

**Remarks by Jim Shepard, audit committee chair  
to the Annual Meeting of Shareholders  
Calgary, Alberta  
May 1, 2007**

## **Audit Committee Report**

**Jim Shepard**

Committee Chair



Thank you Mr. Chairman and, good morning, ladies and gentlemen.

As chair of the audit committee, it is my privilege to report to you on the work our committee performs. I will also recommend that you vote for the reappointment of PricewaterhouseCoopers as the company's auditor.

One of the committee's key responsibilities is to ensure the integrity of the company's financial information. The committee is confident that investors can rely upon the financial information contained in the annual report as well as in the quarterly financial statements released to investors and market regulators.



Our audit committee is made up of five fully independent directors. We bring with us a wide array of Canadian and international business knowledge that provides us with a solid background in business fundamentals. Collectively, we have more than 25 years of experience serving Imperial's shareholders.

Our experience helps us to assess the work of management, and of the company's internal and external auditors. It also helps us to understand the sometimes highly complex information and results put before us.

Impartial oversight is essential to sound corporate governance, and is paramount to ongoing shareholder, investor and public confidence. The committee has unrestricted access to management, internal audit and external auditors. We communicate with these three groups independently of each other. And, while management may be invited to attend committee meetings periodically, their role is limited to providing information. They do not participate in committee decisions.

The time we spend to fully understand the company's financials is both quality and quantity time. We take the time to give the critical corporate governance and accounting and disclosure issues their full attention, and we allow for thorough review. In 2006, the audit committee met five times to review the quarterly and annual financial statements and supporting management discussion and analysis. This includes reviews of accounting practices and control assessment reports from both internal and external auditors. It also covers such matters as insurance levels, site restoration provisions, oil and gas reserves reporting, and compliance with Imperial's business ethics policy.

## **Shareholders' Interests are Protected and Fostered**

- **Sound governance practices exist**
- **Straightforward capital structure**
- **Transparent accounting practices**

I am pleased to say that, as a result of these reviews, we have concluded that your interests as shareholders are being protected and fostered by the company's management.

The audit committee also concluded that sound governance practices are in place throughout the organization. The company's capital structure is straightforward. Its accounting practices are transparent. Imperial does not use special-purposes entities, special adjustments or pro-forma reporting, nor does it use derivatives to speculate or hedge on the future of commodity prices. It does not sell forward future production. And its revenues are recorded at fair value at the time of sale.

One of our responsibilities is to ensure Imperial's compliance with accounting and financial reporting standards of the day.

As you may know, the company files a Form 10-K with the US Securities and Exchange Commission that includes an internal control report prepared by management. The report from management assesses the effectiveness of the company's internal control over financial reporting as of the end of the fiscal year. In 2006, management concluded that the company's internal control over financial reporting was effective. The company's independent auditor, PricewaterhouseCoopers, also attested to management's conclusions and expressed an unqualified opinion on internal controls. We, the audit committee, have also concluded that Imperial has satisfied all current regulatory requirements and that shareholders can have confidence in these representations of management.

## **Business Controls are Applied Rigorously**

- **Covers all aspects of the business**
- **Clear performance expectations**
- **Defined accountabilities**
- **Continually assessed**
- **Reported to management**

Let's move now to business controls.

Well-developed and effectively executed business controls are essential to ensuring financial statements are accurate and in preventing fraud.

At Imperial, business controls are approached with discipline and rigour. Control standards cover every aspect of the business. From a production facility to a refinery operation -- each unit has clear performance expectations and defined individual accountabilities.

Controls and their application are continually assessed and improved upon. Through the discipline of internal audits and regular self-assessments, opportunities are identified and acted upon by senior management. We, the audit committee, are briefed on these needs and ensure they are implemented as planned.

## **Strong Ethics Upheld in All Business Dealings**

- **Committed to integrity and honesty**
- **Standard of excellence**
- **Employee concerns can be raised confidentially**

In today's world, it is a commercial imperative to adhere to a strict code of ethical business conduct. Imperial has a long tradition of high ethical dealing and stands out among Canadian corporations in this area.

The people at Imperial are committed to conducting all their business with integrity and honesty. Achieving the highest standards of ethical conduct was the guide that sculpted the company's business ethics program. This formal program -- which has been in place since the 1970s -- is widely regarded as the standard of excellence.

To help maintain these high standards, Imperial fosters a work environment where employees feel safe to voice ethical concerns. To encourage employees to come forward, the company has set up a confidential hotline and mailbox. Issues related to accounting, internal accounting controls or auditing matters are referred to the audit committee. During 2006, no such issues were raised.



## Competent and Independent Auditors

Finally, it is our job to evaluate the competence and independence of the auditors. To that end, the audit committee has a separate, private session at each meeting with both the PricewaterhouseCoopers partner and Imperial's general auditor to obtain assurances of their independence.

To further ensure the auditors' independence, the audit committee monitors the work done by PricewaterhouseCoopers. We oversee their work and payment for services received. We approve their audit program and assess the results. Finally, we also approve, in advance, any non-audit services to be performed. This is to ensure that such engagements would not affect the auditor's independence.

This committee has the responsibility to recommend the external auditors to be appointed by the shareholders. I am pleased to recommend to you today that PricewaterhouseCoopers be reappointed as auditors of Imperial Oil Limited. You will be asked to vote on this recommendation later in the meeting.

In closing, I'd like to reiterate that the audit committee is satisfied that Imperial Oil has met all required accounting standards, has disclosed its financial information in a timely and accurate manner, and continues to show strong performance in the area of business controls.

We are also satisfied that Imperial's employees continue to demonstrate their commitment to uphold the company's core values of integrity and honesty. On behalf of the shareholders, I would like to thank them for their efforts.

I would also like to thank my colleagues on the audit committee, the board and management for their contributions to the company in 2006. And finally, I thank you, Imperial's shareholders, for your continued trust and confidence.

Mr. Chairman that concludes the report of the audit committee.