the space provided in the proxy form or by completing another proper proxy form and, in either case, delivering the completed proxy form to the company's share transfer agent not later than 5:00 p.m. (EDT) on April 27, 2007.**

At the meeting, proxyholders should identify themselves at the registration desk.

**7. Q: What am I voting on?**

**A:** The reappointment of the auditors of the company and the election of the directors.

**8. Q: What if amendments are made to these matters or if other matters are brought before the meeting?**

**A:** The person named in the proxy form will have discretionary authority with respect to amendments to matters identified in the invitation to attend the 2007 annual shareholders' meeting and to other matters which may properly come before the meeting. As of the date of this circular, the directors of the company know of no such amendment or other matter to be presented for action at the meeting.

**9. Q: Who counts the votes?**

**A:** The company's transfer agent, CIBC Mellon Trust Company, counts and tabulates the proxies. This is done independently of the company in order to preserve the confidentiality of individual shareholder votes, with the following exceptions: (a) where the proxy contains comments clearly intended for management; (b) where it is necessary to have reference to the proxy in order to determine its validity; or (c) where necessary in order to permit management to discharge its legal obligations to shareholders such as a proxy solicitation in opposition to the directors.

**10. Q: What do I do with my completed proxy form?**

**A:** Return it to the company's transfer agent, CIBC Mellon Trust Company, in the envelope provided or by fax to 416-368-2502, Attention: Proxy Department, so that it is received by 5:00 p.m. (EDT) on Friday, April 27, 2007.

**11. Q: If I change my mind, can I take back my proxy once I have given it?**

**A:** Yes. You can revoke your proxy for the annual meeting or any adjournment of the meeting in any manner permitted by law. This includes filing a later dated proxy or depositing a written statement signed by you (or signed by your attorney, authorized in writing) either, (a) at the head office of the company at 237 Fourth Avenue S.W., Calgary, Alberta, Canada, T2P 3M9, at any time up to and including the last business day before the meeting at which the proxy is to be voted, or (b) with the chairman of the meeting on the day of the meeting.

If a proxy is revoked and not replaced by a proxy that is received with the Toronto office of CIBC Mellon Trust Company by 5:00 p.m. (EDT) on Friday, April 27, 2007, then the shares represented by the revoked proxy can only be voted in person by a registered shareholder at the annual meeting.

**12. Q: What must I do to attend the meeting in person?**

**A:** Registered and non-registered shareholders will be required to register for the meeting by identifying themselves at the registration desk. Persons who are not shareholders may be admitted subject to the discretion of the chairman of the meeting and subject to any space constraints, after identifying themselves at the registration desk.

**13. Q: Whom can I call if I have questions about the information contained in this circular or require assistance in completing my proxy form?**

**A:** You can contact CIBC Mellon Trust Company, our transfer agent and registrar,

by mail: PO Box 7010, Adelaide St. Postal Station, Toronto, Ontario, Canada M5C 2W9,

by telephone: within Canada and the United States at 1-800-387-0825, or in the Toronto area or from any other country at (416) 643-5500,

by fax at (416) 643-5501, by email at [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com), or on-line at [www.cibcmellon.com](http://www.cibcmellon.com).

## **Effective Date**

The effective date of this management proxy circular is February 15, 2007.

## II. Business of the Meeting

### Consolidated Financial Statements and Auditors' Report

The audited consolidated financial statements of the company for the year ended December 31, 2006 and the auditors' report thereon will be received at the meeting. The statements and the auditors' report are contained in the 2006 annual report of the company, which has been made available to each shareholder entitled to receive a copy of this circular.

### Reappointment of Auditors

The audit committee of the board of directors recommends that PricewaterhouseCoopers LLP ("PwC") be reappointed as auditors of the company. PwC have been auditors of the company for more than five years.

**Unless a proxy specifies that the shares it represents should be withheld from voting in the reappointment of the auditors, the potential proxyholders named in the accompanying proxy intend to use it to vote FOR the reappointment of PwC as auditors of the company to hold office until the close of the next annual meeting.**

### Auditors fees

The aggregate fees of PwC for professional services rendered for the audit of the company's financial statements and other services for the fiscal years ended December 31, 2006 and December 31, 2005 were as follows:

Dollars (thousands)	2006	2005
Audit fees	1 117	1 117
Audit related fees	62	64
Tax fees	815	770
All other fees	Nil	Nil
Total fees	1 994	1 951

Audit fees include the audit of the company's annual financial statements, audit of management's report on internal control over financial reporting and a review of the first three quarterly financial statements in 2006. Audit related fees include other assurance services including the audit of the company's retirement plan and royalty statement audits for oil and gas producing entities. Tax fees are mainly tax services for employees on foreign loan assignments. The company did not engage the auditors for any other services.

### Election of Directors


The company currently has eight directors. Each director is elected to hold office until the close of the next annual meeting. The proxy provides for instructions from a shareholder to withhold from voting for any or all of the nominees for election as directors.


**Unless a proxy specifies that the shares it represents should be withheld from voting in the election of any of the director nominees, the proxyholders named in the accompanying proxy intend to use it to vote FOR the election of the following nominees.**

The following charts provide information on the nominees proposed for election to the Board of Directors of the company. All of the nominees are now directors and have been since the dates indicated. Included in these charts is information relating to the directors' independence status, committee memberships, public board memberships and holdings as at the Effective Date. The directors do not expect that any of the nominees will be unable to serve as a director. However, if that should occur for any reason prior to the meeting, the proxyholders reserve the right to vote the shares represented by proxy for another nominee at their discretion,

unless the proxy specifies that the shares are to be withheld from voting for any or all of the director nominees.

## Nominees for election as director

<p><b>Randy L. Broiles</b> (age 49)</p>  <p>Calgary, Alberta, Canada</p> <p>Position: Senior Vice-President, Resources Division</p> <p>Not independent</p> <p>Director since July 21, 2005</p>	<p>Mr. Broiles was appointed to the board of the company on July 21, 2005 and serves as senior vice-president, resources division. From 2001 until his appointment as senior vice-president, resources division, Mr. Broiles was global planning manager of ExxonMobil Production Company in Houston, Texas. Mr. Broiles serves on the CAPP Board of Governors as well as the CAPP Safety and Human Resources CEO Task Force.</p>			<p><b>Board Membership:</b></p> <ul style="list-style-type: none"> <li>Board Member</li> </ul> <p><b>Committee Memberships:</b></p> <ul style="list-style-type: none"> <li>none</li> </ul>						
	<p><b>Holdings: (1) (2) (3)</b> <b>Imperial Oil Limited</b></p> <table border="1"> <thead> <tr> <th>Common Shares</th> <th>Deferred Share Units</th> <th>Restricted Stock Units</th> </tr> </thead> <tbody> <tr> <td>5 000</td> <td>0</td> <td>0</td> </tr> </tbody> </table>			Common Shares	Deferred Share Units	Restricted Stock Units	5 000	0	0	<p><b>Record of Attendance by Director at Board and Committee Meetings:</b></p> <ul style="list-style-type: none"> <li>Board: 9 of 9 (100%)</li> <li>Committee: n/a</li> </ul>
	Common Shares	Deferred Share Units	Restricted Stock Units							
	5 000	0	0							
	<p><b>Holdings: (1)</b> <b>Exxon Mobil Corporation</b></p> <table border="1"> <thead> <tr> <th>Common Shares</th> <th>Restricted Stock</th> </tr> </thead> <tbody> <tr> <td>16 641</td> <td>43 000</td> </tr> </tbody> </table>			Common Shares	Restricted Stock	16 641	43 000	<p><b>Other Reporting Issuer Directorships:</b></p> <ul style="list-style-type: none"> <li>Not currently serving on any other public company board</li> </ul>		
Common Shares	Restricted Stock									
16 641	43 000									
			<p><b>Last major position or office with the company or Exxon Mobil Corporation</b></p> <ul style="list-style-type: none"> <li>Global Planning Manager, ExxonMobil Production Company</li> </ul>							

<p><b>Tim J. Hearn</b> (age 62)</p>  <p>Calgary, Alberta, Canada</p> <p>Position: Chairman, President and Chief Executive Officer</p> <p>Not independent</p> <p>Director since January 1, 2002</p>	<p>Mr. Hearn has served on the board of the company since January 1, 2002. On April 23, 2002, he was appointed to his present position as chairman, president and chief executive officer. Mr. Hearn was vice-president of Imperial's marketing retail and commercial business when he accepted the first in a series of loan assignments beginning with Exxon Chemical in 1992. Following the merger of Exxon Corporation and Mobil Oil in late 1999, he was appointed vice-president of human resources for Exxon Mobil Corporation. On January 1, 2002, Mr. Hearn assumed the position of president of Imperial Oil Limited. Mr. Hearn is chairman of the board of directors of the C.D. Howe Institute, a member of the board of directors of the Royal Bank of Canada, a member of the Canadian Council of Chief Executives, co-chairs a multi-year fundraising campaign for the University of Alberta, and chairs a fundraising campaign for Tyndale University College.</p>			<p><b>Board Membership:</b></p> <ul style="list-style-type: none"> <li>Board Member (<b>Chair</b>)</li> </ul> <p><b>Committee Memberships:</b></p> <ul style="list-style-type: none"> <li>(as chairman president and CEO, Mr. Hearn may attend meetings of Board Committees, but as a non-voting participant only).</li> </ul>						
	<p><b>Holdings: (1) (2) (3)</b> <b>Imperial Oil Limited</b></p> <table border="1"> <thead> <tr> <th>Common Shares</th> <th>Deferred Share Units</th> <th>Restricted Stock Units</th> </tr> </thead> <tbody> <tr> <td>92 597</td> <td>305</td> <td>681 400</td> </tr> </tbody> </table>			Common Shares	Deferred Share Units	Restricted Stock Units	92 597	305	681 400	<p><b>Record of Attendance by Director at Board and Committee Meetings:</b></p> <ul style="list-style-type: none"> <li>Board: 9 of 9 (100%)</li> <li>Committee: n/a</li> </ul>
	Common Shares	Deferred Share Units	Restricted Stock Units							
	92 597	305	681 400							
	<p><b>Holdings: (1)</b> <b>Exxon Mobil Corporation</b></p> <table border="1"> <thead> <tr> <th>Common Shares</th> <th>Restricted Stock</th> </tr> </thead> <tbody> <tr> <td>10 106</td> <td>0</td> </tr> </tbody> </table>			Common Shares	Restricted Stock	10 106	0	<p><b>Other Reporting Issuer Directorships:</b></p> <ul style="list-style-type: none"> <li>Royal Bank of Canada</li> </ul>		
Common Shares	Restricted Stock									
10 106	0									
			<p><b>Last major position or office with the company or Exxon Mobil Corporation</b></p> <ul style="list-style-type: none"> <li>President, Imperial Oil Limited</li> </ul>							

**Jack M. Mintz**  
(age 55)



Toronto, Ontario, Canada

Position: Non-employee director

Independent

Director since April 21, 2005

Dr. Mintz has been a professor at the Joseph L. Rotman School of Management at the University of Toronto since 1989. Dr. Mintz is a director of Brookfield Asset Management, CHC Helicopter Corporation, the Ontario Financing Authority Board, the Royal Ontario Museum Foundation, the National Statistics Council and the International Institute of Public Finance. Dr. Mintz has published widely in the fields of public economics and fiscal federalism and has frequently published articles in the national newspapers and magazines.

**Board Membership:**

- Board Member

**Committee Memberships:**

- Audit Committee,
- Executive Resources Committee,
- Environment, Health and Safety Committee,
- Nominations and Corporate Governance Committee, and
- Imperial Oil Foundation Board (**Chair**)

**Holdings: (1) (2) (3)**  
**Imperial Oil Limited**

Common Shares	Deferred Share Units	Restricted Stock Units
1 000	394	6 000

**Record of Attendance by Director at Board and Committee Meetings:**

- Board: 9 of 9 (100%)
- Committee: 24 of 24 (100%)

**Holdings: (1)**  
**Exxon Mobil Corporation**

Common Shares	Restricted Stock
0	0

**Other Reporting Issuer Directorships:**

- Brookfield Asset Management Inc.
- CHC Helicopter Corporation

**Roger Phillips,**  
O.C., S.O.M., F.Inst.P  
(age 67)



Regina, Saskatchewan, Canada

Position: Non-employee director

Independent

Director since April 23, 2002

Mr. Phillips is the retired president and chief executive officer of IPSCO Inc., a steel manufacturing company. He held that position from 1982 until his retirement in January 2002. He is also a director of Canadian Pacific Railway Company, Canadian Pacific Railway Limited, Cleveland-Cliffs Inc. and The Toronto-Dominion Bank. Mr. Phillips holds an undergraduate degree in physics and mathematics from McGill University. Mr. Phillips was appointed an Officer of the Order of Canada in 1999 and was awarded the Saskatchewan Order of Merit in 2002. Mr. Phillips is a Chartered Physicist (U.K.) and a Fellow of the Institute of Physics.

**Board Membership:**

- Board Member

**Committee Memberships:**

- Audit Committee,
- Executive Resources Committee (**Chair**),
- Environment, Health and Safety Committee,
- Nominations and Corporate Governance Committee,
- Imperial Oil Foundation Board

**Holdings: (1) (2) (3)**  
**Imperial Oil Limited**

Common Shares	Deferred Share Units	Restricted Stock Units
9 000	13 503	11 625

**Record of Attendance by Director at Board and Committee Meetings:**


- Board: 9 of 9 (100%)
- Committee: 24 of 24 (100%)

**Holdings: (1)**  
**Exxon Mobil Corporation**


Common Shares	Restricted Stock
2 000	0


**Other Reporting Issuer Directorships:**

- Canadian Pacific Railway Company
- Canadian Pacific Railway Limited
- Cleveland-Cliffs Inc.
- The Toronto Dominion Bank

<p><b>James F. Shepard</b> (age 68)</p>  <p>Vancouver, British Columbia, Canada</p> <p>Position: Non-employee director</p> <p>Independent</p> <p>Director since October 21, 1997</p>	<p>Mr. Shepard retired from Finning International Inc. in April 2000 after a 32-year career, including nine years as chief executive officer. Mr. Shepard was also chairman of the board of Finning International Inc. Mr. Shepard has served as vice-chairman of the Conference Board of Canada, vice-chairman of the Business Council on National Issues, honorary chairman of Leadership Vancouver and is the past chairman of the executive committee for the Business Council of B.C. He was founding co-chairman of the Business Summit of B.C. and is a member of The Conference Board, Inc., New York. He is also chairman of the board of directors of OncoGenex Technologies Inc. Mr. Shepard is a member of the Association of Professional Engineers of B.C.</p>		<p><b>Board Membership:</b></p> <ul style="list-style-type: none"> <li>• Board Member</li> </ul> <p><b>Committee Memberships:</b></p> <ul style="list-style-type: none"> <li>• Audit Committee (<b>Chair</b>)</li> <li>• Executive Resources Committee,</li> <li>• Environment, Health and Safety Committee,</li> <li>• Nominations and Corporate Governance Committee, and</li> <li>• Imperial Oil Foundation Board</li> </ul>						
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	Common Shares	Deferred Share Units	Restricted Stock Units						
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<p><b>Holdings: (1)</b> <b>Exxon Mobil Corporation</b></p> <table border="1"> <thead> <tr> <th>Common Shares</th> <th>Restricted Stock</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>0</td> </tr> </tbody> </table>		Common Shares	Restricted Stock	0	0	<p><b>Other Reporting Issuer Directorships:</b></p> <ul style="list-style-type: none"> <li>• Not currently serving on any other public company board</li> </ul>			
Common Shares	Restricted Stock								
0	0								

<p><b>Paul A. Smith</b> (age 53)</p>  <p>Calgary, Alberta, Canada</p> <p>Position: Senior Vice-President, Finance and Administration</p> <p>Not independent</p> <p>Director since February 1, 2002</p>	<p>Mr. Smith has served on the board of the company since February 1, 2002. In February 2002, Mr. Smith was appointed to his present position as controller and senior vice-president, finance and administration.</p> <p>Mr. Smith has held a number of senior financial positions at Imperial Oil and Exxon Mobil Corporation as well as a number of senior operating positions at Imperial Oil. Mr. Smith is a member of Financial Executives International Canada.</p>		<p><b>Board Membership:</b></p> <ul style="list-style-type: none"> <li>• Board Member</li> </ul> <p><b>Committee Memberships:</b></p> <ul style="list-style-type: none"> <li>• Imperial Oil Foundation Board</li> </ul>						
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	13 371	0	192 000						
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Common Shares	Restricted Stock								
1 190	0								
		<p><b>Last major position or office with the company or Exxon Mobil Corporation</b></p> <ul style="list-style-type: none"> <li>• Corporate finance manager, Exxon Mobil Corporation</li> </ul>							

<p><b>Sheelagh D. Whittaker</b> (age 59)</p>  <p>London, England</p> <p>Position: Non-employee director</p> <p>Independent</p> <p>Director since April 19, 1996</p>	<p>Ms. Whittaker was president and chief executive officer of Electronic Data Systems Canada from 1993 to 2001. Ms. Whittaker then undertook other senior roles globally for Electronic Data Systems, ultimately serving as managing director, United Kingdom, Africa and Middle East, until her retirement from the company in November of 2005. Ms. Whittaker is also a director and trustee of CanWest Mediaworks Income Fund.</p>			<p><b>Board Membership:</b></p> <ul style="list-style-type: none"> <li>• Board Member</li> </ul> <p><b>Committee Memberships:</b></p> <ul style="list-style-type: none"> <li>• Audit Committee,</li> <li>• Executive Resources Committee,</li> <li>• Environment, Health and Safety Committee (<b>Chair</b>),</li> <li>• Nominations and Corporate Governance Committee, and</li> <li>• Imperial Oil Foundation Board</li> </ul>						
	<p><b>Holdings: (1) (2) (3)</b> <b>Imperial Oil Limited</b></p> <table border="1"> <thead> <tr> <th>Common Shares</th> <th>Deferred Share Units</th> <th>Restricted Stock Units</th> </tr> </thead> <tbody> <tr> <td>9 000</td> <td>28 957</td> <td>11 625</td> </tr> </tbody> </table>			Common Shares	Deferred Share Units	Restricted Stock Units	9 000	28 957	11 625	<p><b>Record of Attendance by Director at Board and Committee Meetings:</b></p> <ul style="list-style-type: none"> <li>• Board: 9 of 9 (100%)</li> <li>• Committee: 24 of 24 (100%)</li> </ul>
	Common Shares	Deferred Share Units	Restricted Stock Units							
	9 000	28 957	11 625							
<p><b>Holdings: (1)</b> <b>Exxon Mobil Corporation</b></p> <table border="1"> <thead> <tr> <th>Common Shares</th> <th>Restricted Stock</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>0</td> </tr> </tbody> </table>			Common Shares	Restricted Stock	0	0	<p><b>Other Reporting Issuer Directorships:</b></p> <ul style="list-style-type: none"> <li>• CanWest Mediaworks Income Fund (director and trustee)</li> </ul>			
Common Shares	Restricted Stock									
0	0									

<p><b>Victor L. Young, O.C.</b> (age 61)</p>  <p>St. John's, Newfoundland and Labrador, Canada</p> <p>Position: Non-employee director</p> <p>Independent</p> <p>Director since April 23, 2002</p>	<p>From 1984 until May 2001, Mr. Young served as chairman and chief executive officer of Fishery Products International Limited, a frozen seafood products company. Mr. Young is a director and trustee of Bell Aliant Regional Communications Income Fund and a director of BCE Inc., McCain Foods Limited, Royal Bank of Canada and RBC Dexia Investor Services Trust. Mr. Young is past chair of the Royal Commission set up to review how Newfoundland and Labrador might renew and strengthen its place in Canada. Mr. Young was appointed an Officer of the Order of Canada in 1996.</p>			<p><b>Board Membership:</b></p> <ul style="list-style-type: none"> <li>• Board Member</li> </ul> <p><b>Committee Memberships:</b></p> <ul style="list-style-type: none"> <li>• Audit Committee,</li> <li>• Executive Resources Committee,</li> <li>• Environment, Health and Safety Committee,</li> <li>• Nominations and Corporate Governance Committee (<b>Chair</b>), and</li> <li>• Imperial Oil Foundation Board</li> </ul>						
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Common Shares	Restricted Stock									
0	0									

**Footnotes to Directors Tables**

- (1) The information includes the beneficial ownership of common shares of Imperial Oil Limited and shares of Exxon Mobil Corporation, which information not being within the knowledge of the company, has been provided by the nominees individually.
- (2) The company's plans for deferred share units and restricted stock units for selected employees and nonemployee directors are described on pages 20 and 21.
- (3) The numbers for restricted stock units and deferred share units represent the total of the restricted stock units and deferred share units received in 2006 after the three-for-one share split in May 2006, plus three times the number of restricted stock units and deferred share units granted before the share split and still held by the director.

### **III. Compensation of Directors and Executive Officers and Other Related Items**

#### **Directors' Compensation**

Directors' fees are paid only to nonemployee directors. For 2006, nonemployee directors were paid an annual retainer of \$35 000 and 3 000 restricted stock units for their services as directors, plus an annual retainer of \$4 500 for each committee on which they served, an additional \$5 000 for serving as chair of a committee and \$2 000 for each board and board committee meeting attended. The restricted stock units issued to nonemployee directors have the same features as the restricted stock units for selected key employees described on page 21.

Starting in 1999, the nonemployee directors have been able to receive all or part of their directors' fees in the form of deferred share units for nonemployee directors. The purpose of the deferred share unit plan for nonemployee directors is to provide them with additional motivation to promote sustained improvement in the company's business performance and shareholder value by allowing them to have all or part of their directors' fees tied to the future growth in value of the company's common shares. This plan is described on page 20.

#### **Share Ownership Guideline for Directors**

Directors are required to hold the equivalent of at least 15 000 shares of Imperial Oil Limited, including common shares, deferred share units and restricted stock units. Directors are expected to reach this level within five years. The board of directors believes that the share ownership guideline will result in an alignment of the interest of board members with the interests of all other shareholders.

#### **Senior Executives of the Company**

The senior executives of your company at the end of 2006 were:

T.J. (Tim) Hearn, Chairman, president and chief executive officer;  
P.A. (Paul) Smith, Controller and senior vice-president, finance and administration;  
R.L. (Randy) Broiles, Senior vice-president, resources division;  
J.F. (John) Kyle, Vice-president and treasurer; and  
R.F. (Rob) Lipsett, Vice-president, human resources.

#### **Senior Executive Compensation**

The executive resources committee of the board of directors, composed of the independent directors, is responsible for corporate policy on compensation and for specific decisions on the compensation of the chief executive officer and key senior executives and officers reporting directly to that position. In addition to compensation matters, the committee is also responsible for succession plans and appointments to senior executive and officer positions, including the chief executive officer.

During 2006, the membership of the executive resources committee was as follows:

R. Phillips - Chair  
V.L. Young - Vice-chair  
J.F. Shepard  
S.D. Whittaker  
J.M. Mintz

T.J. Hearn periodically attends meetings at the request of the committee.

# Report on Executive Compensation

## Compensation Discussion and Analysis

The company's executive compensation program is designed to reinforce the company's orientation toward career employment and individual performance. It acknowledges the long-term nature of the company's business and its philosophy that the experience, skill and motivation of the company's executives are significant determinants of future business success. The compensation program emphasizes competitive salaries and performance-based incentives as the primary instruments to develop and retain key personnel.

The assessment of individual performance is conducted through the company's employee appraisal program. The appraisal program is a disciplined annual program that assesses business performance measures relevant to each employee, including the means by which performance is achieved, and involves comparative ranking of employee performance using a standard process throughout the organization and at all levels. The appraisal program is integrated with the compensation program and also with the executive development process which has been in place for more than 50 years and is the basis for planning individual development and succession planning for management positions.

In establishing compensation for the company's senior executives, the executive resources committee relies on market comparisons to a group of 25 major Canadian companies with revenues in excess of \$1 billion a year. These market comparisons are prepared by independent external compensation consultants. On a case-by-case basis, depending on the scope of market coverage represented by a particular comparison, compensation is targeted to a range between the mid-point and the upper quartile of comparable employers, reflecting the company's emphasis on quality management.

The company's executive compensation program is composed of base salaries, cash bonuses and medium/long-term incentive compensation.

## Base Salary

The company's salary ranges for executives were increased by 1.5 percent in 2005, 2.5 percent in 2006 and 8.0 percent in 2007. The larger increase in 2007 was required to maintain the company's competitive position on salaries in the marketplace. Individual salary increases vary depending on each executive's performance assessment and other factors such as time in position and potential for advancement.

## Cash Bonus

Cash bonuses are typically granted to about 80 executives to reward their contributions to the business during the past year. Bonuses are drawn from an aggregate bonus pool established annually by the executive resources committee based on the company's financial and operating performance.

In 2006, the overall bonus pool was increased by 7.5 percent over the previous year to reflect improved financial results and operating performance. In relation to this, the company's net income for 2006 was a record \$3.044 billion (up 17 percent), return on shareholders' equity was 44 percent, return on capital employed was 36 percent and total annual shareholders' return was 13 percent. Changes in individual cash bonus awards vary depending on each executive's performance assessment.

## Medium/Long-Term Incentive Compensation

A medium-term incentive compensation plan, called the earnings bonus unit plan, was introduced in 2001 and continues in use today. This plan is made available to selected executives to promote individual contribution to sustained improvement in the company's business performance and shareholder value. Earnings bonus units are generally equal to and granted in tandem with cash bonuses to approximately 80 executives annually. In 2006, each earnings bonus unit entitles the recipient to receive an amount equal to the company's cumulative net earnings per common share as announced each quarter beginning after the grant. Payout occurs after the fifth anniversary of the grant, or when the maximum settlement value per unit is reached, if earlier. If after five years the maximum payout has not been reached, payout will be prorated. In

2006, similar to the cash bonus pool, the earnings bonus units pool was increased by 7.5 percent over the previous year.

In December 2002, the company introduced a restricted stock unit plan, which is the company's long-term incentive compensation plan. The purpose of the plan is to align the interests of selected employees and non employee directors directly with the interests of shareholders. The restricted stock unit plan is a straightforward, primarily cash-based approach to long-term incentive compensation.

Grant level guidelines for the restricted stock unit program are generally held constant for long periods of time. In 2006, the guidelines were reviewed in light of the company's three-for-one share split. Given the significant appreciation in the company's share price over the past several years, restricted stock unit guidelines were adjusted on a two-for-one basis rather than the three-for-one share split. This had the effect of reducing grant values compared to earlier years.

Each unit granted in 2006 entitles the recipient to receive from the company, upon exercise, an amount equal to the five day average of the closing price of the company's shares preceding the exercise dates. Fifty percent of the units will be exercised by the company on the third anniversary of the grant date, and the remainder will be exercised on the seventh anniversary of the grant date. Recipients may receive the proceeds of the seventh year exercise as either one common share per unit or elect a cash payment. The company also pays the recipients cash with respect to each unexercised unit granted to the recipient corresponding in time and amount to the cash dividend that is paid by the company on a common share of the company.

In 2006, 964 employees were granted restricted stock units, including 92 executives.

## **CEO Compensation**

T.J. Hearn's salary is currently assessed to be within the range of the competitive target for the company's chairman, president and chief executive officer, namely, between the median and upper quartile of the competitive market. The target is consistent with the executive resources committee's view that the chairman, president and chief executive officer's salary should be above the average of salaries for chief executive officers of major Canadian companies, reflecting the company's executive development philosophy and the significance placed on experience and judgment in leading a large, complex operation.

In the case of T.J. Hearn, the committee's approach to cash bonuses is based on the company's financial and operating performance and on the committee's assessment of T.J. Hearn's effectiveness in leading the organization. The continuing progress being made in focusing the organization on advancing key strategic interests, safety, environmental performance, productivity, cost effectiveness and asset management were primary considerations in determining a cash bonus for the chairman, president and chief executive officer. T.J. Hearn's cash bonus was increased by 11 percent in 2006 to reflect his effectiveness in the position, the company's record financial performance and comparisons to other leading Canadian employers.

With respect to the company's medium term incentive program, the committee similarly awarded Mr. Hearn an 11 percent increase in his earnings bonus unit award compared to 2005 for the same reasons noted above for Mr. Hearn's cash bonus award.

For 2006, the committee adjusted the restricted stock unit grant for T.J. Hearn on an approximately two-for-one basis, as compared to the share split of three-for-one. This was consistent with the treatment for all other high performing executives and had the effect of reducing the award value on the grant date for T.J. Hearn.

## **Executive Resources Committee Report**

The executive resources committee has reviewed and discussed the Compensation and Discussion and Analysis section with management, and based on this review and discussion, recommended that it be included in the company's annual report on Form 10-K and proxy statement.

In fulfilling its responsibilities during 2006, the executive resources committee retained two independent consultants to assist in determining compensation for senior executives - Frederic W. Cook & Co. and Towers Perrin. Frederic W. Cook & Co. provided the committee with an independent assessment of competitive compensation for chief executive officers. Towers Perrin provided an independent assessment of competitive long-term incentive compensation to assist in the committee's decision-making for the restricted share unit program guidelines. Towers Perrin provides compensation market comparisons for the company, but was not retained to provide any other compensation determinations or advice for the company or committee.

Submitted on behalf of the executive resources committee:

R. Phillips - Chair  
V.L. Young - Vice-chair  
J.F. Shepard  
S.D. Whittaker  
J.M. Mintz

## **Summary Compensation Table**

The following table shows the compensation for the chairman, president and chief executive officer; the controller and senior vice-president, finance and administration and the three other most highly compensated senior executives of the company who were serving as senior executives at the end of 2006. This information includes the dollar value of base salaries, cash bonus awards and units of other long-term incentive compensation and certain other compensation.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			Payouts	All Other Compensation (8) (\$)	Total Compensation (9) (\$)
		Salary (\$)	Bonus (2) (\$)	Other Annual Compensation (3) (\$)	Awards					
					Securities Under Options/SARs Granted (4) (#)	Shares or Units Subject to Resale Restrictions (5) (6) (#)	Shares or Units Subject to Resale Restrictions (5) (6) (\$)			
T.J. Hearn Chairman president and chief executive officer	2006	1 140 000	1 000 050	562 665	-	130 000 restricted stock units 2 deferred share units	5 623 800  86	900 000	34 200	9 260 801
	2005	1 100 000	900 000	385 028	-	193 200 restricted stock units 3 deferred share units	7 432 404  94	870 000	33 000	10 720 526
	2004	1 000 000	872 266	246 249	-	193 200 restricted stock units 300 deferred share units	4 582 060  7 034	750 000	30 000	7 487 609
P.A. Smith Controller and senior vice- president, finance and administration	2006	404 167	197 267	111 279	-	35 100 restricted stock units	1 518 426	193 050	24 250	2 448 439
	2005	398 333	193 675	87 198	-	55 200 restricted stock units	2 123 544	193 125	23 900	3 019 775
	2004	378 333	193 600	67 022	-	57 900 restricted stock units	1 373 195	183 000	22 700	2 217 850
R.L. Broiles (1) Senior vice-president, resources division (from July 1, 2005)	2006	325 083 U.S.	159 200 U.S.	421 481 U.S.	-	11 000 restricted stock	815 760 U.S.	140 513 U.S.	21 705 U.S.	1 883 742 U.S.
	2005	159 000 U.S.	140 500 U.S.	112 214 U.S.	-	11 000 restricted stock	641 740 U.S.	116 253 U.S.	10 175 U.S.	1 179 882 U.S.
R.F. Lipsett Vice-president human resources	2006	364 583	191 406	140 106	-	28 800 restricted stock units	1 245 888	178 650	10 938	2 131 571
	2005	360 000	178 850	107 810	-	42 300 restricted stock units	1 627 281	178 500	10 800	2 463 241
	2004	340 000	179 000	78 581	-	47 100 restricted stock units	1 117 055	166 700	10 200	1 891 536
J.F. Kyle Vice-president and treasurer	2006	365 000	119 145	124 081	-	20 800 restricted stock units	899 808	112 500	21 900	1 642 434
	2005	364 166	112 500	90 821	-	33 900 restricted stock units	1 304 133	171 375	21 850	2 064 845
	2004	359 583	172 105	74 585	-	39 600 restricted stock units	939 180	171 000	21 575	1 738 028

- (1) R.L. Broiles has been on a loan assignment from Exxon Mobil Corporation since July 1, 2005. His compensation was paid to him directly by ExxonMobil Corporation in United States dollars, and is disclosed in United States dollars. Also, he received employee benefits under Exxon Mobil Corporation's employee benefit plans, and not under the company's employee benefit plans. The company reimburses Exxon Mobil Corporation for the compensation paid and employee benefits provided to him.
- (2) Any part of bonus elected to be received as deferred share units is excluded.
- (3) Amounts under "Other Annual Compensation", except for R.L. Broiles, consist of dividend equivalent payments on restricted stock units, interest paid in respect of deferred payments of bonuses and earnings bonus units and any costs associated with the personal use of the company aircraft. There is no tax assistance from the company for taxes related to personal use of the company aircraft. In 2006, the dividend equivalent payments were \$195 792 for T.J. Hearn, \$55 308 for P.A. Smith, \$44 628 for R.F. Lipsett and \$38 112 for J.F. Kyle. In 2006, the interest paid in respect of deferred payments of bonuses and earnings bonus units was \$228 293 for T.J. Hearn, \$10 971 for P.A. Smith, \$58 746 for R.F. Lipsett and \$37 185 for J.F. Kyle. Also included is an earned benefits allowance. The earned benefits allowance in 2006 was \$90 000 for T.J. Hearn, \$45 000 for P.A. Smith, \$35 000 for R.F. Lipsett and \$35 000 for J.F. Kyle. For R.L. Broiles, the U.S. dollar amounts are the net payments by Exxon Mobil Corporation on account of Canadian income taxes and other compensation for assignment outside of the United States. Each year while on assignment, R.L. Broiles paid to Exxon Mobil Corporation amounts that were approximate to the income taxes that would have been imposed if he was resident in his originating country of employment. For R.L. Broiles, the amount includes dividend equivalent payments on restricted stock from Exxon Mobil Corporation.
- (4) The company has not granted stock options since 2002. The stock option plan is described on pages 20 and 21.
- (5) These values include the number of units granted under the company's restricted stock unit plan and deferred share unit plan for selected executives described on pages 20 and 21. The number of restricted stock units and deferred share units for 2006 are the number of units actually received. The numbers shown for restricted stock units and deferred share units for 2004 and 2005 represent three times the number of restricted stock units and deferred share units received in those years before the three-for-one share split in May 2006. The values of the restricted stock units shown are the number of units multiplied by the closing price of the company's shares on the date of grant. The closing price on the date of grant of the restricted stock units was \$23.72 in 2004, \$38.47 in 2005 and \$43.26 for 2006 (all on a post-split basis). The values of the deferred share units shown are the number of units multiplied by the closing price of the company's shares for the five consecutive days before the grant of the deferred share unit. T.J. Hearn is the only senior executive who holds deferred share units. R.L. Broiles participates in Exxon Mobil Corporation's restricted stock plan, which is similar to the company's restricted stock unit plan. Under that plan, R.L. Broiles was granted 11 000 restricted shares in 2006, whose value on the date of grant (November 28, 2006) was \$815 760 U.S., based on a closing price of Exxon Mobil Corporation shares on the date of grant of \$74.16 U.S.
- (6) The table below shows the number and value of restricted stock units and deferred share units held as of December 31, 2006. The numbers for restricted stock units and deferred share units represent the total of the restricted stock units and deferred share units received in 2006 after the three-for-one share split in May 2006, plus three times the number of restricted stock units and deferred share units received before the share split and still held by the employee. The closing price on December 31, 2006 was \$42.93. R.L. Broiles participates in Exxon Mobil Corporation's restricted stock plan, which is similar to the company's restricted stock unit plan. Under that plan, R.L. Broiles holds 43 000 restricted shares whose value on December 31, 2006 was \$3 295 090 U.S. based on a closing price for Exxon Mobil Corporation shares on December 31, 2006 of \$76.63 U.S.

Name	Restricted Stock Units		Deferred Share Units	
	Total (#)	Total (\$)	Total (#)	Total (\$)
T.J. Hearn	681 400	29 252 502	305	13 094
P.A. Smith	192 000	8 242 560	0	0
R. L. Broiles	-	-	-	-
R.F. Lipsett	154 650	6 639 125	0	0
J.F. Kyle	127 300	5 464 989	0	0

- (7) Payouts were from 2005 earnings bonus unit that reached maximum value of \$4.50 per unit in 2006. That plan is described on page 20. R.L. Broiles participates in Exxon Mobil Corporation's earnings bonus unit plan, which is similar to the company's earnings bonus unit plan.
- (8) Amounts under "All Other Compensation", except for R.L. Broiles, are the company's contributions to the savings plan, which is a plan available to all employees. Under one of the options of that plan to which the senior executives subscribe, except for R.L. Broiles, the company matched employee contributions up to six percent of base salary per year; however, an employee may elect to receive an enhanced pension under the company's pension plan by foregoing three percent of the company's matching contributions. The plan is intended to be primarily for retirement savings, although employees may withdraw their contributions prior to retirement. For R.L. Broiles, the amount is Exxon Mobil Corporation's contributions to its employee savings plan.
- (9) "Total Compensation" for each of 2004, 2005 and 2006 consists of the total dollar value of Salary, Bonus, Other Annual Compensation, Shares or Units Subject to Resale Restrictions, LTIP Payouts and All Other Compensation for each such year.

### Earnings bonus unit plan – awards in most recently completed financial year

The following table provides information on earnings bonus units granted in 2006 to the named senior executives. The earnings bonus unit plan is described in more detail on page 20.

Name	Securities Units or Other Rights (#)	Performance or Other Period Until Maturity or Payout (1)	Estimated Future Payouts Under Non-Securities-Price Based Plans		
			Threshold (\$)	Target (\$) (2)	Maximum (\$) (2)
T.J. Hearn	571 400	Nov 20, 2011	0	1.75	1.75
P.A. Smith	112 700	Nov 20, 2011	0	1.75	1.75
R.L. Broiles (3)	-	-	-	-	-
R.F. Lipsett	109 200	Nov 20, 2011	0	1.75	1.75
J.F. Kyle	68 000	Nov 20, 2011	0	1.75	1.75

- (1) Payment will be made earlier when the cumulative net earnings per outstanding common share reach the maximum settlement value per unit prior to the fifth anniversary of the grant date.
- (2) This is the maximum settlement value payable per earnings bonus unit granted in 2006.
- (3) R.L. Broiles participates in Exxon Mobil Corporation's earnings bonus unit plan which is similar to the company's earnings bonus unit plan. In 2006, R.L. Broiles was granted 37 474 units under that plan for which the maximum settlement value payable per earnings bonus unit is \$4.25 U.S.

### Aggregated option/SAR exercises during the most recently completed financial year and financial year-end option/SAR values

The following table provides information on the exercise in 2006 and the aggregate holdings at the end of 2006 of incentive share units (referred to in the table as "SARs") by the named senior executives. The incentive share unit plan is described in more detail on page 20. The number of incentive share units in the table below is equal to three times the number of incentive share units held before the three-for-one share split in May 2006.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs at Financial Year-End (#)		Value of Unexercised in-the-Money Options/SARs at Financial Year-End (\$)	
			Exercisable	Unexercisable (1)	Exercisable	Unexercisable (1)
T.J. Hearn	-	948 300	90 000	0	2 693 700	0
P.A. Smith	-	0	135 000	0	4 202 550	0
R.L. Broiles	-	-	-	-	-	-
R.F. Lipsett	-	1 103 750	37 500	0	1 122 375	0
J.F. Kyle	-	0	0	0	0	0

- (1) Unexercisable units are units for which the conditions for exercise have not been met.

The following table provides information on the exercise in 2006 and the aggregate holdings at the end of 2006 of stock options by the named senior executives. The stock option plan is described in more detail on pages 20 and 21.

Name	Securities Acquired on Exercise (#) (1)	Aggregate Value Realized (\$)	Unexercised Options/SARs at Financial Year-End (#) (1)		Value of Unexercised in-the-Money Options/SARs at Financial Year-End (\$)	
			Exercisable	Unexercisable (2)	Exercisable	Unexercisable (2)
T.J. Hearn	12 000	296 948	165 000	0	4 525 950	0
P.A. Smith	0	0	75 000	0	2 057 250	0
R.L. Broiles (3)	-	-	-	-	-	-
R.F. Lipsett	0	0	75 000	0	2 057 250	0
J.F. Kyle	30 000	871 083	57 000	0	1 563 510	0

- (1) The number for the stock options represents three times the number of stock options granted before the three-for-one share split in May 2006 and still held by the employee.
- (2) Unexercisable units are units for which the conditions for exercise have not been met.
- (3) At the end of 2006, R.L. Broiles held options to acquire 111 994 Exxon Mobil Corporation shares of which all options were exercisable. The value of R.L. Broiles' exercisable options was \$4 390 984 U.S. at the end of 2006. In 2006, R.L. Broiles exercised 11 078 options and realized an aggregate value of \$479 265 U.S.

### Equity Compensation Plan Information

The following table provides information on the common shares of the company that may be issued as of the end of 2006 pursuant to compensation plans of the company.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)  (a)	Weighted-average exercise price of outstanding options warrants and rights (\$)  (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (3)  (c)
Equity compensation plans approved by security holders (1)	5 527 665	15.50	0
Equity compensation plans not approved by security holders (2)	6 236 404	-	4 263 596
<b>Total</b>	<b>11 764 069</b>	<b>15.50</b>	<b>4 263 596</b>

- (1) This is a stock option plan, which is described on pages 20 and 21.
- (2) This is a restricted stock unit plan, which is described on page 21.
- (3) The number of securities reserved for the stock option plan represents three times the number of stock options granted before the three-for-one share split in May 2006 and still outstanding. The number of securities reserved for the restricted stock unit plan represent the securities reserved for restricted stock units issued in 2006 after the three-for-one share split in May 2006, plus three times the number of securities reserved for restricted stock units issued before the share split and still outstanding. The weighted average exercise price of the outstanding stock options of \$15.50 was determined on a post share split basis.

## Details of Long-Term and Medium-Term Incentive Compensation

Consistent with the company's compensation philosophy of being performance driven, long-term incentive compensation is granted to retain selected employees and reward them for high performance.

The assessment of employee performance is conducted through the company's appraisal program. The appraisal program is a disciplined annual program that assesses business performance measures relevant to eligible employees and involves ranking of employee performance using a consistent process throughout the organization at all levels. The number of units received by each employee is tied to the performance of the employee in achieving these business performance measures. The scope of the company program is determined by the overall performance of the company each year.

The company's incentive share units give the recipient a right to receive cash equal to the amount by which the market price of the company's common shares at the time of exercise exceeds the issue price of the units. These units were granted prior to 2002. The issue price of the units granted to executives was the closing price of the company's shares on the Toronto Stock Exchange on the grant date. Incentive share units are eligible for exercise up to 10 years from issuance.

In 1998, an additional form of long-term incentive compensation ("deferred share units") was made available to selected executives whose decisions are considered to have a direct effect on the long term financial performance of the company. They can elect to receive all or part of their cash bonus compensation in the form of such units. The number of units granted to an executive is determined by dividing the amount of the executive's bonus elected to be received as deferred share units by the average of the closing prices of the company's shares on the Toronto Stock Exchange for the five consecutive trading days ("average closing price") immediately prior to the date that the bonus would have been paid to the executive. Additional units will be granted to recipients of these units, in respect of unexercised units, based on the cash dividend payable on the company shares divided by the average closing price immediately prior to the payment date for that dividend and multiplying the resulting number by the number of deferred share units held by the recipient. An executive may not exercise these units until after termination of employment with the company and must exercise the units no later than December 31 of the year following termination of employment with the company. The units held must all be exercised on the same date. On the date of exercise, the cash value to be received for the units will be determined by multiplying the number of units exercised by the average closing price immediately prior to the date of exercise. In 2006, no executive elected to receive deferred share units.

Starting in 1999, a form of long-term incentive compensation, similar to the deferred share units for executives, was made available to nonemployee directors in lieu of their receiving all or part of their directors' fees. The main differences between the two plans are that all nonemployee directors are allowed to participate in the plan for nonemployee directors and that the number of units granted to a nonemployee director is determined at the end of each calendar quarter by dividing the amount of the directors' fees for that calendar quarter that the nonemployee director elected to receive as deferred share units by the average closing price immediately prior to the last day of the calendar quarter.

Starting in 2001, a medium-term incentive compensation plan was introduced, called the earnings bonus unit plan. This plan was made available to selected executives to promote individual contribution to sustained improvement in the company's business performance and shareholder value. Each earnings bonus unit entitles the recipient to receive an amount equal to the company's cumulative net earnings per common share as announced each quarter beginning after the grant. Payout occurs on the fifth anniversary of the grant or when the maximum settlement value per unit is reached, if earlier. If after five years the maximum settlement has not been reached, payout will be prorated.

Under the stock option plan adopted by the company in April 2002, a total of 9 630 600 options, on a post share split basis, were granted to selected key employees on April 30, 2002 for the purchase of the company's common shares at an exercise price of \$15.50 per share on a post share split basis. All of the options are exercisable. Any unexercised options expire after April 29, 2012. As of February 15, 2007, there have been 4 139 439 common shares issued upon exercise of stock options and 5 426 811 common shares are issuable upon future exercise of stock options. The common shares that were issued and those that may be issued in the future represent about 1.0 percent of the company's currently outstanding common shares. The company's directors,

officers and vice-presidents as a group hold 9.7 percent of the unexercised stock options.

The maximum number of common shares that any one person may receive from the exercise of stock options is 165 000 common shares, which is about 0.02 percent of the currently outstanding common shares. Stock options may be exercised only during employment with the company except in the event of death, disability or retirement. Also, stock options may be forfeited if the company believes that the employee intends to terminate employment or if during employment or during the period of 24 months after the termination of employment the employee, without the consent of the company, engaged in any business that was in competition with the company or otherwise engaged in any activity that was detrimental to the company. The company may determine that stock options will not be forfeited after the cessation of employment. Stock options cannot be assigned except in the case of death.

The company may amend or terminate the incentive stock option plan as it in its sole discretion determines appropriate. No such amendment or termination can be made to impair any rights of stock option holders under the incentive stock option plan unless the stock option holder consents, except in the event of (a) any adjustments to the share capital of the company or (b) a take-over bid, amalgamation, combination, merger or other reorganization, sale or lease of assets, or any liquidation, dissolution, or winding-up, involving the company. Appropriate adjustments may be made by the company to: (i) the number of common shares that may be acquired on the exercise of outstanding stock options; (ii) the exercise price of outstanding stock options; or (iii) the class of shares that may be acquired in place of common shares on the exercise of outstanding stock options in order to preserve proportionately the rights of the stock option holders and give proper effect to the event.

In December 2002, the company introduced a restricted stock unit plan, which will be the primary long-term incentive compensation plan in future years. The purpose of the plan is to align the interests of the selected key employees and nonemployee directors directly with the interests of shareholders. Each unit entitles the recipient the right to receive from the company, upon exercise, an amount equal to the closing price of the company's shares on the exercise dates. Fifty percent of the units will be exercised on the third anniversary of the grant date, and the remainder will be exercised on the seventh anniversary of the grant date. The company will pay the recipients cash with respect to each unexercised unit granted to the recipient corresponding in time and amount to the cash dividend that is paid by the company on a common share of the company. The restricted stock unit plan was amended for units granted in 2002 and future years by providing that the recipient may receive one common share of the company per unit or elect to receive the cash payment for the units to be exercised on the seventh anniversary of the grant date. A total of 1 935 658 units were granted on December 4, 2006.

There are 6 230 974 common shares issuable upon future exercise of restricted stock units, which represent about 0.66 percent of the company's currently outstanding common shares. The company's directors, officers and vice-presidents have available, as a group, 19 percent of the common shares issuable under outstanding restricted stock units. The maximum number of common shares that any one person may receive from the exercise of outstanding restricted stock units is 423 200 common shares, which is about 0.04 percent of the currently outstanding common shares.

Restricted stock units will be exercised only during employment except in the event of death, disability or retirement. Also, restricted stock units may be forfeited if the company believes that the employee intends to terminate employment or if during employment or during the period of 24 months after the termination of employment the employee, without the consent of the company, engaged in any business that was in competition with the company or otherwise engaged in any activity that was detrimental to the company. The company may determine that restricted stock units will not be forfeited after the cessation of employment. Restricted stock units cannot be assigned. In the case of any subdivision, consolidation, or reclassification of the shares of the company or other relevant change in the capitalization of the company, the company, in its discretion, may make appropriate adjustments in the number of common shares to be issued and the calculation of the cash amount payable per restricted stock unit. Effective December 31, 2004, the restricted stock unit plan was amended by the company to provide that on retirement the company shall determine whether the employee's restricted stock units will not be forfeited. Effective August 2, 2006, the restricted stock unit plan was amended by the company to change the exercise price under the plan from a single day's closing price to a five-day average and to change exercise dates under the plan from December 31 to December 4 with respect to restricted stock units granted in prior years. Shareholder approval for these changes was not required by the Toronto Stock Exchange.

## Payments to Employees who Retire

### Pension Plan Table

Remuneration for determining payments on retirement (\$)	Estimated undiscounted payments on retirement at the age of 65 after years of service indicated below (\$)					
	20 Years	25 Years	30 Years	35 Years	40 Years	45 Years
100 000	32 000	40 000	48 000	56 000	64 000	72 000
200 000	64 000	80 000	96 000	112 000	128 000	144 000
300 000	96 000	120 000	144 000	168 000	192 000	216 000
400 000	128 000	160 000	192 000	224 000	256 000	288 000
500 000	160 000	200 000	240 000	280 000	320 000	360 000
600 000	192 000	240 000	288 000	336 000	384 000	432 000
800 000	256 000	320 000	384 000	448 000	512 000	576 000
1 000 000	320 000	400 000	480 000	560 000	640 000	720 000
1 500 000	480 000	600 000	720 000	840 000	960 000	1 080 000
2 000 000	640 000	800 000	960 000	1 120 000	1 280 000	1 440 000
2 500 000	800 000	1 000 000	1 200 000	1 400 000	1 600 000	1 800 000
3 000 000	960 000	1 200 000	1 440 000	1 680 000	1 920 000	2 160 000
3 500 000	1 120 000	1 400 000	1 680 000	1 960 000	2 240 000	2 520 000
4 000 000	1 280 000	1 600 000	1 920 000	2 240 000	2 560 000	2 880 000

The company's pension plan applies to almost all employees. The plan provides an annual pension of a specific percentage of an employee's "final three year average earnings", multiplied by the employee's years of service, subject to certain requirements concerning age and length of service. An employee may elect to forego three of the six percent of the company's contributions to the savings plan under one of the options of that plan (except for R.L. Broiles), to receive an enhanced pension equal to 0.4 percent of the employee's "final three year average earnings", multiplied by the employee's years of service while foregoing such company contributions. In addition to the pension payable under the plan, the company has paid and may continue to pay a supplemental retirement income to employees who have earned a pension in excess of the maximum pension under the Income Tax Act. The pension plan table on this page shows estimated undiscounted annual payments, consisting of pension and supplemental retirement income, payable on retirement to the senior executives in specified classifications of remuneration and years of service currently applicable to that group.

The remuneration used to determine the payments on retirement to the individuals named in the summary compensation table on page 16 corresponds generally to the salary, bonus compensation and bonus compensation amount elected to be received as deferred share units in that table. The aggregate maximum settlement value that could be paid for earnings bonus units granted shown in the table on page 20 is also included in the employee's "final three year average earnings" for the year of grant of such units. As of February 15, 2007, the number of completed years of service with Imperial Oil Limited used to determine payments on retirement was 40 for T.J. Hearn, 26 for P.A. Smith, 37 for R.F. Lipsett and 30 for J.F. Kyle.

R.L. Broiles is not a member of the company's pension plan, but is a member of Exxon Mobil Corporation's pension plan. Under that plan, R.L. Broiles has 27 years of service and he will receive a pension payable in U.S. dollars. The remuneration used to determine the payment on retirement to him also corresponds generally to his salary extended on a full year basis and bonus compensation in the summary compensation table on page 16, which total may be applied to the pension plan table above but with the dollars in that table representing U.S. rather than Canadian dollars.

## Executive Pension Value Disclosure

(1) (2)

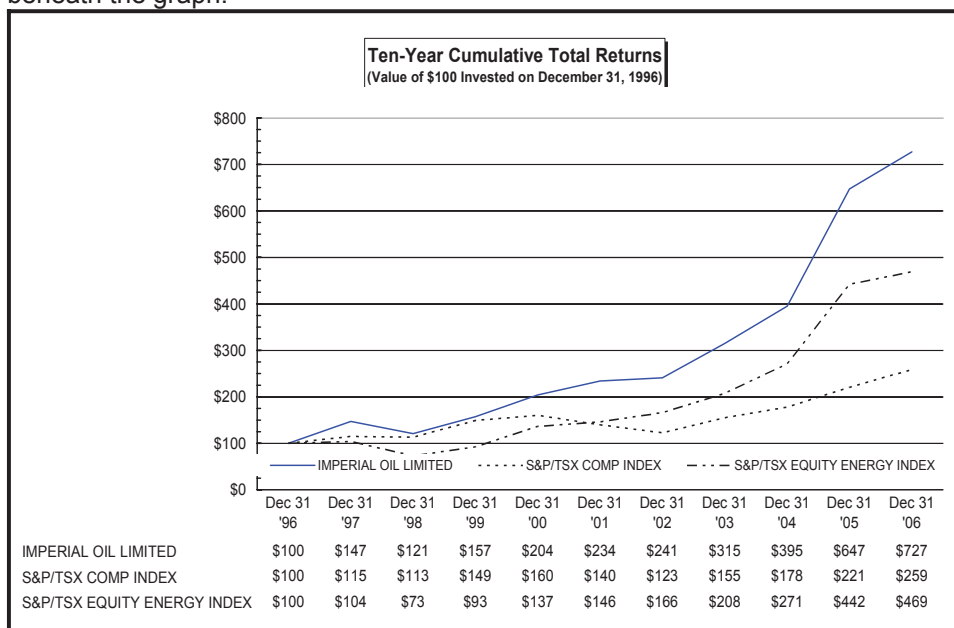
Name	Current 2006 Service Cost (\$ (3))	Accrued Obligations at Dec. 31, 2006 (4)	Annual Pension Benefit Payable at age 65 (5)	Age (at Dec. 31, 2006)	Credited Service	Normal Retirement Age
T.J. Hearn	593 000	25 575 000	2 185 400	62	40	65
P.A. Smith	144 100	3 930 000	481 600	53	26	65
R.L. Broiles	-	-	-	49	27	65
R.F. Lipsett	144 200	5 618 000	509 100	60	37	65
J.F. Kyle	91 900	3 706 000	298 900	64	30	65

- (1) Pension benefits reflected in these tables do not vest until the named executive officer reaches age 55. In the case of T.J. Hearn, R.F. Lipsett and J.F. Kyle, their accrued pension to date is already vested.
- (2) Amounts shown include pension benefits under Imperial Oil Limited's registered pension plan and supplemental retirement plans, other than for R.L. Broiles, who participates in Exxon Mobil Corporation's pension plan and supplemental pension plan. Under Exxon Mobil Corporation's pension plan and supplemental pension plan, R.L. Broiles' current 2006 service cost was \$139 963 U.S., the accrued obligations at December 31, 2006 with respect to R.L. Broiles was \$1 232 150 U.S. and his annual pension benefit payable at age 65 will be \$412 000 U.S.
- (3) Service cost is the value of the projected pension for the calendar year 2006. Amounts shown are consistent with disclosure in Note 6 of the 2006 Consolidated Financial Statements.
- (4) Accrued obligation is the value of the projected pension earned for service to December 31, 2006. The accrued obligation increases with age and is significantly impacted by changes in the discount rate. Amounts shown are consistent with disclosure in Note 6 of the 2006 Consolidated Financial Statements.
- (5) Amounts in this column are based on current compensation levels and assume accrued years of service to age 65 for each of the named executive officers.

## Share Performance Graph

The following graph shows changes over the past ten years in the value of \$100 invested in (1) Imperial Oil Limited common shares, (2) the S&P/TSX Composite Index, and (3) the S&P/TSX Equity Energy Index. The S&P/TSX Equity Energy Index is made up of share performance data for 41 oil and gas companies including integrated oil companies, oil and gas producers and oil and gas service companies.

The year-end values in the graph represent appreciation in share price and the value of dividends paid and reinvested. The calculations exclude trading commissions and taxes. Total shareholder returns from each investment, whether measured in dollars or percent, can be calculated from the year-end investment values shown beneath the graph.



## IV. Corporate Governance Disclosure

The following corporate governance disclosure has been prepared in accordance with Form 58-101F1-Corporate Governance Disclosure. The board of directors has determined that the company's practices and procedures align with National Instrument 58-101-Disclosure of Corporate Governance Practices and National Policy 58-201-Corporate Governance Guidelines.

### Board of Directors

Name of Director	Is Director Independent?	Other reporting issuers of which Director is also a director
R.L. Broiles	Not independent	
T.J. Hearn	Not Independent	Royal Bank of Canada
J.M. Mintz	Independent	Brookfield Asset Management Inc. CHC Helicopter Corporation
R. Phillips	Independent	Canadian Pacific Railway Limited Canadian Pacific Railway Company Cleveland-Cliffs Inc. The Toronto-Dominion Bank
J.F. Shepard	Independent	
P.A. Smith	Not independent	
S.D. Whittaker	Independent	CanWest Mediaworks Income Fund
V.L. Young	Independent	Bell Aliant Regional Communications Income Fund BCE Inc. Royal Bank of Canada

### Independence of Directors

The board of directors is composed of eight directors, the majority (five out of eight) of which are independent. The five independent directors are not employees of the company. None of the independent directors has any interest, business or other relationship that could or could reasonably be perceived to constitute a material relationship with the company. The three non-independent directors are employees of the company and are the chairman, president and chief executive officer; the senior vice-president, resources; and the controller and senior vice-president, finance and administration. The board believes that the employee directors' extensive knowledge of the company's business is beneficial to the other directors and their participation as directors enhances the effectiveness of the board.

### Independent Director Executive Sessions

The independent directors conduct executive sessions following every regular board meeting, except the board meeting held on the day of the annual meeting of shareholders, and as required by the independent directors. These meetings are held in the absence of members of management to monitor and assess board processes and issues, to discuss substantive issues that are more appropriately discussed in the absence of management and to communicate to management, as appropriate, the results of private discussions amongst independent directors. The independent directors held eight executive sessions in 2006.

While the chairman of the board is not an independent director, S.D. Whittaker, chair of the executive sessions, provides leadership for the independent directors and ensures that the board's agenda will enable it to successfully carry out its duties. The position description of the chair of the executive sessions is described in paragraph 8(3) of the Board of Directors Charter attached as Appendix 1.

## **Board of Directors Mandate**

The board's written mandate is set out in the Board of Directors Charter attached as Appendix 1.

## **Position Descriptions of the Board and Committee Chairs**

The position description of the chairman and chief executive officer (currently T.J. Hearn) is set out in paragraph 10(a) of the Board of Directors Charter attached as Appendix 1.

The position description of the chair of the audit committee (currently J.F. Shepard) is set out in paragraph 2 of the Audit Committee Charter attached as Appendix 2.

The position description of the chair of the environment, health and safety committee (currently S.D. Whittaker) is set out in paragraph 2 of the Environment, Health and Safety Committee Charter attached as Appendix 3.

The position description of the chair of the executive resources committee (currently R. Phillips) is set out in paragraph 2 of the Executive Resources Committee Charter attached as Appendix 4.

The position description of the chair of the nominations and corporate governance committee (currently V.L. Young) is set out in paragraph 2 of the Nominations and Corporate Governance Committee Charter attached as Appendix 5.

## **Orientation and Continuing Education of Directors**

The corporate secretary organizes an orientation program for all new directors that includes a briefing by members of management on all significant areas of the company's operations. All new directors meet with and are briefed by senior management. They also receive a board manual which contains a record of historical information about the company, the charters of the board and its committees and other relevant corporate business information.

Continuing education is provided to board members by regular presentations provided by senior management on the main areas of company business. In August, the board has an extended meeting that focuses on a particular area of the company's operations and includes a visit to one or more of the company's operating sites. In August 2006, the board received a day-long series of presentations on topics relating to the company's upstream operations.

## **Ethical Business Conduct**

The board has adopted a written code of ethics and business conduct ("Code") which can be found on the company's website at [www.imperialoil.ca](http://www.imperialoil.ca).

The Code is applicable to each of the company's directors, officers and employees, and consists of the Ethics Policy, the Conflicts of Interest Policy, the Corporate Assets Policy, the Directorships Policy and the Procedures and Open Door Communication. Under the company's Procedures and Open Door Communication, employees are encouraged and expected to refer suspected violations of the law, company policy or internal controls procedures to their supervisors. Suspected violations involving a director or executive officer, as well as any concern regarding questionable accounting or auditing matters are to be referred directly to the general auditor. The audit committee initially reviews all issues involving directors or executive officers, and then refers all issues to the board of directors. In the alternative, employees may also address concerns to individual non-employee directors or to non-employee directors as a group.

Management provides the board of directors with a review of corporate ethics and conflicts of interest on an annual basis. Directors, officers and employees review the company's standards of business conduct (which includes the Code) on an annual basis, with employees in positions where there is a higher risk of exposure to ethical or conflict of interest situations being required to sign a declaration card confirming that they have read and are familiar with the standards of business conduct. In addition, every four years a business

practices review is conducted in which managers review the standards of business conduct with certain employees in their respective work units.

The board, through its audit committee, examines the effectiveness of the company's internal control processes and management information systems. The board consults with the external auditor, the internal auditor and the management of the company to ensure the integrity of the systems.

There are a number of structures and processes in place to facilitate the functioning of the board independently of management. The board has a majority of independent directors. Each of the committee chairs are independent directors and each committee (except the Imperial Oil Foundation Board) is composed entirely of independent directors. The agendas of each of the board and its committees are not set by management alone, but by the board as a whole and by each committee. A significant number of agenda items are mandatory and recurring. Board meetings are scheduled at least one full year in advance. Any director may call a meeting of the board or a meeting of a committee of which the director is a member. There is a board-prescribed flow of financial, operating and other corporate information to all directors.

The independent directors conduct executive sessions in the absence of members of management. These meetings are chaired by S.D. Whittaker, the independent director designated by the independent directors to chair and lead these discussions. Eight executive sessions were held in 2006. There has been no material change reports filed in the past 12 months pertaining to conduct of a director or executive officer that constitutes a departure from the Code.

## **Nomination of Directors**

The process by which the nominations and corporate governance committee recommends new candidates for board nomination is described in paragraph 9(a) of the Board of Directors Charter attached as Appendix 1. In the course of considering such candidates, the committee assesses such candidates against the selection criteria set out in the Charter. When the committee is recommending candidates for renomination, it also assesses such candidates against the criteria for re-nomination set out in the Charter. The committee maintains a list of potential director candidates for future consideration.

The nominations and corporate governance committee is composed entirely of independent directors.

The responsibilities, powers and operation of the nominations and corporate governance committee are set out in the Nominations and Corporate Governance Committee Charter attached as Appendix 5.

## **Compensation**

The process by which the board determines the compensation for the company's directors and officers is described in the section of the circular entitled "Report on Executive Compensation".

The executive resources committee is composed entirely of independent directors.

The responsibilities, powers and operation of the executive resources committee are set out in the Executive Resources Committee Charter attached as Appendix 4.

## Summary of Board and Committee Meetings held in 2006

The following provides a summary of board and committee meetings held in 2006. The attendance record of each director nominee is set out in his or her biographical information on pages 8 to 11. Each one of the director nominees attended 100 percent of the scheduled board and committee meetings, including the annual meeting of shareholders.

<u>Board or Committee</u>	<u>Number of Meetings Held in 2006</u>
Imperial Oil Limited Board	9
Audit Committee	5
Environment, Health and Safety Committee	3
Nominations and Corporate Governance Committee	5
Executive Resources Committee	8
Imperial Oil Foundation Board	3

### Audit Committee

The audit committee of the board of directors is described in Appendix 2. The following directors are the members of the audit committee: R. Phillips, J.F. Shepard, S.D. Whittaker, V.L. Young, and J.M. Mintz. Additional information relating to the audit committee can be found in the company's Form 10-K which can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the company's website at [www.imperialoil.ca](http://www.imperialoil.ca).

### Imperial Oil Foundation

The Imperial Oil Foundation, a not-for-profit corporation incorporated under the Canada Corporations Act, oversees the company's charitable contributions program. The company's contributions program is aimed at enhancing the quality of life in communities where the company has a significant presence, with particular emphasis on education and youth. The Foundation has registered charity status under Quebec and federal income tax legislation. As a not-for-profit corporation, the Foundation is a corporation of members, not of shareholders. The company is the sole member.

The board of directors of the Imperial Oil Foundation is composed of the independent directors of the company and P.A. Smith. The chair of the Foundation is J.M. Mintz.

### Other Board Committees

In addition to the audit committee, nominations and corporate governance committee and executive resources committee, the board also has an environment, health and safety committee. The function of that committee is set out in the Environment, Health and Safety Committee Charter attached as Appendix 3.

## Assessments

The board and its committees are assessed on an annual basis. Detailed surveys are completed by each director and survey results are analyzed and compiled by the corporate secretary. A summary report is provided to each member of the nominations and corporate governance committee, without attribution of feedback to individual directors. The results of the survey are reviewed by the committee. The committee also assesses the company's response to issues raised in the previous year's survey. The survey assesses the effectiveness of the organization, the administration of the board of directors and the effectiveness of the board in discharging its stewardship responsibilities. The survey also assesses the mandate and effectiveness of each board committee and each director assesses the director's own personal performance and contribution.

The nominations and corporate governance committee reviews its own charter and effectiveness and the charter of the board on an annual basis. The competencies and skills directors are expected to bring to the board are assessed by the committee and are taken into account when it makes its recommendations for appointment of individuals to the board.

Each other committee also reviews its own charter and effectiveness on an annual basis.

## V. Other Information

### Largest Shareholder

To the knowledge of the management of the company, the only shareholder who, as of February 15, 2007, owned beneficially, or exercised control or direction over, more than ten percent of the outstanding common shares of the company is Exxon Mobil Corporation, 5959 Las Colinas Boulevard, Irving, Texas 75039-2298, which owns beneficially 661 175 328 common shares, representing 69.6 percent of the outstanding voting shares of the company.

### Transactions with Exxon Mobil Corporation

On June 23, 2005, the company implemented another 12-month "normal course" share-purchase program under which it purchased 50 251 542 of its outstanding shares between June 23, 2005 and June 22, 2006. On June 23, 2006, another 12-month "normal course" program was implemented under which the company may purchase up to 48 772 466 of its outstanding shares, less any shares purchased by the employee savings plan and company pension fund. Exxon Mobil Corporation participated by selling shares to maintain its ownership at 69.6 percent. In 2006, such purchases cost \$1 817 million, of which \$1 247 million was received by Exxon Mobil Corporation.

During 2003, the company borrowed \$818 million from an affiliated company of Exxon Mobil Corporation under two long term loan agreements at interest equivalent to Canadian market rates. Interest on the loans in 2006 was \$34 million. The average effective interest rate for the loans was 4.2 percent for 2006.

The amounts of purchases and sales by the company and its subsidiaries for other transactions in 2006 with Exxon Mobil Corporation and affiliates of Exxon Mobil Corporation were \$4 292 million and \$1 948 million, respectively. These transactions were conducted on terms as favourable as they would have been with unrelated parties, and primarily consisted of the purchase and sale of crude oil, petroleum and chemical products, as well as transportation, technical and engineering services. Transactions with Exxon Mobil Corporation also included amounts paid and received in connection with the company's participation in a number of natural resources activities conducted jointly in Canada. The company has agreements with affiliates of Exxon Mobil Corporation to provide computer and customer support services to the company and to share common business and operational support services to allow the companies to consolidate duplicate work and systems. During 2005, the company and an affiliate of Exxon Mobil Corporation in Canada agreed to operate their respective Western Canada production organizations as one single organization. Under the consolidation, the company will operate all Western Canada properties. There are no asset ownership changes.

## Shareholder Feedback

The company has an investor relations group that communicates with and responds to inquiries from both institutional and individual investors and the financial community.

The company annually solicits questions and comments from shareholders on the enclosed proxy form. The comments received are reviewed by senior management, and those requiring a response are answered individually.

Investor relations staff are also available to shareholders by telephone at (403) 237-4538 and fax at (403) 237-2081.

## If you have a shareholder proposal for the 2008 annual meeting

Any shareholder's proposal that meets the provisions of the Canada Business Corporations Act, and is intended to be presented at the 2008 annual meeting of shareholders, must be received by the company no later than December 17, 2007. The proposal can then be included in the management proxy circular and the proxy for the 2008 annual meeting.

## Additional Information

You may obtain a copy of this management proxy circular, the company's 2006 annual report which includes comparative financial statements and management discussion and analysis, year 2007 quarterly reports to shareholders and the company's latest Form 10-K, by writing to the investor relations manager or to the corporate secretary at 237 Fourth Avenue S.W., Calgary, Alberta, Canada T2P 3M9. The Form 10-K contains additional information about the company and is filed each year with Canadian and United States securities commissions and administrators.

Also, additional information relating to the company can be found on SEDAR at [www.sedar.com](http://www.sedar.com), and on the company website at [www.imperialoil.ca](http://www.imperialoil.ca).

## Directors' Approval

The board of directors has approved the contents and the sending of this circular to the shareholders.



B.W. Livingston  
Vice president, general counsel and corporate secretary

## **VI. Appendices**

### **Appendix 1 - Board of Directors Charter**

The structure, process and responsibilities of the board of directors of the corporation shall include the following items and matters:

#### **1. Responsibility**

The directors shall be responsible for the stewardship of the corporation.

#### **2. Duty of care**

The directors, in exercising their powers and discharging their duties, shall:

- (a) act honestly and in good faith with a view to the best interests of the corporation; and
- (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

#### **3. Stewardship process**

- 1) In order to carry out their responsibility for stewardship within their duty of care, the directors shall, directly or through one or more committees of directors,
  - (a) contribute to the formulation of and approve strategic plans on at least an annual basis;
  - (b) identify the principal risks of the corporation's business where identifiable and oversee the implementation of appropriate systems to manage such risks;
  - (c) oversee succession planning for senior management, including the appointing, training and monitoring thereof;
  - (d) approve the corporate disclosure policy and monitor the external communications of the corporation;
  - (e) monitor the integrity of the corporation's internal control and management information systems;
  - (f) consider management's recommendations regarding major corporation decisions and actions, which have significant societal implications;
  - (g) monitor compliance with major corporate policies;
  - (h) charge the chief executive officer of the corporation with the general management and direction of the business and affairs of the corporation;
  - (i) monitor the performance of the chief executive officer;
  - (j) satisfy itself as to the integrity of the chief executive officer and other executive officers and ensure that the chief executive officer and the other executive officers create a culture of integrity throughout the company;
  - (k) approve the corporation's code of ethics and business conduct;

- (l) monitor compliance with the code of ethics and business conduct, provided that any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board only;
- (m) meet with the frequency necessary to consider the range of items listed below;
- (n) by appropriate charter resolutions, establish the audit, executive resources, nominations and corporate governance, and environment, health and safety, committees of the board with specific duties defined;
- (o) direct the distribution to them by management of information that will enhance their familiarity with the corporation's activities and the environment in which it operates, as set out in clause 5;
- (p) review the mandates of the board and of the committees and their effectiveness at least annually; and,
- (q) undertake such additional activities within the scope of their responsibilities as may be deemed appropriate in their discretion.

#### **4. Range of items to be considered by the board**

- 1) The following categories and specific items shall be referred to the board for information or decision on a regularly scheduled basis, to the extent appropriate:

##### **Organization/legal**

- fixing of the number of directors
- director appointments to fill interim vacancies
- director slate for election by the shareholders • officer appointments
- board governance processes
- by-laws and administrative resolutions
- changes in fundamental structure of the corporation
- shareholder meeting notice and materials
- non-employee director compensation
- policies adopted by the board
- investigations and litigation of a material nature

##### **Financial**

- equity or debt financing
- dividend declarations
- financial statements and the related management discussion and analysis, annual and quarterly
- status of the corporation's retirement plan and employee savings plan

##### **Strategic/investment/operating plans/performance**

- near-term and long-range outlooks
- capital, lease, loan and contributions budgets annually
- budget additions over \$100 million individually
- quarterly updates of actual and projected capital expenditures
- capital expenditures or dispositions in excess of \$100 million individually
- entering into any venture that is outside of the corporation's existing businesses
- financial and operating results quarterly
- Canadian and world economic outlooks
- regional socio-economic reviews

- 2) In addition to the items which are specific to the categories identified above, the chief executive officer shall refer to the board for information or decision all other items of corporate significance;

and any member of the board may request a review of any such item. Items to be referred to the committees of the board are specified in their respective charters.

## **5. Information to be received by the board**

- 1) Material under the following general headings, including the specific items listed below and only other similar items, shall be distributed to directors on a regular basis:

### **Information manual (Directors' Digest)**

- articles of incorporation, by-laws and administrative resolutions
- corporate policies
- corporate data
- board and management processes
- financial and operating report
- organization outline

### **Social/political/economic environment**

- public issues updates
- economic outlook
- external communications packages

### **Major announcements**

- press releases
- speeches by management
- organization changes

### **Communications to shareholders**

### **Other significant submissions, studies and reports**

- 2) All material distributed to employee directors shall be through normal corporation channels. All material distributed to non-employee directors shall be through the office of the corporate secretary.

## **6. Unrelated and independent directors**

- 1) Subject to occasions when there is a temporary vacancy in respect of a director who is unrelated and independent or when there is a need to accommodate succession for one or more senior executives who are directors, the board intends to be composed of a majority of unrelated and independent directors.
- 2) In respect of each director to be appointed to fill a vacancy and each director to be nominated for election or re-election by the shareholders, the board shall make an express determination as to whether he or she is an unrelated or an independent director and, for a director who may become a member of the audit committee, whether he or she is an audit committee financial expert or financially literate.
- 3) The term "unrelated director", as defined by the Toronto Stock Exchange, means a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding.
- 4) The term "independent", within the meaning of applicable law, means that the director may not, other than in his or her capacity as a member of the board of directors, or any other board committee,
  - (i) accept any consulting, advisory, or other compensatory fee from the issuer; or
  - (ii) be an affiliated person of the issuer or any subsidiary thereof.

## **7. Independent legal or other advice**

The board and, with the approval of the board, any director, may engage independent counsel and other advisors at the expense of the corporation.

## **8. Meetings of the unrelated and independent directors in the absence of members of management**

- 1) Meetings of the unrelated and independent directors ("executive sessions of the board") shall be held in conjunction with all board meetings except unscheduled telephonic board meetings.
- 2) The chair of the executive sessions of the board shall be chosen by the unrelated and independent directors.
- 3) The chair of the executive sessions of the board, or in the chair's absence an unrelated and independent director chosen by the unrelated and independent directors, shall
  - (a) preside at executive sessions of the board;
  - (b) ensure that meetings of the unrelated and independent directors are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of the board in advance to ensure that the board may successfully carry out its duties.
- 4) The purposes of the executive sessions of the board shall include the following:
  - (a) to raise substantive issues that are more appropriately discussed in the absence of management;
  - (b) to discuss the need to communicate to the chairman of the board any matter of concern raised by any committee or any director;
  - (c) to address issues raised but not resolved at meetings of the board and assess any follow-up needs with the chairman of the board;
  - (d) to discuss the quality, quantity, and timeliness of the flow of information from management that is necessary for the unrelated and independent directors to effectively and responsibly perform their duties, and advise the chairman of the board of any changes required; and
  - (e) to seek feedback about board processes.

## **9. Selection and tenure of directors**

The guidelines for selection and tenure of directors shall be as follows:

### *(a) Selection*

In selecting individuals to recommend for appointment to the board, the nominations and corporate governance committee shall consider what competencies and skills the board, as a whole, should possess. In so doing, it may consider the following factors:

- the requirement for outstanding business, administrative or other valuable experience, such as:
  - holding a position of high responsibility with a major organization and/or having a broad exposure to or understanding of the policy making level;
  - possessing expertise in any of the following areas: finance, law, science, marketing, administration, government affairs, social/political environment or community and civic affairs;
- providing diversity of viewpoint, individual competencies in business, other areas of endeavour in contributing to the collective experience of the directors, age, gender or regional association;
- having some career exposures that would contribute to an understanding of a multi-national corporation;

The nominations and corporate governance committee shall then assess what competencies and skills each existing director possesses.

The nominations and corporate governance committee shall identify individuals qualified to become new board members and recommend to the board the new director nominees. In making its recommendations, the nominations and corporate governance committee shall consider the competencies and skills that it considers necessary for the board, as a whole to possess, the competencies and skills that the board considers each existing director to possess and the competencies and skills each new nominee will bring.

A candidate may be nominated for directorship after consideration has been given as to his or her degree of compatibility with the following criteria, i.e., as to whether he or she:

- will not adversely affect the requirements with respect to citizenship and residency for the directors imposed by the Canada Business Corporations Act;
- possesses the ability to contribute to the broad range of issues with which the directors and any one or all of the committees of directors must deal;
- is able to devote the necessary amount of time to prepare for and attend meetings of the directors and committees of directors, and to keep abreast of significant corporate developments;
- is free of any present or apparent potential legal impediment or conflict of interest, such as:
  - serving as an employee or principal of any organization presently providing a significant level of service to the corporation or which might so provide to the corporation, for example, institutions engaged in commercial banking, underwriting, law, management consulting, insurance, or trust companies; or of any substantial customer or supplier of the corporation;
  - serving as an employee or director of a competitor of the corporation, such as petroleum or chemical businesses, or of a significant competitor of corporations represented by a director of this corporation;
  - serving as the chief executive officer or a top administrator of an organization that has the chief executive officer or a top administrator of this corporation serving as director;
- is expected to remain qualified to serve for a minimum of five years;
- will not, at the time that he or she stands for election or appointment, have attained the age of 70;

- is, or will become within a period of five years of becoming a director, the beneficial owner, directly or indirectly, of not less than 15 000 common shares, deferred share units or restricted stock units of the corporation.

(b) *Tenure*

(i) *Re-nomination*

An incumbent director shall be supported for re-nomination as long as he or she:

- does not suffer from any disability that would prevent the effective discharge of his or her responsibilities as a director;
- makes a positive contribution to the effective performance of the directors;
- regularly attends directors' and committee meetings;
- has not made a change with respect to principal position or thrust of involvement or regional association that would significantly detract from his or her value as a director of the corporation;
- is not otherwise, to a significant degree, incompatible with the criteria established for use in the selection process;
- in a situation where it is known that a director will become incompatible with the criteria established for use in the selection process within a three-month period of election, such as retirement from principal position at age 65, this information would be included in the management proxy circular, and where possible, information regarding the proposed replacement would also be included;
- will not, at the time that he or she stands for re-election, have attained the age of 70; however, under exceptional circumstances, at the request of the chief executive officer, the nominations and corporate governance committee may continue to support the nomination.

(ii) *Resignation*

An incumbent director may be asked to resign in the event that he or she:

- displays a change in the exercise of his or her powers and in the discharge of duties that, in the opinion of at least 75 percent of the directors, is incompatible with the duty of care of a director as defined in the Canada Business Corporations Act;
- has made a change in citizenship or residency that will adversely affect the requirements for directors with respect to those areas imposed by the Canada Business Corporations Act;
- develops a conflict of interest, such as
  - assuming a position as an employee or principal with any organization providing a significant level of service to the corporation, for example, institutions engaged in commercial banking, underwriting, law, management consulting, insurance, or trust companies; or with any substantial customer or supplier of the corporation;
  - assuming a position as an employee or director of any competitor of the corporation, such as petroleum or chemical businesses, or of a competitor of corporations represented by a director of this corporation;

- assuming the position of chief executive officer or a top administrator of an organization that has the chief executive officer or a top administrator of this corporation serving as a director;
- becomes unable to devote the necessary amount of time to prepare for and regularly attend meetings of the directors and committees of directors, and to keep abreast of significant corporate developments.

## 10. Chairman and chief executive officer

### (a) Position description

The chairman and chief executive officer shall

1. Plan and organize all activities of the board of directors;
2. Ensure that the Board receives sufficient, timely information on all material aspects of the corporation's operations and financial affairs;
3. Chair annual and special meetings of the shareholders;
4. Conduct the general management and direction of the business and affairs of the corporation;
5. Recommend to the board of directors a strategic plan for the corporation's business and, when approved by the board of directors, implement this strategic plan and report to the board of directors on the implementation of this strategic plan;
6. Develop and implement operational policies to guide the corporation within the limits prescribed by the corporation's by-laws and the directions adopted by the board of directors;
7. Identify, for review with the board of directors, the principal risks of the corporation's business, where identifiable, and develop appropriate systems to manage such risks;
8. Under the oversight of the board of directors, develop plans for succession planning for senior management, including the appointing, training and monitoring thereof, and implement those plans;
9. Ensure compliance with the corporation's code of ethics and business conduct so as to foster a culture of integrity throughout the company; and
10. Ensure effective internal controls and management information systems are in place.

- (b) Minimum shareholding requirements The chairman and chief executive officer shall hold, or shall, within three years after his appointment as chairman and chairman and chief executive officer, acquire shares of the corporation, including common shares, deferred share units and restricted stock units, of a value no less than five times his base salary.

## **Appendix 2 - Audit Committee Charter**

The structure, process and responsibilities of the audit committee shall include the following items and matters:

1. (1) The committee shall consist of five members, to be appointed by the board of directors from among the unrelated and independent directors, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation and are unrelated and independent.
- (2) The committee shall, if possible, have one or more members who is an "audit committee financial expert" within the meaning of applicable law.
- (3) Each member of the committee shall be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement.
- (4) No committee member shall serve on the audit committee of more than two other public companies, unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the audit committee.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the audit committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member or by the external auditors of the corporation, and notice of every meeting shall be given to the external auditors.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The external auditors of the corporation shall report directly to the audit committee.
8. The committee shall:
  - (a) recommend the external auditors to be appointed by the shareholders, fix their remuneration, which shall be paid by the corporation, and oversee their work.
  - (b) approve the proposed current year audit program of the external auditors and assess the results of the program after the end of the program period.
  - (c) approve in advance any non-audit services that are permitted by applicable law to be performed by the external auditors after considering the effect of such services on their independence.

- (d) receive from the external auditors a formal written statement delineating all relationships between the external auditor and the corporation consistent with Independence Standards Board Standard 1, and shall actively engage in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor and shall recommend that the board take any appropriate action to oversee the independence of the external auditor.
- (e) establish procedures for the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of the corporation of concerns regarding questionable accounting or auditing matters.
- (f) approve the proposed current year audit program of the internal auditors and assess the results of the program after the end of each quarter.
- (g) review annually the adequacy of the corporation's liability and property insurance program.
- (h) review the adequacy of the corporation's system of internal controls and auditing procedures.
- (i) review the accounting and financial reporting processes of the corporation.
- (j) approve changes proposed by management in accounting principles and practices, and review changes proposed by the accounting profession or other regulatory bodies which impact directly on such principles and practices.
- (k) review the annual and quarterly financial statements of the corporation, accounting items affecting the statements and the overall format and content of the statements, and the related management discussion and analysis, prior to approval of such financial statements by the board of directors.
- (l) review the results of the monitoring activity under the corporation's business ethics compliance program.
- (m) review annually a summary of senior management expense accounts.
- (n) require attendances at its meetings by members of management, as the committee may direct.
- (o) review its mandate and its effectiveness at least annually.
- (p) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.

### **Appendix 3 - Environment, Health and Safety Committee Charter**

The structure, process and responsibilities of the environment, health and safety committee shall include the following items and matters:

1. The committee shall consist of five members, to be appointed by the board of directors from among the unrelated and independent directors, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the environment health and safety committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The committee shall:
  - (a) review and monitor the corporation's policies and practices in matters of the environment, health and safety.
  - (b) monitor the corporation's compliance with legislative, regulatory and corporation standards for environmental, health and safety practices and matters, and advise the directors on the results and adequacy thereof.
  - (c) monitor trends and review current and emerging public policy issues in matters of the environment, health and safety as they may impact the corporation's operations.
  - (d) review the impact of proposed legislation in matters of the environment, health and safety on the operations of the corporation and advise the directors and management as to the appropriate response of the corporation thereto.
  - (e) recommend to the directors and management desirable policies and actions arising from its review and monitoring activity.
  - (f) require attendances at its meetings by members of management, as the committee may direct.
  - (g) review its mandate and its effectiveness at least annually.
  - (h) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.

## **Appendix 4 - Executive Resources Committee Charter**

The structure, process and responsibilities of the executive resources committee shall include the following items and matters:

1. The committee shall consist of five members, to be appointed by the board of directors from among the unrelated and independent directors, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the executive resources committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The committee shall:
  - (a) monitor the performance of the chief executive officer.
  - (b) review and approve corporate goals and objectives relevant to compensation of the chief executive officer and evaluate his performance in light of those goals and objectives.
  - (c) review data on competitive compensation practices and review and evaluate policies and programs through which the corporation compensates its employees.
  - (d) approve salaries and other compensation (including supplemental compensation such as cash bonuses and IEBU's, long term incentive compensation such as RSU's, and any other payments for service), for the chief executive officer and other key senior executive management positions reporting directly to the chief executive officer, including all officers of the corporation.
  - (e) produce an annual report on compensation for inclusion in the corporation's management proxy circular in accordance with applicable legal requirements.
  - (f) review the executive development system to ensure that it:
    - i. foresees the company's senior management requirements;
    - ii. provides for early identification and development of key resources.

- (g) approve specific succession plans for the chief executive officer and other key senior executive management positions reporting directly to the chief executive officer, including all officers of the corporation.
- (h) review the company's process in respect of employee conflicts of interest and directorships in non-affiliated commercial, financial and industrial organizations and the disclosures thereof.
- (i) require attendance at its meetings by members of management, as the committee may direct.
- (j) review its mandate and its effectiveness at least annually.
- (k) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.

## **Appendix 5 - Nominations and Corporate Governance Committee Charter**

The structure, process and responsibilities of the nominations and corporate governance committee shall include the following items and matters:

1. The committee shall consist of five members, to be appointed by the board of directors from among the unrelated and independent directors, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the nominations and corporate governance committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The committee shall:
  - (a) oversee issues of corporate governance as they apply to the corporation, including the effectiveness of the system of corporate governance, the evaluation of the overall performance of the board, and the board's relationship with management, and to report to the board on such matters.
  - (b) make recommendations to the board as to the appropriate size of the board with a view to facilitating effective decision-making.
  - (c) review and recommend to the board of directors the procedure for identifying potential nominees for directorships, including guidelines to be used in the selection process.
  - (d) review and recommend to the board of directors any modifications to the charters of the board or any of its committees.
  - (e) review and recommend to the board of directors guidelines to be adopted relating to tenure of directors.
  - (f) assist the chief executive officer to assess potential candidates for directorships and recommend to the board of directors proposed candidates for board membership to fill anticipated vacancies.

- (g) apply guidelines for board membership to incumbent directors and recommend to the chief executive officer and to the board of directors the slate of director candidates to be proposed for election by the shareholders at the annual meeting.
- (h) review and recommend the non-employee directors' compensation.
- (i) require attendances at its meetings by members of management, as the committee may direct.
- (j) review its mandate and its effectiveness at least annually.
- (k) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.